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Learning Objectives

- Upon completion of this chapter, you will be able to:
- 1. Define social commerce and describe its roots and evolution.
 - 2. Describe the scope, drivers, and content of the social commerce field.
 - 3. Summarize the benefits and limitations of social commerce.
 - 4. Describe the major models of social shopping.
 - 5. Explain how advertising and promotions are conducted in social networking environments.
 - 6. Describe how social networking can facilitate customer service, customer support, and CRM.

OPENING CASE: HOW SONY
USES SOCIAL MEDIA
FOR IMPROVING CRM

Sony, the giant consumer electronics producer, has been struggling during the last few years. Now, by using social media improvement is in sight.

THE PROBLEM

Sony Corporation (sony.com) faces fierce competition from Samsung (samsung.com/us), Sharp Electronics (sharpusa.com), LG Electronics (lg.com/us), and other large, global companies.

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This competition has intensified during the economic slowdown in recent years. As a result, total revenues for Sony have declined every year from 2008 until 2012. The company suffered heavy losses in 2009 and 2012, causing its share price to drop from \$35/share in 2010 and 2011 to \$9.57 in late 2012. In 2013 the stock rose mostly due to the recovery in Tokyo's stock exchange. Consumer electronic products are fairly mature, so the differences in quality and prices are not substantial. Therefore, the competitors in the field are promoting their customer service as a strategic differentiator. Sony is trying to do this with the help of their social media communities and initiatives.

The Solution: Social Media Projects

Sony Corporation embarked on social CRM as a vehicle for improving customer service. According to Jack (2013), Sony combined a customer support and direct marketing program, mostly using social channels. The various initiatives are managed by Sony's Customer Experience Management Team. The team organized *Sony's Community Site* (community.sony.com), which is a central hub for customer information and support. It includes *idea boards*, *discussion groups*, *blogs*, *Twitter feeds*, and other content-generating channels. The site is used also for marketing campaigns.

The following are representative activities, many of which are done at Sony Europe (see Taylor 2013).

- Active social communities; some are for specific products, others are general for the entire Sony brand. The company's staff members and consumers are involved in these communities. Members of these communities are helping each other and providing feedback. Customer service employees are "listening" to the feedback and using the information to improve service.
- YouTube videos provide training for customers on the use of Sony's products.
- Using Lithium Social Web software (a SAP company), relevant sites are monitored for reviews and comments (positive and negative). This allows Sony to improve operations, resolve problems, and capitalize on opportunities.
- There is a special "Customer Relations" tab located on Sony's Community site, the

company's central social network, for easy communication.

- The company created a 'Facebook Support Community' (facebook.com/sony), Twitter 'Sony Support USA' (twitter.com/sonysupportusa), Tumblr 'Sony Support USA' (sonysupportusa.tumblr.com), and a YouTube Sony Support Channel 'Sony Listens' (youtube.com/user/SonyListens).
- In the communities, the company's staff demonstrates how problems are resolved quickly and efficiently. For example, there is an "Experts" tab for "How To" videos and technical support, etc. See community.sony.com/t5/Meet-Our-Experts/bg-p/experts.
- Sony is using all its social media channels, including LinkedIn, to proactively engage users and provide customer service in a timely fashion.
- Sony Electronic integrates Pinterest (pinterest.com/sonyprousa/) for sending information about its products to community members (see details at Eckerle 2013 and ohsopinteresting.com/lessons-from-sony-on-pinterest).

According to Holland (2011), Sony mines social media conversations and conducts sentiment analysis (Chapter 10) to improve customer service and product improvement and design. Note that Sony is using social media campaigns customers (e.g., 2011 'CatchTheTablet' contest, see atomicpr.com/results/sony-catch-the-tablet). Finally, according to Riordan (2014), software from Reevo helps Sony to automatically translate reviews from one language to another.

THE RESULTS

Significant results are expected in 2014 after the deployment of most SC initiatives. However, some improvements have already materialized. For example, according to Jack (2013), the improved communication resulted in a 22% increase in 'clicks' (over 100% in some cases). Other results are:

- Customer trust in Sony increased (Jack 2013).
- Page views, conversation rates, and engagement activities (e.g., posting) increased by 100% (per Jack 2013).

- Customer service was combined with marketing promotions, which resulted in new sources of revenue for Sony.
- In March 2014, PlayStation had about 2.5 million followers on Twitter and 35 million fans on Facebook.

Sources: Based on Jack (2013), Taylor (2013), Eckerle (2013), and Riordan (2014).

LESSONS LEARNED FROM THE CASE

The Sony case illustrates that a company can use social media to not only advertise and sell, but also to provide outstanding customer service. Operating in a highly competitive market, customer service can be an important strategic tool. Sony has supplemented their traditional customer service with social networks, blogs, Twitter, and a Facebook fan page. They have concentrated on improving communication and interactions with customers. The customer service provided by social media tools and platforms is more interactive, timely, and direct. Furthermore, the system fosters a truly conversation-based communication. This kind of service is important to customers, and contributes to the company's success. In this chapter we introduce social commerce fundamentals and describe its

content and benefits. We also describe three major areas: social shopping, social advertising, and social CRM.

7.1 SOCIAL COMMERCE: DEFINITIONS AND EVOLUTION

As it is a new field that involves several academic and professional disciplines, there is no agreed-upon definition or description of the content and boundaries of the social commerce field. Next, we will provide some working definitions.

Definitions and Characteristics

Social commerce (SC), also known as *social business*, refers to e-commerce transactions delivered via social media. Social commerce is considered a subset of e-commerce by some. More specifically, it is a combination of e-commerce, e-marketing, the supporting technologies, and social media content. This definition is illustrated in Figure 7.1. The figure shows that social commerce is created from the integration of e-commerce and e-marketing using Web 2.0/ social media applications. **The integration is supported by theories such as social capital, social psychology, consumer behavior, and online**

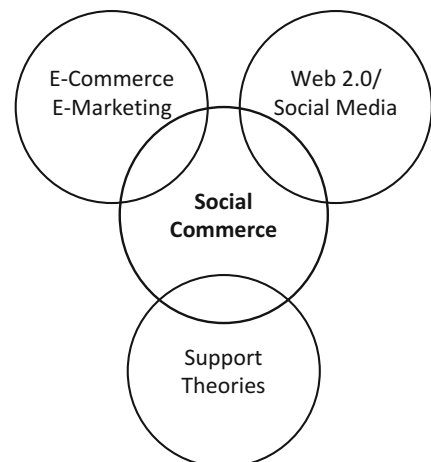


Figure 7.1 The foundation of social commerce

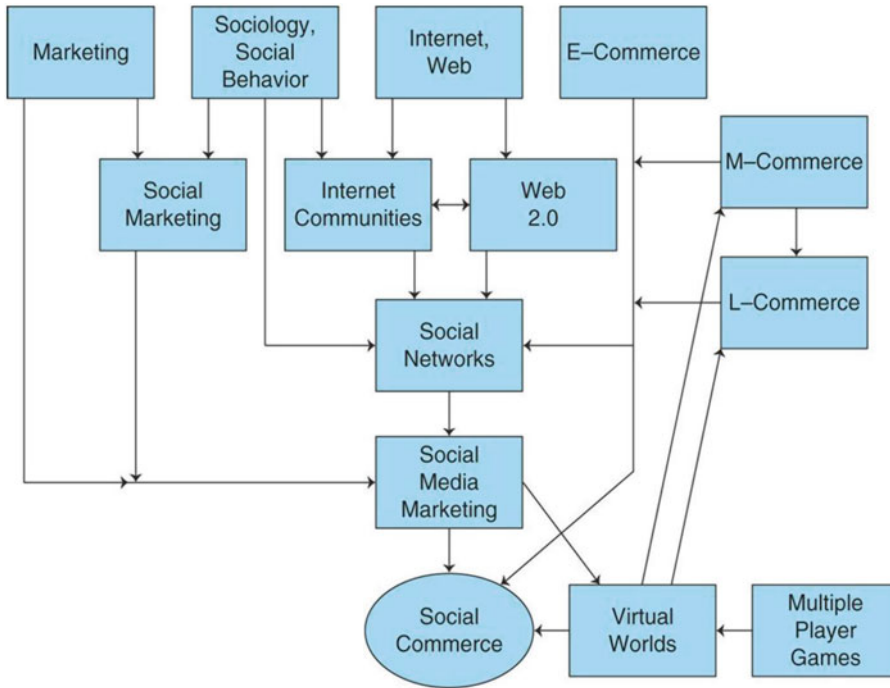


Figure 7.2 The major roots of social commerce

collaboration, resulting in a set of useful applications that drive social commerce.

The field of social commerce is growing rapidly; between 2011 and 2015, it is projected to rise six-fold to \$30 billion in revenues, according to Booz & Co. (reported by Cuccureddu 2011). For the impact of the technology see Palnitkar (2013). The magnitude of the field can be seen in Bennett's Infographic (2013).

Wang and Zhang (2012) provide a list of 11 definitions, including that of Stephen and Toubia (2010), who define SC as “a form of Internet-based social media that allows people to participate actively in the marketing and selling of products and services in online marketplaces and communities They distinguish “*social shopping* that connects customers from *social commerce* that connects sellers.” Dennison et al. (2009) provide an IBM definition, which implies that social commerce is the concept of *word of mouth* applied to e-commerce. Marsden (2009a) collected 22 different definitions of SC that include several of SC's properties (such as word of mouth, trusted advice, and buying with the opinion and assistance of friends).

For additional discussion, see bazaarvoice.com/research-and-insight/social-commerce-statistics and Baekdal (2011).

The Evolution of Social Commerce

In Figure 7.1, we illustrated the essential idea of social commerce. Let us look at this idea in more detail.

Social commerce emerged from the integration of several fields, which are shown in Figure 7.2. For example, Marsden and Chaney (2012) show how social media contributes to sales, making it a social commerce application.

A major origin of social commerce (SC) was the development of Web 2.0 technologies, as previously mentioned. With these came commercial applications, which included activities in social networks and the use of social software such as blogs and wikis. A major driver of SC is the globalization of business. This prompted the need for collaboration of employee, partners, and customers, sometimes worldwide. Web 2.0

Table 7.1 The major differences between e-commerce and social commerce

| Property | E-commerce | Social commerce |
|---------------------------|---|--|
| Major objective | Transactions | Social interactions |
| Major activity | Publishing | Engagement |
| Content | Company generated | User generated |
| Problem solving | Company experts, consultants | Crowdsourcing |
| Collaboration | Traditional, unified communications | Web 2.0 tools |
| Product information | Product descriptions on websites | Peer product reviews |
| Marketplaces | E-tailers (e.g., Amazon.com) and direct from manufacturers' stores (Dell) | Social networks (f-commerce), collaborative markets |
| Targeting | Mass marketing, segmentation | Behavioral targeting, micro segmentation |
| CRM | Seller/manufacturer support | Social support by peers and by vendors and employees |
| Online marketing strategy | Website selling | Multi-channel, direct at social network sites |
| Integration | System integration | Mashups and system integration |
| Data management | Reports and analytics | Analytics |

applications created an efficient and effective platform for such collaboration.

The development and rapid growth of mobile computing and smartphones have also facilitated social commerce. Mobile commerce is the basis for SC models such as location-based applications, virtual communities, virtual worlds, and consumer/company networking. Social commerce also relies on communication and collaboration theories.

A major emphasis of SC is its marketing orientation. Traditional marketing activities were applied to Internet marketing in the mid-1990s, when companies began building websites and using e-mail to advertise their products for sale offline. As the Web developed, marketers applied the Internet to facilitate e-commerce *transactions*. Until that point, marketers controlled brand messages and continued their advertising and other communication monologues to customers and potential buyers (prospects). With the emergence of social media, marketing communication changed to a dialog with Internet users, and many marketing strategies evolved or completely transformed to support social commerce.

Note: The original term *social marketing* referred to the application of marketing strategies and tactics to social causes, such as the American

Heart Association. This concept was not related to marketing activities in social media. Today, however, many practitioners and academicians use the term *social marketing* to describe *social media marketing*.

Marketing, technology, and consumer and management evolution paved the way for SC, just as they prompted e-commerce development. The major differences between social commerce and e-commerce are illustrated in Table 7.1.

For a chronicle presentation of historical milestones in the development of social commerce, see socialtimes.com/social-commerce-infographic-2_b84120.

SECTION 7.1 REVIEW QUESTIONS

1. Define social commerce and list its major characteristics.
2. Trace the evolution of social commerce.
3. Describe the major differences between e-commerce and social commerce.

7.2 THE CONTENT OF THE SOCIAL COMMERCE FIELD

The content of the SC field is very diversified (e.g., see Solis 2010).

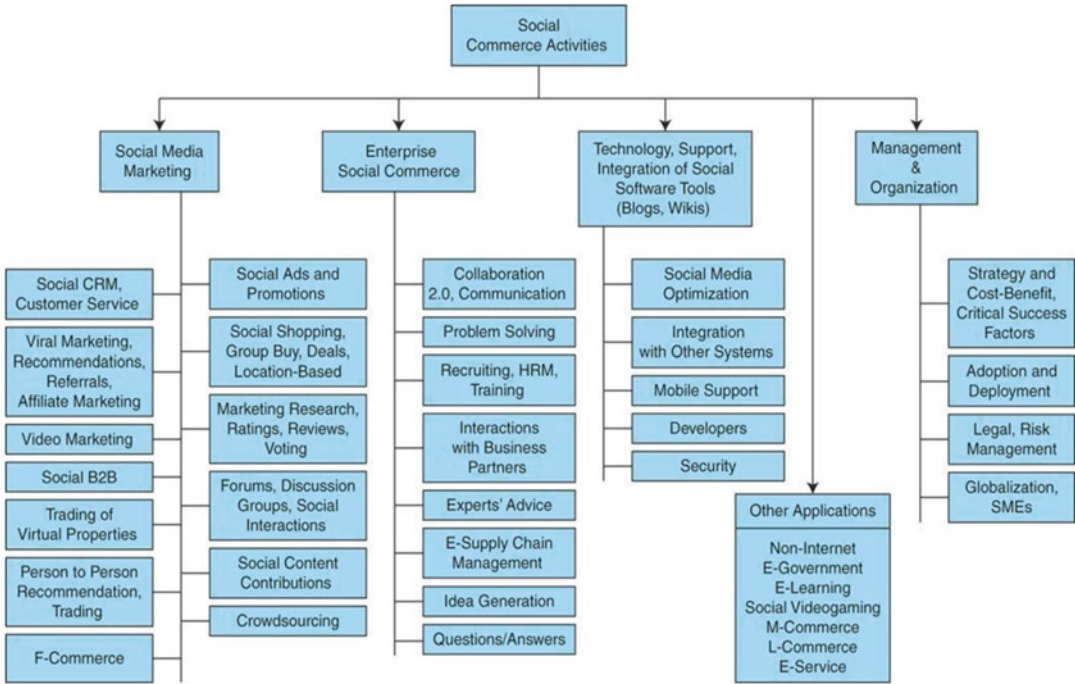


Figure 7.3 The major dimensions of social commerce

The Landscape and Major Components of the Field

The landscape of social commerce is multidisciplinary (see slide presentation by Marsden (2010a) and Liang and Turban (2011/2012)). Most of the activities center around e-marketing conducted with social media, particularly marketing communication, techniques of advertising, sales promotions, and public relations usually expressed as *social media marketing* activities (e.g., see Solis 2010). However, several other areas are emerging in the field, especially activities within organizations that are referred to as *social enterprise or Enterprise 2.0*. Liang and Turban (2011/2012) illustrate the social commerce landscape in Figure 7.3 and describe only some of the areas here. Discussions of the other activities of the figure are provided throughout the book (Tables 7.2, 7.3, and 7.4).

For additional descriptions of some SC elements, see “The Social Business Landscape” at enterpriseirregulars.com/23628/the-2010-so-

digitalinnovationtoday.com/new-presentation-social-commerce-opportunities-for-brands. For a detailed discussion, see Marsden (2010b) and his slide presentation “Social Commerce Opportunities for Brands” at digitalinnovationtoday.com/new-presentation-social-commerce-opportunities-for-brands. For statistics about social commerce and its use see “Social Commerce Statistics” at bazaarvoice.com/research-and-insight/social-commerce-statistics. The two major elements in social commerce, social media marketing and Enterprise 2.0, are described next.

Social Media Marketing

Social media marketing (SMM) is the application of marketing communication and other marketing tools using social media. Social media marketing facilitates social commerce, builds brands, repairs brand reputation damage in social media, and fosters long-term customer relationships, among other things.

Table 7.2 Social networking software tools

| | |
|---|---|
| Tools for online communication | Emerging technologies |
| <ul style="list-style-type: none"> • Instant messaging • VoIP and Skype • Text chat • Collaborative real-time editors • Internet forums • Blogs, vlogs, microblogs (Twitter) • Wikis • Collaborative real-time editor • Prediction markets | <ul style="list-style-type: none"> • Peer-to-peer social networks • Virtual presence • Mobile tools for Web 2.0 |
| Types of services | Tools for individuals |
| <ul style="list-style-type: none"> • Social network services • Commercial and professional social networks • Social network search engines • Enterprise social networks • Social guides • Media sharing (YouTube) and Photos (Flickr) • Social bookmarking • Social citations • Social libraries • Virtual worlds and massively multiplayer online games (MMOGs) • Nongame worlds • Other specialized social applications • Social games (Zynga, Electronic Arts) • Politics and journalism • Content management tools | <ul style="list-style-type: none"> • Personalization • Customization • Search • Clipping tools • RSS feeds • File-sharing tools |
| | Web 2.0 development tools |
| | <ul style="list-style-type: none"> • Mushups • Web services |

Sources: Compiled from en.wikipedia.org/wiki/social_software, en.wikipedia.org/wiki/list-of-social-software (accessed June 2014), Weblogs, Inc. (2007), and author's experience

Table 7.3 Social networking software tools and services

| |
|---|
| Tools for online communication |
| <ul style="list-style-type: none"> • Blogs, vlogs, microblogs (Twitter) • Wikis • Instant messaging and VoIP • Internet forums • Text chat • Collaborative real-time editors |
| Platforms and applications for support |
| <ul style="list-style-type: none"> • Social network general services • Commercial and professional social networks • Social search engines • Enterprise social networks • Social guides • Multiimedia sharing sites (YouTube) and Photos (Flickr) • Article sharing • Social bookmarking • Social citations • Social libraries • Social cataloging |

(continued)

Table 7.3 (continued)

- Virtual worlds and massive multiplayer online games (MMOGs)
- Crowdsourcing and idea generation
- Social games in networks (Zynga, Electronic Arts)
- Content management tools

Emerging technologies

- Peer-to-peer social networks for selling and bartering
- Virtual presence
- Mobile tools for Web 2.0

Tools for individual users

- Personalization tools
- Customization
- Search in blogs, in all types of media
- Clipping tools
- RSS
- File-sharing tools

Web 2.0 development tools

- Mashups
- Web services

Note: For descriptions and examples, see the 'social software' entry on Wikipedia

Table 7.4 The benefits of social commerce**Benefits to customers**

- Pay less for products and services (group buy, special deals)
- Vendor response time to complaints is better and faster since unhappy customers can use a public forum (on Twitter, Facebook, or YouTube)
- Unhappy customers can rapidly reach millions via word-of-mouth
- Be engaged, develop relationships with vendors and other customers
- Customers can assist other customers (e.g., in Forums, by tweeting)
- Customers' expectations can be met fast and comprehensively due to feedback
- Customers can find out about new staff quickly via social networking
- Customers can easily search, link, chat, and buy while being on the social network's page
- Extensive self-service is possible

Benefits to vendors

- Save money on customer service via self-service and Web 2.0 (e.g., smaller call centers)
- Can test new products/ideas quickly and inexpensively (customer feedback)
- Learn a lot about the customers (from feedback and interactions)
- Identify problems quickly; assess magnitude, provide quick resolution, alleviate anger
- Compare prices/services to competitors (competitive intelligence)
- Turn user-generated content into user-generated commerce
- Increase retail sales – when customers discuss products in a community or via Twitter
- Customers can generate ideas, help solve problems
- Increase trust via direct conversations
- Improve customer service and increase customers' loyalty
- Create better marketing campaigns and brand awareness
- Improve product/design (e.g., a test bed for products); better match with customer needs
- Use low-cost user-generated content
- Get free advertisement (e.g., viral advertisement)
- Increase traffic to site, increase sale and profit (e.g., due to recommendation)
- Target advertisements more accurately
- Increase revenue and profit via better customer acquisition and retention
- Reduce marketing and advertisement expenses
- Identify brand advocates (e.g., bloggers)
- Create a community of fans for your brand (e.g., on Facebook, on your own site)

Today, integrated marketing communications applies the traditional marketing tools in innovative ways in social media activities, such as in viral marketing. The emergence of Web 2.0 allows marketers to connect directly with increasingly smaller target markets, including a single individual. For example, savvy marketers now build brands and respond to questions and complaints in social networks instead of (or in addition to) sending press releases to traditional journalists. They can also build social interactions with customers and conduct market research. The various topics of social media marketing communication are described in Chapters 4, 5, 6, 7 and by Singh and Diamond (2012).

For an infographic see Wood (2014).

Enterprise 2.0

The second major type of social commerce is *Enterprise 2.0*, also known as *Social Enterprise* (see Figure 7.3), which is used by an increasing number of companies to conduct several social media and social commerce activities inside the enterprises (e.g., idea generation, problem solving, joint design, and recruiting).

There are several definitions of **Enterprise 2.0**. The term “Enterprise 2.0” was first coined by McAfee (2006). The initial definition connected the term to Web 2.0 and to collaboration. McAfee revised the definition several times. A recent definition is “...the use of social software platforms within companies, or between companies and their partners or customers” McAfee (2009).

Note: For more definitions and concepts of Enterprise 2.0 technology, see a slide presentation “What is Enterprise 2.0?” at slideshare.net/norwiz/what-is-enterprise-20.

Several Enterprise 2.0 conferences are held every year, some providing additional definitions that may even change with time (e.g., see e2conf.com). This organization provided a white paper in which it compared Enterprise 2.0 to Enterprise 1.0, listing the following as characteristics of

Enterprise 2.0: ease of information flow, agility, flexibility, user-driven content, bottom up communication, global teams, fuzzy boundaries, transparency, folksonomies (rather than taxonomies), open standards, and on-demand (rather than scheduled) activities. Also important are flat organizations (rather than hierarchical) and short time-to-market cycles.

For other characteristics of Web 2.0, see IBM (2011a). For an extensive slide presentation titled “What Is Enterprise 2.0?” see slideshare.net/norwiz/what-is-enterprise-20.

For more on Enterprise 2.0, see Chapter 8, and Chui et al. (2013).

Examples of Social Enterprise Applications

Some examples of social enterprise applications include the following:

- Dell, Starbucks (see opening case), IBM, and many other companies solicit ideas from large groups of employees, customers, and business partners on how to improve their business operations (e.g., Dell’s IdeaStorm site).
- More than 50% of medium and large corporations use LinkedIn and Facebook to announce available positions and to find potential employees.
- Best Buy provides state-of-the-art customer service via a Twitter-based system where thousands of employees answer customers’ questions, sometimes within minutes (see Chapter 8).

For a comprehensive study on the benefits and inhibitors of social commerce in the enterprise, see Forrester Consulting Report (2010).

SECTION 7.2 REVIEW QUESTIONS

1. Describe the major components of social commerce.
2. What is social media marketing?
3. Describe social enterprise (Enterprise 2.0).

7.3 THE BENEFITS AND LIMITATIONS OF SOCIAL COMMERCE

According to many practitioners and researchers, social commerce is making significant impacts on organizations and industries (e.g., Palnitkar 2013). A major impact has been seen in the fashion industry (e.g., see Little 2013).

Several surveys (e.g., Leggatt 2010) confirmed that social commerce results in significant monetary and strategic benefits to businesses. Also see success stories at IBM (2011b) and 67 case studies at barnraisersllc.com.

SC benefits fall into three categories: benefits to customers, benefits to retailers, and benefits to other types of enterprises.

Benefits to Customers

The success of social commerce depends on its benefits to customers. The major benefits appear in the following list:

- It is easy to get recommendations from friends and other customers (e.g., via Twitter, in social network discussion groups, and on product review sites). Recommendations result in more confidence and trust helping customers decide about purchasing products and services.
- Customers are exposed to special deals (e.g., via Groupon) for large savings.
- Purchases are better matched with specific needs, wants, tastes, and wishes of customers (e.g., see the Netflix case in Chapter 9); this increases satisfaction and reduces product choice decision time.
- It is easy for customers to use the technology.
- Social commerce fits the mobile device lifestyle well.
- Increased trust is developed in vendors (via closer relationships).

- Social commerce allows customers to help other customers (social support).
- Customers can get better customer service from vendors.
- Customers can meet new friends (e.g., for travel) and socialize online.
- Customers can get rich social context and relevancy during their purchase decisions.
- Customers can connect with individuals and businesses who otherwise are inaccessible to them.

Benefits to Retailers

Retailers are major benefactors of social commerce. For example, over 40% of businesses globally find new customers via social networks (Leggatt 2010). In addition, over 27% of companies invest in social networking in order to acquire and retain customers (Leggatt 2010).

According to Grau (2006), retailers may benefit from social commerce in the following ways:

- Consumers can provide feedback on market communication strategy and on product (service) design.
- Vendors get free word-of-mouth marketing (see Chapters 3 and 4).
- Increased website traffic (recall the Starbucks opening case), which increases revenue and sales.
- Increased sales as collaborative filtering and other social influence methods are used (see Chapters 3 and 4 and trendwatching.com/trends/TWINSUMER.htm).

Note that the concept of “twinsumer” is related to these benefits. The twinsumer trend involves consumers looking for the best of the best, the first of the first, and the most relevant products and services. For more on benefits to

retailers, see the video titled “Social Media Powerful Tool for Online Retailers” (4:08 minutes) at [youtube.com/watch?v=1ByDmQICXs4](https://www.youtube.com/watch?v=1ByDmQICXs4).

Example

Beretta Inc. increased its revenue in 2013 by 15% by introducing social commerce into its e-commerce store using ShopSocially’s SC platform. For details see the December 23, 2013 press release “Popular Firearms Manufacturer Beretta Hits the Bullseye on Social Commerce with a 15% Revenue Uplift” at digitaljournal.com/pr/1655392.

For a comprehensive presentation of social commerce effects on retailing, see Dennison et al. (2009).

Benefits to Other Types of Enterprises

In addition to increased sales and revenue, enterprises can benefit from social commerce in several ways (see Chapter 8):

- Conduct faster and less costly recruitment with larger reach to large number of candidates.
- Reduce costs via innovative methods such as using the collective intelligence of employees and business partners (see crowdsourcing, Chapter 8).
- Foster better external relationships; for example, with partners and channel distribution members.
- Increase collaboration and improve communication within the enterprise and with business partners (e.g., by using blogs, microblogs, wikis; see McAfee 2009).
- Foster better internal relationships (e.g., by increasing employee productivity and satisfaction).
- Provide free advice to small enterprises by other enterprises and experts (e.g., via LinkedIn groups).

- Understand that it is usually not expensive to install and operate SC systems.
- Locate experts quickly, both internally and externally, whenever needed (e.g., see guru.com).
- Conduct market research quickly and inexpensively and get feedback from customers, employees, and business partners (see Chapter 10).
- Increase market share and margins (see survey results in Bughin and Chui 2010).
- Build brands through conversations and social media promotions.
- Micro segment for reaching very small markets with brand offerings at a low cost.
- Manage company and brand reputations online.
- Build brand communities for positive word of mouth online.
- Enhance customer service and support.
- Increase traffic and sales at the company website and at physical retailers.
- Facilitate market research by monitoring conversations online.
- Increase company and brand rankings on search engine results pages.

The potential benefits in the previous list may increase productivity and value (Chui et al. 2013) and could provide a *strategic advantage* (Bauer 2011) and they encourage companies to at least experiment with social commerce. Successful applications are introduced in Chapters 4, 5, 6, 7, 8, and a comprehensive list is available at Bazaarvoice (2011). Note that the use of social media and commerce is turning out to be a global phenomenon (e.g. see Ran 2012).

The Social Business: An IBM Approach

The previously noted benefits to enterprises make it desirable for enterprises to transform to what

IBM calls a *social business*. A **social business** is “a business that embraces networks of people to create business value” (IBM 2011a). Many consider this term equivalent to social commerce and use the two interchangeably. However, IBM is more concerned with the structure and operations of enterprises. IBM and many other companies (notably Intel) are becoming social businesses. (For how to do this, see IDC 2011.) IBM (2011b) sees the following three goals for social businesses:

1. *Enable an effective workforce.* Functional departments can increase overall employee productivity and job satisfaction through improved knowledge capture, expertise, location, and collaboration. Travel, training, and teleconferencing expenses also can be reduced. (In addition, better and faster recruitment can be done inexpensively.)
2. *Accelerate innovation.* Product research and development teams can speed up internal idea generation, (discovery, information, and strategy sharing), and gathering feedback from key customers and partners.
3. *Deepen customer relationships.* With immediate access to more content and expertise, customer service representatives can work (more) efficiently and provide higher-quality service. Marketing and sales teams can have more time to spend with customers and to dedicate (that time) to customer-focused initiatives “(thus strengthening relationships with customers).” Note: Supplements in parenthesis were added by the authors.

In addition, IBM strategically integrates social media into various business processes (e.g., procurement) and is developing an organizational culture to support the integration process for delivering rapid and impressive outcomes. For details see IBM (2011a), and ibm.com/social-business-business/us/en.

New or Improved Business Models

A **business model** describes the method of doing business that meets the customer’s needs, and by which a company generates revenue and creates value. Note that the January/February 2011 issue of *Harvard Business Review* is dedicated to business model innovations (5 articles), including several topics related to social commerce.

Social commerce provides innovative e-commerce business models. Some are new while others are improvements of regular EC models (e.g., group buying). A large number of SC models are in the area of social shopping as described in Section 7.4. Several other new models are in the area of enterprise commerce (Chapter 8). Here are some brief examples:

- Shopping business models include widgets on social media sites to “buy now” (such as digital music purchase widgets on Facebook) and more.
- Online software agents that put buyers and sellers together, such as when TripAdvisor refers users to online travel sites to purchase hotel rooms. Content sponsorship—selling advertising on a site that supports content development (YouTube).
- Crowdsourcing models that allow companies to design their products or logos by involving their customers.
- Sales promotions conducted in social networks that drive traffic to the company’s site, such as contests, discounts, and downloading free music and software.
- Location-based commerce as is offered by Foursquare as illustrated in Section 7.5.
- Recruiting in social networks, as exemplified by LinkedIn and Facebook job markets.
- Collaboration models that are facilitated by blogs, wikis, and crowdsourcing (see examples in Chapter 8).

Many start-ups have invented these and other business models. For example, Joost (joost.com) invented a person-to-person (P2P) service that sends broadcast-quality video over the Internet, and Webkinz (webkinz.com) created a huge business around virtual pets, and IZEA Inc.

(izea.com) created a marketplace for connecting advertisers with social media creators of content (e.g., bloggers).

Several of these start-up companies are so prosperous that they successfully run an IPO in the stock market. Well-known are companies are Facebook, Pandora, LinkedIn, Renren, Dang, Yelp, Yandex, Zillow, and Jive Software.

The potential for profitable social business models is very large. For example, wikia.com is using a crowdsourcing community in an attempt to develop a superior search mechanism. If it can create a successful one, Google may be in trouble. For the opportunities for business created by social commerce see Moontoast (2013). For new models in the fashion industry see Knopf (2012), and businessfashion.com. For a discussion of the strategic power of social media, see Bauer (2011).

Concerns and Limitations of Conducting Social Commerce

Although social commerce presents many opportunities for organizations, its implementation may involve some potential risks and possibly complex issues such as integration of new and existing information systems. Representative risk factors are difficulties in justification of SC initiatives to upper management, security and privacy issues, possibilities of fraud, legal concerns, quality of UGC, and time wasting by employees during work hours. Companies also risk loss of control over their brand images and reputations in social media conversations and product review sites, which can affect product sales. According to the Enterprise 2.0 Conference (2009), the major barriers to adoption of Enterprise 2.0 are resistance to change, difficulty in measuring ROI, and difficulties of integration with existing IT systems and security. A 2011 survey “Social Business Shifting Out of First Gear” reported by Burnham (2014) ranks the top concerns in deployment of social business as (1) security liability exposures, (2) doubts about ability to govern effectively, (3) poor integration,

(4) doubts about ROI/value, and (5) poor organizational buy-in.

SECTION 7.3 REVIEW QUESTIONS

1. List the major benefits to customers.
2. List the major benefits to retailers.
3. List the major benefits to other than retailers.
4. Describe new or improved social commerce business models.
5. Describe some concerns and limitations of social commerce.

7.4 SOCIAL SHOPPING: CONCEPTS, BENEFITS, AND MODELS

Involvement in shopping is natural area for social networks. Although shopping in social networks is only beginning to grow, it has enormous potential. In this section, we cover the essentials of social shopping.

Definitions, and Drivers of Social Shopping

Shopping is, by nature, a social activity. **Social shopping** (also known as *sales 2.0*) is online shopping with social media tools and platforms. It is about sharing shopping experiences with friends. Social shopping blends e-commerce and social media. Thus, social commerce takes the key features of social media (e.g., discussion groups, blogs, recommendations, reviews, etc.) and uses them before, during, and after shopping.

An overview of social shopping is provided by Shih (2011), and Turban et.al. (2015).

The Drivers of Social Commerce

The following are the major drivers of social shopping:

- A large number of people visiting social networks attracts advertisers
- The increasing numbers of recommendations/suggestions made by friends

and the ease and speed of accessing them

- The need to compete (e.g., by differentiation) and to satisfy the social customer
- The emergence of social customers with knowledge and competence in using the Internet (e.g., in finding reviews and comparing prices)
- The need to collaborate with business partners
- The huge discounts provided by some of the new business models (e.g., flash sales)
- The socially-oriented shopping models (e.g., group buying)
- The ease of shopping while you are inside some social networks (e.g., from Facebook)
- The ease of communicating with friends in real-time using Twitter and smartphones

For more on social shopping, do a Google search for social shopping. Also see Kimball (2013) for an infographic and webtrends.about.com/od/web20/a/social-shopping.htm.

Concepts and Content of Social Shopping

Social shopping is done in social networks (e.g., Polyvore, Wanelo), in vendors' socially oriented stores, in stores of special intermediaries (such as Groupon.com), and Greenberg et al. (2011). The buyers are *social customers* that trust and/or enjoy social shopping. As will be seen later in this section, there is a wide range of social shopping models that utilize many of the Web 2.0 tools as well as social communities. The nature of shopping is changing, especially for brand name clothes and related items. For example, popular brands including Gap (gap.com), Shopbop (shopbop.com), and InStyle (instyle.com) are joining communities on sites such as Stylehive (stylehive.com) and Polyvore (polyvore.com) to help promote the season's latest fashion

collections. Social shoppers are logging on to sites like Net-A-Porter (net-a-porter.com) to buy designer clothes online. They can log on to sites such as ThisNext (thisnext.com), create profiles, and blog about their favorite products. For practical issues of social commerce, see digitalintelligencetoday.ccom/social-shopping-101-a-practitioners-prime. There are two basic practices for deployment of social shopping:

1. Add social software (e.g., blogs) and features (e.g., polling) to existing e-commerce sites.
2. Add e-commerce functionalities (e.g., e-catalogs, shopping carts) to social media and network sites, as is done at Facebook.

Why Shoppers Go Social

Many shoppers like to hear from others prior to purchasing. Therefore, they ask for recommendations from friends or use the concept of communal shopping.

Communal shopping (also known as *collaborative shopping*) is a method of shopping where shoppers enlist friends and other people they trust to advise them on what products to shop for. This results in more confidence in decisions made to buy or not to buy (a phenomenon known as the "bandwagon effect"). For examples see the video "New Frontiers in the Communal Shopping Experience" (2:58) at bloomberg.com/video/eden-s-communal-shopping-experience-xvmRAIhTE2AZapKKd5aVA.html.

The Roles in Social Commerce

Gartner Inc. conducted a study on social commerce (reported by Dubey 2010) in which it identified the following roles in social media and e-commerce:

- **Connectors.** These are the people with contacts that introduce people to each other. Connectors try to influence people to buy. Consultants and connected people play this role.
- **Salesmen.** Like their offline counterparts, salesmen's major effort is to influence shoppers to buy. They are well connected so they can impress buyers.

- **Seekers.** These consumers seek advice and information about shopping and services from experts, friends, and mavens.
- **Mavens.** Mavens are recognized, but are unofficial experts in certain domains that can provide positive or negative recommendations to advice seekers.
- **Self-sufficients.** These people work on their own and do not like to be influenced.
- **Unclassifieds.** Most people do not belong to any one of the above categories.

The major influencers are friends, other consumers, salesmen, connectors, and mavens (experts).

Benefits of Social Shopping

Many of the benefits of social commerce (Section 7.3) apply to social shopping. Additional benefits are:

- You can discover products/services you never knew existed (e.g., see [thisnext.com](#)).
- You can interact with vendor (brand) representatives easily and quickly (e.g., feature available at the blog on [stylehive.com](#)).
- Your confidence and trust in online shopping may increase due to engagement and interactions with friends.
- You can get super deals via group buying, daily specials, and more. Join Groupon just to see the super daily deals.
- You can exchange shopping tips with your friends, fans, and others. Thus, you can learn from experiences of others.
- You can build and share wish lists.
- You can shop together with people like you.

For an overview see an infographic at guerillaconnection.com/wp-content/upload/2012/06/Guerilla-Social-Media-Trends.pdf.

Therefore, before you go shopping, consult social shopping sources such as [tkgenius.com/?s=social+shopping](#).

Note that social shopping sites may generate additional revenue from advertising, commissions on actual sales, sharing customer information with retailers, and affiliate marketing.

Note: Both Facebook and Twitter are providing activities with some or all of these models directly and indirectly. For Twitter, see [business.twitter.com/twitter-101](#).

What Components to Expect in a Social Shopping Site

Depending on the social shopping model, on the products offered and related information, and on the relevant information systems, one may find a diversity of components in a site. The following major components help shoppers in making purchasing decisions are:

- **Visual Sharing.** Photos, videos, and other images enable shoppers to visually share their product experiences.
- **Online discussions.** Ratings, reviews, interactions, recommendations, blogging, and comments facilitate discussions regarding features and benefits of products.
- **Journals of products and their use.** These demonstrate how to use products via videos, blogs, and step-by-step instructions.
- **Guides.** Guides are created by users who can be experienced consumers, experts, or employees. The guides are supported by case studies, testimonials, and videos. information.

Traditional E-Commerce Sites with Social Media Additions

In addition to pure social shopping sites, there are many traditional e-commerce sites that add social

media tools. A prominent example is Amazon.com, which adds recommendations, reviews, voting, and more. An example from Germany is presented next.

Example: Nestlé Interactive Social Commerce Site

The global food and beverage manufacturer launched an interactive online social commerce platform in Germany in September 2011 to engage with consumers while providing greater access to its products (see nestle.com/media/newsandfeatures/nestle-marks-largest-ever-investment-germany). The *Nestlé Marketplace* (“Marktplatz”) website, according to fdbusiness.com/tag/germany was first social commerce platform of its kind in Germany from a food and beverage manufacturer of Nestlé’s size and range (see the Infograph at digitalcpg.com/category/ecommerce). Consumers can also purchase products online (including foreign Nestlé products that are not available in most of Nestlé physical stores, or the stores of retailers who sell their products) and also review, rate, recommend, and ask questions about each product. The site supports two-way communication. According to fdbusiness.com/tag/germany people can leave ratings and comments about the products. Shoppers can submit suggestions for new products on the site. With more than 2,000 products (February 2014) and 75 different brands available online, Nestlé Germany experiences about three million visits to the site each year.

The company wants to enable the customers to engage and to help Nestlé Marketplace to prosper.

Visitors to the Nestlé Marketplace can search for products using a variety of detailed criteria including taste, packaging, color, specific occasions, or diet preferences. Nutritional information can also be found for each product. The Nestlé Marketplace website is supported by a Facebook page, which provides space for discussion about the company’s brands, foods, and cooking. For details, see nestle.com/Media/NewsAndFeatures/Pages/Nestle-pilots-social-commerce-with-new-interactive-site-for-German-consumers.aspx. To learn about the company’s strategies, expectations, and expe-

riences, see e-commercefacts.com:8080/background/2012/03/nestle-marketplace.

The Major Types and Models of Social Shopping

- A large number of social shopping models and strategies have appeared in recent years, many created by start-ups such as Groupon.com. Some are extensions of EC generic models; others are unique to social shopping. These models can be stand alone, combined, or used within social networks. We have grouped them into the following categories: Group buying
- Deal purchases (flash sales), such as daily special offers
- Shopping together in real-time
- Online shopping communities
- Marketplaces
- Innovative models
- Shopping for virtual products and services
- Location-based shopping (presented in Section 7.5; see also Zwilling 2011)
- Shopping presentation sites (e.g., at YouTube) and gaming sites
- Peer-to-peer models (e.g., money lending)
- Private online clubs

For these, there are several shopping aids which we describe after we elaborate on some of these categories.

Group Buying

The group buying B2C model that was introduced in Chapter 1 was unpopular and seldom used in many countries, including the United States. However, in other countries (e.g., China), group buying has had good success. The problem with this model was the difficulty in organizing the groups, even with an intermediary. Furthermore, even if a group was organized, the negotiations

about discounts could have been difficult, unless a very large volume was negotiated. In order to rally shoppers, group-shopping sites like LivingSocial and BuyWithMe offer major discounts or special deals during a short time frame. These start-up companies act as intermediaries to negotiate the deals with vendors. Group buying is closely associated with daily deals (flash sales). The social commerce approach revived the not so successful original e-commerce model, and frequently is combined with flash sales.

Example: Lot18

Lot 18 (lot18.com) offers access to fine wines at up to 60% off. Their team of curator works directly with producers around the world to bring high-quality, hard-to-find products directly to members. They showcase new wines daily, made available in limited quantities for a limited time, or until members have purchased all available quantity. Several new products appear on the site each day. Lot18 uses Facebook to advertise flash deals. Advertising flash sales on Facebook provides an ideal environment for recruiting friends into group-buy deals (members who invite friends to register are rewarded with a \$25 Lot18 credit for future purchases after the friend's order ships). Each member receives a personalized link, which he or she can e-mail to friends or post on their Facebook or Twitter pages to share with friends. For related information see mashable.com/2013/03/17/wine-ecommerce.

Group Buying in China

Group buying is very popular in China ("tuangou" in Chinese). In December 2013, about 1,000 companies are active all over China with an estimated 140 million shoppers. For example, Lashou.com (lashou.com) operates in more than 100 cities. The process, however, is different from that of Western countries.

The Process

For several years, according to Yoon (2011) and Madden (2010), Chinese buyers were organizing groups to buy a product (e.g., a car). Then, the group leader bargained with potential sellers. Sometimes the leader brought the entire buying

group to a face-to-face collective negotiation (e.g., see a video [1:59 minutes] "Group Shopping Tuangou" at vimeo.com/8619105).

By 2014, all major Chinese Internet companies have launched, or plan to launch, group buying and flash deals. These includes ir.baidu.com, sina.com, tencent.com, and alibaba.com. For details, see Madden (2010) and watch the video titled 'Group Buying in China (2:10 minutes) at cnn.com/video/data/2.0/video/business/2011/01/26/yoona.china.coupon.gen.cnn.html.

Deal Purchases (Flash Sales)

Short period deals are practiced offline usually to attract people who are already in a store, or vendors advertise a sale for a day, or for several days (in a newspaper, radio and TV, inside the store), or for "doorbuster" sales between certain hours on a certain day. There are several variations of this model when done online, and it is frequently offered together with other models.

The deal purchase may be offered only in one city or state. For example, LivingSocial asks people to sign up for a deal at a restaurant, spa, or an event in a given city. You can click on "today's deal" or on "past deals" (some are still active). The deals are e-mailed to anyone that signs up with LivingSocial. If you like it, you click on an icon and receive the deal the next day. After you buy the deal, you get a unique link to share with your friends. If you find three or more people willing to buy that specific deal using your link, then your deal is free. A common strategy of flash sale sites is to focus on an industry. For example, gilt.com focuses on designer apparel, jewelry, bags, and upscale home furnishings.

Woot.com (an Amazon.com company) offers community information related to its deals. For example, there is a "discussion about today's deal," a Woot blog, top past deals, deal news, and what percentage of community members bought which product and what quantities of the products. Testimonials by members are also available. Woot is known as a favorite place for gadget geeks. Thus, Woot is not only a brand, but also a culture. Other interesting flash sale companies are Jetsetter (a TripAdvisor company) and Rue La La.

Online Shopping Together in Real-Time

Shoppers on social networks can invite their friends to shop online at the same time, while in different locations. Using Facebook e-mail (or other networks) or Twitter, they interact to discuss shopping-related subjects and provide opinions.

Shopping providers (e.g., DoTogether and Wet Seal) use Facebook's *social graph* when integrating their shopping service into Facebook.

Shopping Together Sites

Dozens of sites facilitate shopping together models. For example, Select2gether allows you to join a conversation in a chat room; create a wish list; shop online in real-time with your friends; find inspirations, ideas, and advice; start a live showroom with your friends; and get access to the latest fashion-related products in which the site specializes. For details and explanations, see 2.select2gether.com/about/help.

Co-Shopping

Co-shopping is an IBM software tool that enables two online shoppers to browse a store, view products, chat, and collaborate together, all in real time. It also enables employees in customer care centers to conduct live interactions with customers.

Online Shopping Communities

According to socialecart.com/category/stories, "*shopping communities* bring like-minded people together to discuss, share, and shop. The community platforms and forums connect people with each other, with businesses and with other communities." To date, fashion communities are the most popular (e.g., Polyvore, Stylefeeder, a Time company and ShopStyle). However, other shopping communities are organized around food, pets, toys, and so forth. For example, Listia (listia.com) is an online community for buying and selling used or new items, along with fashion, in online auctions using virtual currency. DJdoodleVILLE (djdoodleville.com) is an online shopping community specializing in arts and crafts.

For a summary about social shopping communities, see digitalinnovationtoday.com/speed-summary-ijec-social-commerce-special-edition-social-shopping-communities.

Common Features in Communities and Forums

Communities and forums share the following major features (per Marsden 2009b, Fisher 2010; see the Infograph there, and the authors' experiences):

- **User forums.** Forums are discussion places in social networks where people can meet to discuss issues or to work together to solve problems raised by participants in discussion groups.
- **User galleries.** Galleries are usually hosted by vendors to display images and videos for discussion by viewers such as customers and business partners (e.g., Burberry's Art of the Trench [artofthetrench.com]). In January of 2013, Twitter added video to its user galleries and is now calling them "media galleries" (see marketingland.com/twitter-adds-videos-to-user-media-galleries-32095).
- **Idea boards.** These are usually inside enterprise networks (e.g., mystarbucksidea.force.com; "free crowdsourcing of product ideas"; Dell's ideastorm.com). This is a crowdsourcing mechanism (Chapter 8) for idea generation and idea evaluation (see boardofinnovation.com/2009/07/11/my-startbucks-idea-free-crowdsourcing-of-product-ideas).
- **Q&A forums.** Online groups where users (e.g., customers) can ask and answer questions about various topics (e.g., a company's products) and be helped by product experts and savvy customers (e.g., Bazaarvoice's "Ask & Answer;" PowerReviews' "AnswerBox"). Answers can be organized in Q&A format.
- **Brand communities.** Communities that are organized around a brand (e.g., Sony's MP3) to discuss a product or brand.
- **Comprehensive (multipurpose communities).** Kaboodle.com is probably the most well-known comprehensive community, while polyvore.com is the leading fashion

(and related products) community. Another example is wists.com, which works like book-marking for shopping. These communities started as fashion-related groups.

Examples of Shopping Communities

There are many sites that can be classified as pure shopping communities. A prime example is polyvore.com, which is presented in Case 7.1.

CASE 7.1: POLYVORE: A TRENDSETTER IN SOCIAL SHOPPING

According to Polyvore's website and Crunchbase crunchbase.com, polyvore.com is a community site for online fashion and style where users are empowered to discover and develop their style and possibly set fashion trends. Users do it by creating "sets" which are shared across the Web. The company collaborates with prominent brands such as Calvin Klein (calvinklein.com), Lancome (lancome-usa.com), and Coach (coach.com) and retailer such as Net-a-Porter, to drive product engagement; the user-generated fashion products on its site are then judged by community members and by celebrities such as Lady Gaga and Katy Perry. Today, the company is also using mobile technologies. For example, it has an app for iPad with many capabilities (see blog.polyvore.com). Note: Some celebrities, such as Lady Gaga, post their own products for sale on the site.

The story of the now-profitable Polyvore is described in detail by Jacobs (2010) and Chaney (2011) as well as by Grant (2013: an Infographic). Users create the "sets," of their wardrobe designs, using a special editor provided free on the site. These "sets" can then be posted and shared on Polyvore's site, Facebook, and Twitter. Merchants (e.g., designers) can use the site for free by (a) creating a profile, (b) uploading existing products, and (c) creating sets.

Once merchants create a profile and upload products, Polyvore encourages the posters to

engage with other community members by reviewing and evaluating the sets. Polyvore believes that the merchants' activity will be reciprocated. To facilitate actual shopping, the sets link to the creators' sites.

Polyvore can be viewed as a crowdsourced fashion operation that reflects the creativity and opinion of many, thus it can be viewed as expressing current fashion trends, see Wang (2011) (now they do the same with interior design). According to Wang (2011), the site provides a new business model for both shopping and product and style discovery, as well as a venue for designers to hone their skills by introducing new fashion items.

As of December 2013, Polyvore had over 22 million unique visitors importing 2 million items to the site each month, creating about 2.4 million fashion sets per month, and viewing sets 1 billion times a month. Users spend hours browsing, following favorite taste streams, asking questions, sharing ideas (see corp.wishpond.com/blog/2013/02/05/understanding-polyvore-for-business). Polyvore is considered by many to be the best place to discover or evaluate fashion trends, which are facilitated by contests managed by the company. For more information, see venturebeat.com/2012/12/20/polyvore-gets-a-cro/.

Polyvore can be used together with Pinterest to increase traffic to the site (see Mally 2012).

Sources: Based on Jacobs (2010), Wang (2011), polyvore.com/cgi/about, polyvore.com/cgi/about.press, and crunchbase.com/company/polyvore (all accessed May 2014).

Questions

1. How can one use the Polyvore Editor to create designs (see the short video (2:02 min) by Polyvore titled "How to Create a Set in the Polyvore Editor" at vimeo.com/7800846).
2. The company added supermodel Tyra Banks as an investor in 2013. Comment on the logic of such an addition.
3. Blogger Alexandra Jacobs (2010) writes, "Polyvore is a lot like playing paper dolls with pictures of real clothes." Discuss.

4. Read Jacobs (2010) and explain what and how people create at Polyvore. Also identify the critical success factors of this site.
5. Explain the statement made by Polyvore's vice president of product management: "Our mission is to democratize fashion."
6. Identify all the features of a shopping community in this case.

Kaboodle: A Unique Social Shopping Community

According to its website, Kaboodle (kaboodle.com) is a large comprehensive *social shopping community* and network. According to crunchbase.com/company/kaboodle, "this free service lets users collect information from the Web and store it on a Kaboodle list that can be shared with others. The site's primary goal is to simplify shopping by making it easier for people to find items (of interest) in Kaboodle's catalog, and (then) allowing users to share recommendations with one another (about selected items), using Kaboodle *lists* and *groups*. Kaboodle lists, however, can serve a variety of other purposes besides just shopping. (For example), they can be used for planning vacations (or parties), sharing research for work or school, sharing favorite bands with friends, and basically anything else people might want to collect and share information about".

To learn more about how Kaboodle works, take the Kaboodle Tour at kaboodle.com/zd/help/getStarted.html.

Some of Kaboodle's Capabilities

The "Add to Kaboodle" button simplifies the online shopping experience because, once inserted, the user can simply click on it whenever a product is selected from any website. Then, a snapshot of the selected item, its price, and other product information is automatically uploaded with a link about where to place it on Kaboodle lists. The user then can find any specific item in the future. Users can also discover deals, find new products, express their unique styles, con-

nect with others, share their discoveries, blog, create shopping lists, and more.

Kaboodle allows the creation of "Top Picks" from the Kaboodle lists based on what members like (e.g., the "top 10 weird products").

Private Online Shopping Clubs

Vente-Price of France (sale.vente-privee.com) was the first private online shopping club. The club concentrates on designer products. In general, clubs run flash sale events featuring luxury brands at huge discounts (up to 80%). Luxury brands use the clubs to liquidate out of style items, overstock, or special samples. Consumers like the clubs due to the largest discounts.

The key to this business model's success is that in contrast with the Groupon model, *not* everyone is allowed to shop. The members-only model serves a myriad purposes. Partially, it is a marketing device that makes members feel like VIPs; but it also helps the clubs manage healthy growth.

Examples of Private Clubs

Some private (or "members only") clubs are: Beyond the Rack (beyondtherack.com; in the U.S. and Canada posts flash deals), Gilt Groupe (gilt.com), Rue La La (ruelala.com), Amazon's Buy VIP (buyvip.com; in Europe), Ideeli (ideeli.com), and BestSecret (bestsecret.com). Note that, to minimize conflict with department stores, luxury brands now offer select items at Internet prices in stores such as Target Inc. (target.com).

Other Innovative Models

There are hundreds of start-ups in social commerce. Here are some representative examples:

- **Find what your friends are buying.** This service is offered for example by clubfurniture.com, a site that sells online home furnishings from its factory. According to Fleenor (2010), users can log onto Facebook or other social network, and view a list of shoppers at Club Furniture via the See What Your Friends Are Buying, feature. Users can also find a list of repeat customers. The company uses the services of TurnTo.

- **Wanelo.** This popular social shopping marketplace combines bookmarking and product sharing. Members can follow others to find trendy shopping. For details, see Leahey (2013). According to pcmag.com/article2/0.2817.2424709.00.asp, the company's name is an abbreviation for the phrase 'Want, Need, Love.' Wanelo (wanelo.com) "is an online community-based e-commerce site that brings together products from a vast array of stores into one pinboard-style platform. You can browse, save, or product collections. Catering to both brands and shoppers, members create collections – similar to Pinterest boards – from items onsite or external links". It is popular with young shoppers. It also has an app on iTunes and Google Play as well as a Facebook Fan page. For more information about Wanelo, see mashable.com/2013/11/05/wanelo-social-shopping.
- **Filtering consumers reviews.** TurboTax, a division of Intuit, launched a website called reviews.turbotax.intuit.com that allows consumers to evaluate their particular tax situation (own or rent a home, have children or not, previous tax prep method, etc.), and filter reviews on TurboTax products to see only those written by "people like them" (similar tax and income situations); then, quickly find which TurboTax product best suits their needs. From turbotax.com, consumers can also click through to Facebook, Twitter, or MySpace and read reviews on TurboTax products written by members of their social network. In addition, anyone who reviews a TurboTax product, whether on the main company site or at reviews.turbotax.intuit.com, can automatically publish their reviews to any of those three social networks with one click.
- **RealGifts.** Facebook has a service called 'RealGifts' that allows people to send real-life presents to their friends. People are getting together on Facebook to buy each other gifts. (Wrapp enables you to send giftcards from your smartphone.)
- **Virtual gifts.** Similar to trading in virtual properties and virtual gifts in Second Life, there is a rapidly increasing market on social networks for virtual gifts. Facebook sells virtual gifts in its marketplace. Also, friendster.com sells virtual gifts on its Facebook page.
- **Social auctions.** eBay is experimenting with social auctions in collaboration with Facebook and Twitter.
- **Getting help from friends.** To help friends help friends, you may go to sites such as shop-socially.com. You can post a question, share a purchase, and much more.
- **Shopping without leaving Facebook.** There are several ways to use Facebook Fan pages for shopping so fans do not have to leave Facebook. Payment is one implementation issue, security is another.
- In April 2010, Pampers offered its Pampers Cruisers at a big discount on its Facebook page. The offer of 1,000 units sold in less than one hour. The vendor (P&G) was willing to compensate the many thousands of people that missed the sale. This story demonstrates the power of Facebook marketing. For how you can shop on Facebook, see Solis (2010) and several other references.
- **Crowdsourcing shopping advice.** You can get advice from many people (the crowd), as is done by Cloud Shopper. According to Kessler (2011), Cloud Shopper allows users to organize the advice given by their friends. Users select products and start a conversation on Facebook about their items of interest. The company also provides price comparisons and price alerts about the selected items; see cloudshopper.com for details.
- **Helping bloggers sell products.** OpenSky (opensky.com) makes it easy for bloggers to sell any product they choose, directly to readers of their blogs, while earning a commission from the resulting sales.
- **Event shopping.** There are many sites that will help you shop for a special event (e.g., a wedding) with the assistance of your friends. Many variations exist. For example, Wendy's gives away gift cards for meals to the people who organizing viewing parties on Wendy's Facebook page.

Social Shopping Aids: From Recommendations to Reviews, Ratings, and Marketplaces

In addition to the typical e-commerce shopping aids such as comparison engines and recommendations a la Amazon.com style (see Chapter 3), there are special aids for social commerce.

Recommendations in Social Commerce

Prior to making a purchase, customers tend to collect information that will help them, such as what brand to buy, from which vendor, and at what price. Online customers do this by using shopping aids (e.g., price comparison sites like [nextag.com](#)), looking at sites such as [epinions.com](#), and researching other sources. Examining and participating in social networking forums is another way to compare prices and read product and service reviews. According to Gartner Inc. (reported by Dubey 2010), the majority of online customers already rely on social networks to guide them in purchase decisions. A variety of SC models and tools is available for this purpose (e.g., see Dugan 2010). We present two major categories here.

Ratings and Reviews

Ratings and reviews by friends, even by people that you do not know (e.g., experts or independent third-party evaluators), are usually available for social shoppers. In addition, any user has the opportunity to contribute reviews and participate in relevant discussions. The tools for conducting rating and reviews, which are presented here, are based on Fisher (2010), Bazaarvoice.com (2011), Rowan and Cheshire (2011), Shih (2011), [bazaarvoice.com/solutions/conversations](#), and the authors' experiences. The major types of tools and methods are:

or on independent reviews sites, (e.g., TripAdvisor) and/or in customer news feeds (e.g., Amazon.com, Buzzillions, Epinions). Customer ratings can be summarized by votes or polls.

- **Customer testimonials.** Customer experiences are typically published on vendors' sites, and third party sites such as [tripadvisor.com](#). Some sites encourage discussion (e.g., [bazaarvoice.com/solutions/conversations](#)).
- **Expert ratings and reviews.** Ratings or reviews can also be generated by domain experts and appear in different online publications.
- **Sponsored reviews.** These are written by paid bloggers or domain experts. Advertisers and bloggers find each other by searching through websites such as [sponsoredreviews.com](#)), which connects bloggers with marketers and advertisers.
- **Conversational marketing.** People communicate via e-mail, blog, live chat, discussion groups, and tweets. Monitoring conversations may yield rich data for market research and customer service (e.g., as practiced by Best Buy). See Chapter 10 for details.
- **Video product review.** Reviews can be generated by using videos and [eyesoci-aleyes.com/blog](#). YouTube offers reviews that are uploaded, viewed, commented on, and shared.
- **Bloggers reviews.** This is a questionable method since some bloggers are paid and may use a biased approach. However, many bloggers have the reputation to be unbiased. For a list of 50 bloggers see Sala (2012).

- **Customer ratings and reviews.** Customer ratings are popular. They can be found on product (or service) pages

Example

Maui Jim ([mauijim.com](#)) is a designer of high quality polarized sunglasses. According to *Business Wire* (2010), the company is using Bazaarvoice Ratings & Reviews to enable

customers to rate the company's sunglasses and accessories.

The company is relying on word-of-mouth marketing to advertise its products and help shoppers. Customers are invited to share their opinions on the style, fit, and quality of specific sunglass models. The invitations appear when customers are conducting a search. Maui Jim sends customers an e-mail asking them to review products and the company has reviews on its pages in selected social network sites.

Social Recommendations and Referrals

Recommendation engines allow shoppers to receive advice from other shoppers and to give advice to others.

Social shopping may combine recommendations in a social network platform with actual sales. Social recommendations and referrals are closely related to ratings and reviews and are sometimes integrated with them.

Traditional online product review companies such as Amazon.com and Bazaarvoice have helped traditional consumers, but today's customers like to receive advice from (and give advice to) friends and other shoppers. Sites such as CNET, Wired Reviews, TrustedShut, Buzzillions, Epinions, Consumer Reports, and TheFind can be used for this purpose. Amazon.com provides reviews on the products they sell.

Example

ThisNext (thisnext.com) is a social commerce site where community members *recommend* their favorite products so others can discover desirable or unique items and decide what to buy. ThisNext uses WOM, social experiences, and personalization to facilitate shopping. To assist with discovery and help finalize shopping decisions, the community includes experts, bloggers, style mavens, and trendsetters. ThisNext has also developed a set of shopping tools for bloggers, designers, and shoppers. For further description, see thisnext.com/company/aboutus.

It makes sense to combine recommendations with marketing communications and shopping. Sites in this category allow shoppers to receive and provide advice to specific friends, in contrast

with traditional online product reviews that include advice provided by unknown shoppers. Furthermore, these sites sell ad space, provide coupons, and some offer automatic cash-back rewards for shopping with local merchants.

A new trend is to encourage conversations around purchases with a shopper's "real life" friends. The sites that include reviews from people one knows are logically more trustworthy than sites that include only the reviews made by strangers.

Sometimes, social recommendations are embedded in social shopping portals that offer shopping tools as well as bundling recommendations with ratings and reviews. A prime example is Kaboodle (described earlier as a shopping community).

Common recommendation methods are:

- **Social bookmarking.** Recommended products, services, etc. are bookmarked so members of social networks can easily find them.
- **Personal social recommendations.** These are based on finding people with similar profiles. By using these customers' actual purchases, conclusions can be reached about general and targeted recommendations (e.g., see Apple's Near Me [getnearme.com]; applications that are popular based on a user's current location), Amazon Recommendations, and Snoox (snoox.com; "your friends' recommendations on everything").
- **Referral programs.** Affiliate programs (e.g., Amazon Associates [affiliate-program.amazon.com], Apple's iTunes Affiliate Program [apple.com/itunes/affiliates] pay people for referring new customers). For more about referral programs, see slideshare.net/getAmbassador/building-an-effective-referral-program.

- **Matching algorithms.** Consulting companies and vendors (e.g., Netflix) provide recommendations based on similarity algorithms (as described in Chapter 3).

For more on product reviews see: mashable.com/2008/07/18/product-reviews.

Illustrative Examples of Recommendation Sites

Recommendations, reviews, ratings, and other engagement activities can be done in the communities. However, the *major objectives* of communities (like Polyvore) are different because they *concentrate* on recommendations, reviews, and ratings as important shopping aids. For a discussion, see shopsmart.org.

Crowdstorm

According to Chaney (2011), “Crowdstorm (crowdstorm.com) is a *shopping recommendation* website with two goals: (a) being a hub for product reviews and (b) being a source where shoppers can find the best online prices for consumer goods such as electronics, sporting equipment, clothing, and jewelry. This site is fueled by user-submitted product listings and product reviews, but it also includes expert reviews, buyer guides, and question-and-answer sessions. The site promotes an open policy by allowing users to post their reviews to blogs and other sites.” The site claims to have over 300,000 visitors a month; however, it does not sell anything – it just aids shoppers. In addition, the site provides price comparisons. Crowdstorm is also a social shopping experience provider, where shoppers can ask other shoppers for recommendations about products they are looking to buy.

Buzzillions

Buzzillions (buzzillions.com) is a user-generated product review site. It gets reviews from its parent company, PowerReviews (acquired by Bazaarvoice), which provides customer review software to e-commerce sites. It also incorporates

product reviews from companies that use other third-party providers, or have an in-house review system. The site provides several useful tools for tagging and researching the reviews. It also provides ranking.

Buzzillions’ business model is based on selling traffic, or product leads, from Buzzillions right back to the merchant network that uses PowerReviews. In other words, Buzzillions’ readers read reviews imported from many other sites, and they can then click on products of interest, giving them the opportunity to read more about these products and possibly purchase them at the seller’s site.

The company is unique because:

1. The rankings are based on feedback from customers. The company provides the tools to narrow down the search, but the consumers have to read the reviews to see if the product is right for them.
2. Positive or negative, all reviews are encouraged on Buzzillions. Unless a review is profane or violates the company’s terms, it will be shown on the site.
3. Buzzillions does not sell products, although the company has retail partners listed on the site for direct contact by consumers.

Example: How Intuit Corp. Helps Consumers with Recommendations

Intuit’s TurboTax program is very popular, with about 20 million users. The company uses a social media recommendation system, called “Friends Like You Like TurboTax” (reviews.turbotax.intuit.com), where the customers, after completing the computation of their taxes, are asked to broadcast their opinion of their TurboTax experience. Friends Like You draws on social networks such as Facebook and Twitter. The program was so successful that TurboTax sales jumped 11% in 2011, compared to 2010.

According to mashable.com/2011/01/10/turbotax-twitter-feed-friendcasting, “to further help the process, some 100,000 product reviews are segmented into tax-related categories like ‘bought a house’ or ‘lost my job’. Intuit also made the search function on its site more prominent and easier to use. Intuit’s program is unique

because rather than (posting recommendations or “likes,”) consumers broadcast a fairly neutral piece of information (about the tax computation they just finished) that others are likely to find beneficial, particularly around the tax submission period.” From the Ratings & Reviews page (turbotax.intuit.com/reviews/), consumers can also click on TurboTax’s Facebook or Twitter pages and read reviews about their products.

Concerns about Social Reviews and Recommendations

Some people raise the issue of how accurate the reported reviews and recommendations are. Fake reviews and claims are suspected to be 30–40% of the total reviews in some sites. For example, see the ‘allegations against business owners’ at en.wikipedia.org/wiki/Yelp,_Inc. There is also a concern about businesses paying money to review sites to manipulate the reviews. Another concern is that in cases of small number of reviewers a bias (positive or negative) may be introduced.

Other Shopping Aids and Services

In addition to recommendations and market-places, there are several sites that provide social shopping aids, as illustrated in the following examples.

Yelp: The Shoppers’ Best Helper

Yelp (yelp.com) is company that operates a local guide for helping people find in a specific city services ranging from mechanics to restaurants based on reviews and recommendations of users. In this way, it connects people with great local businesses. Community members, known as “Yelpers,” write reviews of the businesses and then rate them. Yelpers also find events and special offers and can “talk” with each other.

The site is also a place for businesses to advertise their products and services (paying fees to Yelp for the exposure). Yelp is also accessible via mobile devices. The site offers several social networking features such as discussion forums,

photo posting, and creation of groups and have followers. It has a company blog (officialblog.yelp.com), along with a community blog for Elite Yelpers (communityblog.yelp.com). Yelpers who frequently become actively involved and engage on the site, can apply to become an “Elite Squad” member (see yelp.com/elite).

Yelp operates in major metro cities in the United States, Canada, the United Kingdom, and other countries worldwide. As of Q3 2013, Yelp has over 117 million monthly visitors (as measured by Google Analytics) and Yelpers have written over 47 million reviews. According to Yelp (2014), Yelp’s mobile application was used on approximately 11.2 million unique mobile devices on a monthly average basis during Q3 2013.

How Yelp Works

Users look for a business in a specific location. Yelp’s search engine finds available businesses and presents them with ratings and reviews as well as with access directions.

Yelp connects with Google Maps to show the business location and further aids in discovering related businesses. (Google was negotiating to buy Yelp in November 2010, but the deal fell through in January 2011.)

Adding social features to user reviews creates a reputation system, whereby site visitors can see the good and the bad. For the issue of reputation management, see Chapter 5 and seofriendly.com/tag/reputation-management. Yelp became a major commercial success and was listed on the stock market in March 2012. Its stock price keeps increasing.

For more on Yelp’s operation see ‘How Yelp Works’ at computer.howstuffworks.com/internet/social-networking/networks/yelp.htm. For further information, see yelp.com/faq and en.wikipedia.org/wiki/Yelp!.

Note that some shopping aids can be used for both online and offline shopping. One such aid is the touch-screen PC available at kiosks in physical stores, (e.g., Macy’s) where you can examine catalogs and place your order while in the store.

Collaborative Reviews

Sites such as ProductWiki (productwiki.com) are structured like a wiki; thus, every user can contribute to the site. The goal is to create a comprehensive resource collection. The companies believe that a need exists for unbiased, accurate, and community-based resources for product information. These sites are using *collaborative reviews*, a collection of pros and cons about a product submitted by and voted on by the consumers. The result is a comprehensive review that takes the opinions of many people into account, and highlights the most important aspects of a product. A collaborative review is made up of two things – short statements and votes. Community members submit and vote on specific statements that are separated by pros and cons, making it easy to see what is good and bad about each product. For further information on collaborative reviews, see productwiki.com/home/article/collaborative-reviews.html. You can also watch a short video there about how the site works.

In March 2013, ProductWiki merged with Bootic (bootic.com), known as a “wiki of products.” (See bootic.com/aboutus.) The idea is for ProductWiki to offer a marketplace in addition to product reviews. Bootic is the first marketplace that allows shoppers to express themselves by editing, adding content, and enhancing the overall product description. As a result of this partnership, ProductWiki, like Bootic, will offer a marketplace in addition to product reviews. According to its website, vendors love Bootic’s marketplace because “Bootic’s e-commerce platform offers a free suite of easy-to-use Web-based tools and technology to help our vendors create their own individualized online shops. Unlike other marketplaces, we don’t charge fees. On Bootic, storefronts can quickly get up and running without incurring any set-up costs, listing or on-going transaction fees. Bootic empowers small businesses to enhance their online brand while optimizing a new revenue stream.”

Filtering Consumer Reviews

As described earlier, TurboTax, a division of Intuit, launched a ratings and reviews page on

their website called “Friends Like You Like TurboTax” (reviews.turbotax.intuit.com). This page allows consumers to describe their particular tax situation, and then filter reviews on TurboTax products, then, they can quickly find which TurboTax product best suits their needs.

Dealing with Complaints

As seen earlier, customers have learned how to use social media to air their complaints. For a UK survey that shows that customers are more likely to complain via social media see xlgroup.com/press/new-survey-finds-customers-increasingly-likely-to-use-social-media-to-complain. See also siliconrepublic.com/new-media/item/34463-customers-increasingly-like and wptv.com/dpp/news/science_tech/facebook-fb-twitter-twtr-used-to-complain-get-answers.

Social Marketplaces and Direct Sales

The term **social marketplace** refers to a marketplace that uses social media tools and platforms and acts as an online intermediary between buyers and sellers. Ideally, a social marketplace should enable the marketing of members’ own creations as does Polyvore.

Some examples of social marketplaces include:

- **Craigslist.** Craigslist (craigslist.org) can be considered a social network marketplace in that it provides online classified ads in addition to supporting social activities (meetings, dating, events). See Chapter 2.
- **Fotolia.** Fotolia (fotolia.com) is a social marketplace for royalty free photos, images, and video clips. In 2012 there were more than 18 million images available at the site. It serves a community of artists, designers, and other creative people who express themselves through images, forums, and blogs. Buyers can legally buy images (pay only one time for each) and then use these images and photos as they wish (e.g., resell them, modify them, etc.). For details see fotolia.com/info/AboutUs.
- **Flipsy.** Anyone can use Flipsy (flipsy.com) to list, buy, and sell books, music, movies, and

games. It was created to fill the need for a free and trustworthy media marketplace. Flipsy does not charge commissions in order to increase the trading volume. Payment processing for items purchased is handled by a third party, such as PayPal.

- **Storenvvy.** Storenvvy (storenvvy.com) is a marketplace for unique businesses and photos. At no cost to sellers, a simple way is made available (no programming experience is needed) to create personalized webstores. Sellers have the ability to make the sites as socially friendly as they wish, giving customers the chance to interact with the seller as well as other customers.
- **ShopSocially.** ShopSocially (shopsocially.com) is a consumer-to-consumer marketing communication and experience sharing platform for shopping. This platform also enables shoppers to recommend products to their friends. ShopSocially combines the concepts of online shopping and social networks, creating a new business model of online social shopping. Users can solicit shopping information from friends via Facebook, Twitter, and e-mail. A combination of shopping questions, their answers, and purchases shared by friends creates a powerful experience and shopping knowledge base. For details and benefits to retailers, see shopsocially.com.

Direct Sales from Within Social Networks

There is an increased volume of direct sales, mostly via Facebook. Here is an example:

Example: How Musicians Sell Online via Social Networks

Many musicians and other artists used to invest money to make their own CDs, T-shirts, and other items before they sold them. Now there is a free social commerce solution. Audiolife Inc. (an Alliance Entertainment Company) provides artists with webstores (one per artist), where artists (sellers) can directly interact with potential buyers. This arrangement also allows artists to make-to-order merchandise.

To entice fans to order products, artists post their own Audiolife selection on any large social network site (e.g., Facebook). Each order, even for one item, is then forwarded to the artist for production. Audiolife arranges payment and shipping to the buyers. By 2012, Audiolife powered close to 100,000 webstores worldwide, serving 300,000 artists, including those who are already established. About 300 to 500 new webstores are publishing daily. For details, see audiolife.com/AboutUs.aspx and Billingsley (2010).

Socially-Oriented Person to Person (P2P) Selling, Buying, Renting, or Bartering

When individuals trade online, they may do so with some social elements. For example, some consider craigslist.org to be a socially oriented virtual community and so is altimetergroup.com. Here are some more examples:

P2P Lending

P2P money lending is growing rapidly, enabling one person to lend money directly to another. In the process, they get to know each other. Another start-up created a community of people that rent goods to people in need, usually for the short term. Snapgoods.com helps these people connect over the Internet.

P2P Sharing (Also Known as Collaborative Consumption)

SnapGoods facilitates P2P sharing. Some other sites like SwapBabyGoods.com (swapbabygoods.com), and Neighborhood Fruit (neighborhoodfruit.com); helps people share fruit that are growing in their yards or find fruit trees on public lands), have a niche market. The sharing and renting trend is booming, especially during the economic recession; and there is a “green” aspect as well – saving on the use of resources. There is also the social aspect of sharing, allowing people to make meaningful connections with others (see Walsh 2010 for details).

Several variations exist. Some people share cars, others invite travelers to stay free in their homes, or exchange homes for a short periods and much more. LendingTree (lendingtree.com)

is another company that allows prospective borrowers to get quick offers from multiple lenders. For a case study of P2P lending see Online File W7.1.

In May 2013, Google invested money in a P2P investment site lendingclub.com (see Hempel 2013).

Shopping for Virtual Goods in a Virtual Economy

An increasing number of shoppers purchase all kinds of virtual products and services online. **Virtual goods** are computer images of real or imaginary goods. These include, but are not limited to, gifts on Facebook (Facebook sells gift cards or gives a digital code to access Facebook gifts, see facebook.com/gifts), properties and merchandise on Second Life (such as virtual mobile phones to equip your avatar), and a large number of items sold in multiplayer games in on social networks (e.g., at FarmVille on Facebook). According to *eMarketer* (2011), U.S. social gaming virtual revenues are projected to grow almost 60% from \$653 million in 2011 to \$792 million in 2012 (see emarketer.com/Article/Marketers-On-Board-with-Virtual-Goods/1008513).

The Virtual Economy

A **virtual economy** is an emerging economy existing in several virtual worlds, where people exchange virtual goods frequently related to an Internet game or to a virtual business. People go there primarily for entertainment. However, some people trade their virtual goods or properties. A virtual property can be any resource that is controlled by virtual objects, avatars, or user accounts. For the characteristics of these properties, see en.wikipedia.org/wiki/Virtual_economy. For how payments are made for virtual goods, see Takahashi (2011), and for an overview of Facebook Currency Payments, see developers.facebook.com/docs/payments.

Why People Buy Virtual Goods

There are several reasons why people buy virtual goods. For example, many people in China buy virtual properties because they cannot afford to buy properties in the real world. According to Savitz (2011), there are four major reasons for such purchases made in any country:

1. **Generating special experiences.** Studies found (e.g., see Markman 2010) that some people can maximize their happiness by spending money on the experience they get in a virtual world rather than when spending money on physical goods. Happiness from a dinner or a movie does not last for a long time, but it makes us happy in the moment. The same is true with virtual goods, but these can be very imaginative and beautiful, providing much more happiness.
2. **Generating emotions.** Purchases of virtual goods often fill emotional needs. In the virtual world, you can be whatever or whoever you always wanted to be, so people are willing to exchange real money for real emotions they find in the virtual goods.
3. **Small purchases make people happier.** Making small and frequent purchases of virtual goods (usually they do not cost much) make many (but not all) people happier than infrequent purchases of larger physical goods.
4. **Virtual goods are low cost and low hassle.** There is no need to store virtual goods, maintain them, or be criticized about why you purchased them. In short – there is no hassle as long as one stays within one's budget.

In fact, several real world retailers are already promoting their virtual goods in virtual games. Also, some designers' start-ups promote their virtual goods in virtual worlds.

Real-Time Online Shopping

In real-time online shopping, shoppers can log onto a site and then either connect with Facebook or with another social network instantly from a smartphone or computer, or invite their friends

and family via Twitter or e-mail. Friends shop online together *at the same time*, exchanging ideas and comparing experiences (e.g., see Dugan 2010).

Some real-time shopping platforms, are Facebook's social graph-based shopping platforms. An example is DoTogether (dotogether.com). Other players in this area are is BevyUP (see bevyup.com/about_us.html and samesurf.com/about.html).

Social Shopping in the Near Future

Imagine this scenario: A retailer will ask you to log in with Facebook on your mobile device as soon as you step into a physical store. Many of Facebook's partners have custom Facebook applications (Partner Apps) that users can download through their app stores, including Blackberry and Windows Phone (see facebook.com/FacebookMobile).

In this way users can receive *customized recommendations* on their mobile phones. According to Appelo (2010), you can expect that your friends who have been in that store will indicate electronically, which clothes may be the best fit for you (e.g., using, "likes"; see how Levi's plans to do it at Levi's 2010), then walk in and find what to buy. For details, see developers.facebook.com/roadmap/completed-changes. What about the risks? Privacy is a concern to many, but less important to "Millennials" who frequently share their experiences with others. In addition, sometimes people do not need to reveal their full identity on an in-store screen. See a related video titled 'The Future of Shopping' (49 seconds) at youtube.com/watch?v=R_TAP0OY1Bk.

- In 2010, Levi's began using Facebook social plugins (see insidefacebook.com/2010/04/27/levi-s-uses-new-facebook-plugins-to-reach-potential-jeans-purchasers) and garnered over 40,000 likes on its website in a few weeks. In 2011, Levi's saw a significant increase in referral traffic from Facebook.
- For more on how Facebook "likes" and social

plug-ins help business websites, see searchengineland.com/by-the-numbers-how-facebook-says-likes-social-plugins-help-websites-76061.

For example, according to Admin (2011), "when you walk into a dressing room (in a department store), the mirror reflects your image, but you also see the images of apparel items (you like and certain) celebrities wear, all on an interactive display (in the fitting room). A webcam also projects an image of a consumer wearing the item on a website, for everyone to see. This creates an interaction between the consumers inside the store and their social network (friends) outside the store. The technology behind this system uses RFID" (Radio Frequency Identification), and has already been tried by the Prada store in New York City for showing customers which shoes and purses would go with the clothes they are trying on in the dressing room. You can watch a video titled 'Future Store 'Smart Dressing Room' (2:53 minutes) of how a "smart" dressing room works at youtube.com/watch?v=0VH-xdg5Ak&feature=related. Note that due to privacy concerns, Prada (and others) discontinued their RFID experiments.

SECTION 7.4 REVIEW QUESTIONS

1. Define social shopping and describe its drivers.
2. List the major benefits of social shopping.
3. List the major models of social shopping. Briefly describe their functions.
4. Describe ratings, reviews, and recommendations.
5. Define group buying. How does it work with flash sales?
6. Define social communities and social clubs as they relate to marketing. How do they work?
7. Describe Kaboodle.
8. Define social marketplaces. What is going on there?
9. Describe the major shopping aids.
10. Describe shopping for virtual goods.
11. Describe social shopping in the near future.

7.5 SOCIAL ADVERTISING: FROM VIRAL ADVERTISING TO LOCATION-BASED ADVERTISEMENT/ MARKETING

The major current revenue source for many social commerce companies is advertising. The reason is that seeing the large number of members and visitors in the social networks, and the amount of time they spend there, has given advertisers the motivation and justification to pay a great deal for placing ads and running promotions in those networks. Like other SC activities, advertising is done both in public, as well as in private company-owned social networks.

Many advertisers are placing ads on Facebook, YouTube, LinkedIn, MySpace, Pinterest, or Twitter. Although social media campaigns may have a small impact on actual online retail sales, they may have huge benefits with regard to increasing *brand awareness*.

Social Ads and Social Apps

Most ads in social commerce are branded content paid for by advertisers. These come in two major categories: *social ads* and *social apps*.

1. **Social ads.** These display ads and banners and are placed as social games and discussion boards in social networks.
2. **Social apps.** These applications support social interactions and user contributions. These are more complex to implement than social ads.

Facebook features hundreds of thousands of third-party software applications on its site. One popular application area is travel. For example, one specific application is “Where I’ve Been,” which includes a map of places where users have visited or hope to visit. You can plan trips, organize group travel, and find and rate free accommodations (e.g., at Couchswap). This information can be sold to travel-oriented vendors, who in turn advertise their products to Facebook members.

Viral (Word-of-Mouth) Marketing and Social Networking

Viral marketing refers to a word-of-mouth (WOM) method by which people tell others (frequently their friends) about a product they like or dislike. Viral marketing and advertising has many variations (see Chapter 9) and it plays a major role in e-commerce and social commerce.

Young adults are especially good at viral marketing. If members like a certain product or service, word-of-mouth advertising will spread rapidly sometimes to millions of people at a minimal cost to companies’ advertisers. For example, when YouTube first started up, the site conducted almost no traditional advertising in its first few months, but millions joined because of WOM. For the “power of WOM,” see bazaarvoice.com/research-and-insight/social-commerce-statistics.

Viral Blogging

Many retailers are capitalizing on WOM marketing by using bloggers. See some examples at viralbloggingsystem.com. When viral marketing is done by bloggers, it is referred to as **viral blogging**. Viral blogging can be very effective with the use of tools such as Twitter. (e.g., do a Google search for “Dell Uses Twitter to Drive Sales”).

Example

PayPerPost (payperpost.com) runs a marketplace where advertisers and bloggers, video bloggers, online photographers, and podcasters can connect with each other. Those who need services describe what they want and how much they are willing to pay for the services. Then providers bids on the jobs.

PayPerPost checks the reputation of the bloggers and matches them with the requirements of advertisers. PayPerPost also arranges payment to the bloggers. Note that the PayPerPost bloggers *are* required to disclose that they are being paid for their postings. (For details, see payperpost.com).

Also, note that paid bloggers may be biased in favor of those that hire them. This could be a concern for the blogs' readers.

Other Viral Marketing Methods

Viral marketing is done in most social networks through internal e-mail, messaging, and forwarding of videos, stories, and special offers. In addition, there are other innovative ways to go viral (e.g., see Turban et al. 2015).

Location-Based Advertisement and Social Networks

In Chapter 6, we introduced the concept of location-based advertising and marketing as a business model for m-commerce. The model is based on knowing where a customer is via the GPS in her or his cell phone. Once the vendor knows that a person is near a certain business, the vendor of this business can send a text, e-mail, or even a telephone call offering discounted products, coupons, or services. This targeted ad-based business model was not too successful in traditional e-commerce. Customers were not interested, and those with GPS shut it off due to privacy concerns.

The situation changed with the introduction of social networks. The nature of location-based marketing changed to being social, entertaining, and rewarding; advertisement came as an add on service. According to Knight (2012), location-based ads generated nine times more interactions than non-targeted ads. The major players in this area are Foursquare, and Facebook's Places – all are based on geolocation and geosocial networks.

Geosocial Networks

Geosocial networks are computer networks based on *geolocation* (see Chapter 6 for definition).

The Geosocial Networking

Geosocial networking is social networking with location awareness capabilities. This enables social networks to connect users with local businesses, people, or events. The location of people

is found by tracking their mobile phones or receiving text messages from them giving their locations.

The Technology for Location-Based Social Networks

The basic idea is that users who have a GPS-enabled smartphone can let their friends know where they are. Users can also examine locations recommended by friends or "check in" with them remotely. Users may give permission for ads to be sent to them.

How LBS Works

Geolocation apps report a user's location (such as restaurants, parks, or events) to other users, and to participating vendors. According to Ionescu (2010), more significant information is given on mobile devices because the system follows your location.

Foursquare and Its Competitors

Several start-ups are competing fiercely in the geolocation market. In 2014, the major one was Foursquare.

How Foursquare Works

Foursquare works with all major smartphones. Alternatively one can use the Foursquare mobile website. Either way, Foursquare will find your location (with your permission) and provide a map, marking your location as "checking in." This information can be transmitted, with your permission, to your friends and to vendors. A detailed explanation of how Foursquare works and how to join is provided at computer.howstuffworks.com/internet/social-networking/networks/foursquare.htm.

You can check in at any participating location. When your friends are aware of your location, they can suggest what you visit or where to shop in the vicinity of your location. Foursquare gives points for each check-in; and eventually you can reach "elitehood status."

Foursquare also provides games and other incentives to encourage users to digitally "check in" to specific locations. The check-ins show up on Twitter, Facebook, and other social networks.

Foursquare has a huge list of participating vendors all over the globe. The most frequent visitor to each location is called a “mayor,” receiving small free gifts (e.g., as a mayor of McDonald’s in your vicinity you will get a free Big Mac). In addition, every participant may get special discounts, coupons, and prizes from businesses near the check-in places. Foursquare also allows retailers to reward social sharing behavior. All these help increase customer loyalty (see Clifford 2010). For examples of applications see Online File W7.2.

Changes in Business Model

In April 2014 Foursquare introduced a major change in its business model. The company changed its check-in capability to show users which of their friends are nearby (known as Swarm). The company also embarked on local recommendations, competing with Yelp (see Burnham 2014).

Competition: Brightkite and Facebook Places

Competitors try to clone Foursquare and provide some extra services. For example, Facebook created its own network called Places.

Strategy for Small Businesses in LBS

According to Van Grove (2010), a small business can offer the following location-based deals: (1) verified check-in rewards, (2) social bar codes, (3) group deals, (4) challenge-based rewards, and (5) opt-in deals. For details, see mashable.com/2010/09/04/location-based-small-business-deals. For an example, see Online File W7.2.

Privacy Concerns for LBS

There are some privacy concerns regarding finding the location of people or showing their profiles and shopping habits.

Opt-In Versus Opt-Out

This can be allowed with opt-in or opt-out. An “opt-in” is a permission-based system that requires a user to join or sign up. Foursquare (or

a similar company) is then given permission by friends or vendors to access the user’s information and to contact him or her. An “opt-out” is an option which excludes the user from a group. Thus, users need to remove themselves from the system if they wish to be excluded.

Using YouTube and Other Social Presentation Sites for Advertising

As we will show in Chapter 9, using videos for advertising is becoming a major successful strategy. Sellers that introduce new products or try to improve a brand image by attaching video clips to their product pages on social networks, or their corporate portal. Product images or videos of products can be effective in facilitating sales. Several vendors can help in video clip usage. The major motivation for such advertising is the potential viral effect.

Viral Videos

In Chapter 9 we will describe the use of videos for advertising, mostly via their viral impact. Here we briefly describe how viral videos work with social commerce. Social media can be most powerful when a video goes viral, because it is an attention grabber (e.g., funny). People forward videos to their friends and acquaintances, and as a result, many watch a video that may contain an ad or show a brand logo. Certain videos can receive several million hits in less than a week. Of course, big brands dominate here. For example, among the most well-known viral videos of 2012 were those produced by Nike, Visa, Mattel, and Samsung. However, there are many exceptions to this case. An excellent marketing campaign was produced in 2010 by the Australian Tourism Board.

A **viral video** is any video that is forwarded from one person to others, sometimes with a recommendation to watch it. Social networks are an ideal place to disseminate such videos, which became popular due to Internet sharing (mostly through video sharing websites and/or e-mail). This method is inexpensive.

Why It Works

Interesting videos seen on YouTube are usually shared through Facebook, Twitter, or e-mail. These posts are in turn shared through the same channels from the recipients.

Interesting examples are available at blog.socialmaximizer.com/youtube-business-use-cases.

Using Twitter as an Advertising and Marketing Tool

Twitter and some other microblogging sites have added social networking capabilities to their sites such as creating profiles and lists of fans and friends. Sellers can reach out to these friends to create strong WOM.

According to Learmonth (2011), Twitter is becoming a little more of a business. The company launched its first ad product – “promoted tweets” – in 2010 and netted \$45 million in ad dollars. That was due in part because brands like Virgin America, Coke, Ford, and Verizon were willing to experiment with the idea. Bennett (2014) reports that an eMarketer report forecasts the ad revenue on Twitter will exceed \$1 billion in 2014 up from \$5.5 million in 2013. Companies can tweet about their business and product offerings, including promotions. This way, they can attract Twitter followers to visit their stores. Twitter may help disseminate ads resulting in increased sales. Twitter’s software suites help merchants reach their Twitter followers by posting “tweets” when the merchants add new products or create promotions. For successful examples, do Google searches for ‘twitter simply speakers’, and ‘twitter slgpublishing’. Twitter is already the world’s fourth-largest social-networking platform (about 500 million registered users in July 2012) and may reach 1 billion followers in a few years, according reports at mediabistro.com. This may help the microblogging site compete with Facebook in attracting advertisers.

As a matter of fact, Twitter began attracting many advertisers in September 2010 after a successful trial with a few leading brands.

Finally, here are some more ways one can do business or advertise on Twitter (based on business.twitter.com, Weber (2012), Gillette (2010), and Lincoln (2012):

- **Recruiting and finding jobs.** These can be facilitated by direct contacts, or contacts via an intermediary.
- **Brand display.** A company’s blog, display ads, and marketing communications can be displayed on Twitter. Bloggers can display their capabilities.
- **Market research.** By listening to tweets, companies can learn what customers and competitors say. Also, companies can actively participate in discussions.
- **Delivering offers.** Companies can offer promotions, coupons, and discounts to those that opt-in. For example, American Express synchronized their customers’ accounts with the customers’ Twitter account to provide discounts from participating merchants.
- **Collaboration.** Twitter provides for efficient collaboration within and between organizations.
- **Customer service.** As will be described in Section 7.5, Twitter can facilitate CRM and customer service.
- **Using professionals to enhance company presence on Twitter.** Twitter is used by many professionals, some of who are social commerce influencers. Companies can interact with these professionals and with active bloggers. (For details see Weber 2012.)
- **Cost effectiveness.** Interacting with customers and business partners using Twitter is very cost-effective. An example is American Apparel, which is using Twitter to solicit and discuss ideas for ads. Another example is Best Buy.

Example: Mercedes-Benz

According to Heine (2011), Mercedes-Benz launched a “Tweet Race” as a promotion for its commercials being aired during the 2011 Super Bowl in Dallas, Texas. While driving cross country to the Super Bowl, four teams of two people earned points for each tweet and retweet about the event. The winning prize was a Mercedes Benz. See the video of the race at vimeo.com/22300987).

A major success factor is the mobility of Twitter. Most people tweet from mobile devices. As a matter of fact, the majority of its advertising revenue comes from mobile devices (see Ingram 2012 for discussion and examples).

Other Innovative Ways to Advertise in Social Media

A major objective of social advertising is to increase traffic to the digital and or physical sites, as described in the Starbucks opening case in Chapter 1. There are many innovative ways to do this. 3dCart (3dcart.com) lists the following: Advertise your Facebook store on your company’s Facebook Page, place a ‘Like’ button linked to a customer story to your product page, and use social e-mail marketing on Facebook; advertise your store using customer stories through Twitter; advertise in videos on YouTube; use mobile apps; and social bookmarking will improve communications from your product page.

For details on each of the above and more, see blog.3dcart.com/7-social-commerce-tools-to-increase-traffic.

Example: Facebook’s Sponsored Story

In January 2011, Facebook added an interesting feature called *sponsored story*. When a Facebook member chats with friends and one of them notifies that she or he “checked into” a place or “like it,” say at Starbucks, a boxed “sponsored story” will appear with the logo of Starbucks (the fee is paid to Facebook by the sponsor). Furthermore, the name Starbucks will also appear in the user’s news feed (another fee paid to Facebook). This feature has a few variations (e.g., uploaded photos).

The users have the option to delete the boxed advertisement. This kind of advertisement can increase WOM as well. For details, see Delo (2011).

The Changing Rules of Branding

The December 2010 issue of *Harvard Business Review* is dedicated to the new rules of branding introduced by social media. Four articles there discuss how social networks can help you build – or destroy – your brand.

Using Blogs

Blogs are Web 2.0 tools known as being an effective means of market communication, information dissemination, recommendations, and discussions about products (including upcoming ones). For example, merchants can post ideas about new products to start a discussion and collect opinions. Blogs can be added to a company’s Facebook page (or pages of other social networks) as well as to the company’s in-house web-store. In addition, companies can place click-on banners on bloggers’ pages.

Using Coupons

Coupons can be distributed in several ways in social commerce. One solution is to distribute coupons by deploying LBS. Once a vendor knows your location and how to e-mail or text you, targeted coupons can be sent to you. Another way is to offer coupons on a company’s Facebook Offers page. This is done via *Facebook Offers*.

Facebook Offers

This feature allows companies to post coupons on their Facebook page. Fans as well as other users can “claim” the offers that come as a mobile newsfeed. Any offer that is claimed is e-mailed to the person who claimed it for printing or sharing with friends. Offers can be daily deals and other promotions.

Mobile Advertising

Mobile advertising is a rapidly developing area. It refers to advertisements on smartphones and other mobile devices. The competition for mobile ad revenue is intensifying, especially with the

increased use of smartphones. Advertisers are starting to attach ads to these video clips (see Chapter 9). Finally, advertisers use microblogging, especially Twitter, to reach large audiences. According to Patel (2011), a Nielsen study of iPhone users compared Apple's iAds involving Campbell Soup Company as an advertiser against similar TV ads. The researcher found that those exposed to the iAd campaigns were more than twice as likely to recall it as compared to those who had seen similar TV ads. Those who were exposed to the iAd remembered the brand and the ads three times better than the TV viewers. For details about this study, see adage.com/article/digital/apple-campbell-s-iads-effective-tv/148630.

SECTION 7.5 REVIEW QUESTIONS

1. Describe advertising in social commerce.
2. Define social ads and social apps.
3. Define viral marketing.
4. Describe viral blogging.
5. Define geolocation and geosocial networks.
6. How does location-based advertising work?
7. Describe how Foursquare works.
8. List some concerns of LBS advertising.
9. Describe viral videos.
10. How is Twitter used for advertising?
11. Describe mobile advertising.

7.6 SOCIAL CUSTOMER SERVICE AND CRM

The customer service landscape is undergoing significant transformation. The change is reflected both in the way that customers interact with organizations and the manner in which the company's employees interact with customers. For an overview see Lacy et al. (2013).

These changes resulted from the introduction of social media and; at first, one may think that not much of a connection exists between customer service and social commerce. However, the opposite is true. In a study published by Kiron et al. (2012), managing customer relationships was found to be one of two major business challenges related to social business implementation.

How Does Social Networking Empower Customers?

It is said that one angry tweet can torpedo a brand, but one sweet tweet can correct a problem (Bernoff and Schadler 2010). According to Sysomos Inc. (2011), more than 65% of all customers have ended a relationship with vendors due to perceived poor customer's service. Let's examine how Facebook helped change a policy for one company.

Example: How Facebook's Chorus Ended the Instrument Luggage Ban at Qantas Airways of Australia

Qantas Airways had a policy that required large musical instruments to be stored in the cargo hold, which would sometimes cause damage to the instruments. In Fall 2010, after suffering \$1,200 damages to her saxophone, Jamie Oehlers of Australia organized a Facebook campaign to persuade the airline to reverse the policy, when one person complains, the company's standard response is to send the customer a letter of apology, but usually the policies does not change. However, more than 8,700 people (including members of the country's symphony orchestras) joined forces on Facebook by posting similar incidents and pictures of damaged instruments and saying they would boycott Qantas if the airline did not change their policy. Qantas announced that they listened to their customers, and in December 2010, amended the policy, by allowing any instrument in a hard-shelled case on board, provided it falls within the airline's length and weight restrictions (based on a news item from Staff Writers 2010 and the *Taipei Times* 2011). Alternatively, one may purchase a seat for a large instrument and carry it as a bulky item. (For information about Qantas's new policy, see asia.etbnews.com/33146/qanta-amend-baggage-policy-for-musical-instruments).

This story is not unique; similar stories appear in the media frequently. A well-known case is "United Breaks Guitars," which also is published in a book and a video that has been watched by over 14 million people as of May 2014, see youtube.com/watch?v=5YGc4zOqozo. In another example Olson (2009), reported that Maytag

(washing machines) only paid attention to a particular customer after she tweeted to her 10,000 followers about her nightmare experience with the company. Within a day, her problem was solved. In the past, customer complaints usually received little or no attention, even when customers threatened to publish their complaint on the Internet. But today, when you say, “I will organize a campaign against you on Facebook or Twitter,” you can be sure someone will pay attention. An empowered customer is a major driver of social CRM.

Social CRM

Customer relationship management (CRM) is a customer service approach that focuses on building long-term and sustainable customer relationships that adds value for both the customers and the merchants. When delivered online, it is referred to as e-CRM (Online Tutorial T1). A major area of e-CRM is social CRM.

Definition

According to Roebuck (2011), **social customer relationship management (SCRM)** (also known as **CRM 2.0**) is CRM supported by social media (e.g., Web 2.0 tools, social network sites), which are designed to engage the customer in conversations, sharing, and other interactions in order to provide benefits to all participants and increase trust. SCRM is based on social media, in support of companies’ stated goals and objectives of optimizing the customer’s experience, and building trust and loyalty. Success requires considering people, business processes, and technology associated with the interactions between customers and enterprises. Like CRM, a major goal of SCRM is building trust and brand loyalty (see Huba 2013).

SCRM is an extension of CRM, not a replacement. It adds two dimensions: social media and people. It is designed to engage customers in conversations using social media tools. An important goal of SCRM is to add benefits to the sellers (e.g., increased trust, loyalty, and sales from their customers) and to the customers (e.g., better, quicker service; more engagement; product improvements). SCRM is the segment of busi-

ness strategy that addresses the issue of how companies adapt to the *social customers* and their expectations regarding the companies with which they conduct business. SCRM evolved from CRM (and e-CRM). For a detailed presentation of this process and an overview of social CRM, download the free “Guide to Understanding Social CRM” at chessmediagroup.com/resources/white-papers/guide-to-understanding-social-crm. For comprehensive coverage of social CRM, see Greenberg (2009), Roebuck (2011), and Lacy et al. (2013).

The Components of Social CRM

The major elements and characteristics of SCRM are shown in Figure 7.4. As the figure illustrates, these characteristics are the foundations of a social customer who is driven by social networking. The social customer’s needs are different from those of the customer who does not use social media. Social customers, for example, want to communicate with vendors by using the Internet (e.g., see Metz 2011). This communication is provided by social media, which is the major element of social CRM. The social environment is also a major element of social CRM, since it is the source of interactions with the social customer.

How to Serve the Social Customers

Empowered customers are referred to as **social customers**. These are customers who usually are members in social networks, do social shopping, and understand their shopper’s rights and how to use them to their advantage. Social customers select the mode of interaction with companies. These customers are influenced by friends, mavens, and family. Merchants must understand how social customers differ from conventional customers, and provide them with socially-based customer service.

Methods and Guidelines for Social Customer Service

How does a company serve the social media customer?

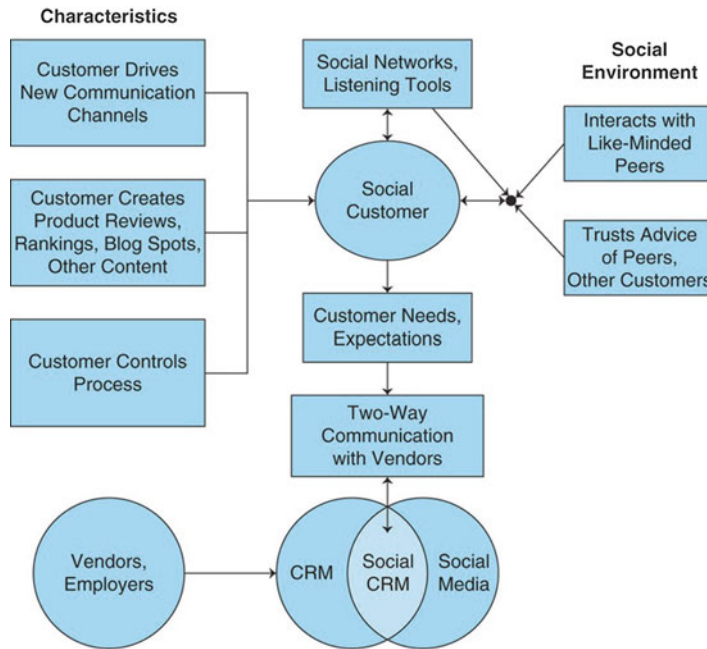


Figure 7.4 The elements of social CRM

Companies are looking for an answer to this question not only because they are afraid of the negative comments posted by social network members, but also because they see an opportunity to involve customers in providing feedback and ideas on how to improve customer service and operations (Baker 2010). Furthermore, companies can solicit feedback from customers to improve customer loyalty and make their own customer service people more satisfied at work. For how this is done, see Ogneva (2010), Bernoff and Schadler (2010), and mashable.com/2012/09/29/social-media-better-customer-service. Procedures, guidelines, and software are available for social CRM.

The Benefits of Social CRM

This new breed of social customers places new demands on organizations. However, social media tools meet these demands nicely, usually at a low cost (except for staff time). Social media

provides for engagement and collaboration that eventually results in a competitive advantage to the organization if implemented properly.

Social CRM offers the following potential benefits to customers (“c”) and enterprise (“e”):

- (Note: Several of these are illustrated in Case 7.2 (iRobot, presented later in this chapter). These benefits to iRobot are marked with an [I].) Drives quick resolution of customers’ problems (c)
- Provides for effective and efficient business-customer collaboration (c), (e)
- Improves the reputation of companies (e), (I)
- Provides better understanding of customer needs and wants (e)
- Provides focused, intuitive, and easy-to-use CRM applications (e)
- Provides better marketing, better targeting, and improved products/services due

to customers' creation of content, and WOM (e)

- Provides customer input for market research at a quicker rate and at a low cost for improving products and customer service (e)
- Provides customers with more information about products/services quickly (c), (I)
- Increases trust and loyalty (e)
- Provides a more complete view of the customer than what traditional CRM can provide (e)
- Decreases overall customer care costs (e.g., through self-helping communities) (e)
- Enables salespeople to find sales leads quickly and easily (e)
- Develops new revenue opportunities and turns new customers into repeat customers (c)
- Increases CRM staff productivity by teaching them to use analytics and collaboration 2.0 techniques (e)
- Improves employee performance by benefiting from knowledge sharing gained in social networks (e)
- Improves customer satisfaction by providing them with opportunities for engagement using social media platforms (c), (I)
- Converts leads to opportunities with more effective campaigns (e)

Petersen (2011) illustrates the benefits of social CRM in 16 case studies.

An article by Tiffany Brown (at tiffanyabrown.wordpress.com/2011/10/26/social-CRM-as-a-holistic-marketing-tool) includes a video which shows the essential elements of the SCRM process.

For additional benefits, see Shih (2011), and Ziff (2012).

CASE 7.2: IROBOT USES SOCIAL MEDIA FOR MULTICHANNEL CRM

iRobot (irobot.com), which was founded in 1990 by three roboticists at MIT with the vision of making practical robots a reality, designs and builds some of the world's most important robots. According to their website, in 2013, iRobot generated \$487 million in revenue and employed more than 500 of the robot industry's top professionals, including mechanical, electrical, and software engineers and related support staff. iRobot makes robots for the government, defense and security, military and civil defense forces worldwide, commercial applications, industry, and home use. The public is mostly familiar with the Roomba vacuuming robot (see Dignan 2013). Due to the technical nature of its products, the company's customers may require specialized support and service. On their customer care website, the company provides self-diagnosis, support videos, live chat, product FAQs Go to 'ask a question' and (type in a problem and receive automatic answers), and more (e.g., see homesupport.irobot.com/app/answers/list/session/L3RpbWUvMTQwMDQzNjk4NS9zaWQvODJsX1ZBVWw%3D). However, there are home market customers who may need more technical assistance since many are new at using robots. The company's objective is to expand the sale of home market products. Therefore, they must provide extensive assistance to inexperienced customers. The company supports a community and provides discussion boards, community search capability, and live chat.

Social CRM: Serve the Customers While Learning from Them

iRobot utilizes a CRM system with the help of Oracle RightNow Inc. (see RightNow at oracle.com/us/products/applications/rightnow/overview/index.html). The system enables customers to contact iRobot's service group via several differ-

ent communication channels, including e-mail, live chat, social networks, and Web self-service. This way, iRobot can respond to any online customer communication in a timely manner, regardless of the channel used. All this needs to be done at a low cost; therefore, it is necessary to automate the services.

Specific Social Media Activities

iRobot customers can post service and support requests or complaints on homesupport.irobot.com or they can contact the help desk. The company monitors these messages and tries to provide immediate responses. iRobot tries to find the identity of the customers that have problems by monitoring relevant conversations in the various social channels (e.g., in forums on social networks). Once identified, iRobot communicates with the customers privately to resolve the issues.

The social media-oriented activities are integrated with documents and videos in a knowledge base managed by RightNow. The company uses RightNow's monitoring tools to identify the customers who post the comments. Some customers may provide their real names. Anonymous customers are encouraged to contact iRobot directly. For how the company listens to social media, see informationweek.com/software/social/roomba-robots-listen-to-social-media/d/d-id/1100404?

Responding to issues quickly is important because, as discussed earlier, customers can attract a considerable amount of attention using YouTube or Twitter (the company runs promotions, such as giveaways and games on Twitter), to publicize their complaints. In addition to problem resolution, the company gets valuable feedback from the customers so it can improve its products and services.

By 2013, iRobot achieved a 97% Web service rating, realized a 30% reduction in customer phone calls, and provided improved customer service at a 20% reduced cost.

iRobot has a presence on Facebook, Twitter, Pinterest, YouTube, and Tumblr. The company uses these sites to disseminate information and collect customer feedback and complaints.

Note: The social media activities supplemented the regular customer care activities. This is an example of multichannel services. In such a case,

integration of the different types of care is necessary.

Sources: Based on Carr (2011), RightNow Technologies (2010), Dignan (2013), Oracle (2011), and irobot.com (accessed May 2014).

Questions

1. What is meant by the term *multichannel service support*? What is the benefit of multichanneling?
2. What are the activities related to social media at iRobot? What are their benefits?
3. Describe how the company listens to their customers' complaints, and how they resolve the problems.

The Evolution of Social CRM

Now that you have a basic understanding of CRM, e-CRM, and SCRM, we can look at the evolution of SCRM as well as some differences between SCRM and e-CRM. SCRM can be viewed as an extension of e-CRM. Most e-CRM software companies, such as Salesforce Inc. (salesforce.com), offer social media features in their products. However, there are some significant differences between e-CRM and SCRM. These differences can be seen at slideshare.net/JatinKalra/e-crm-112520123741 and Cipriani's presentation (2008).

Cipriani's Multidimensional Presentation

Fabio Cipriani (2008) outlines the difference between CRM and SCRM (referred to as CRM 1.0 and CRM 2.0) along several dimensions. Figures 7.5, 7.6, 7.7, and 7.8 show some of these dimensions: landscape, customer touch points, business processing modeling, technology, and organizational mindset.

The Landscape

The landscape describes the difference between CRM 1.0 and CRM 2.0 in the structure, focus, relationship with the community, and value creation, as illustrated in Figure 7.5.

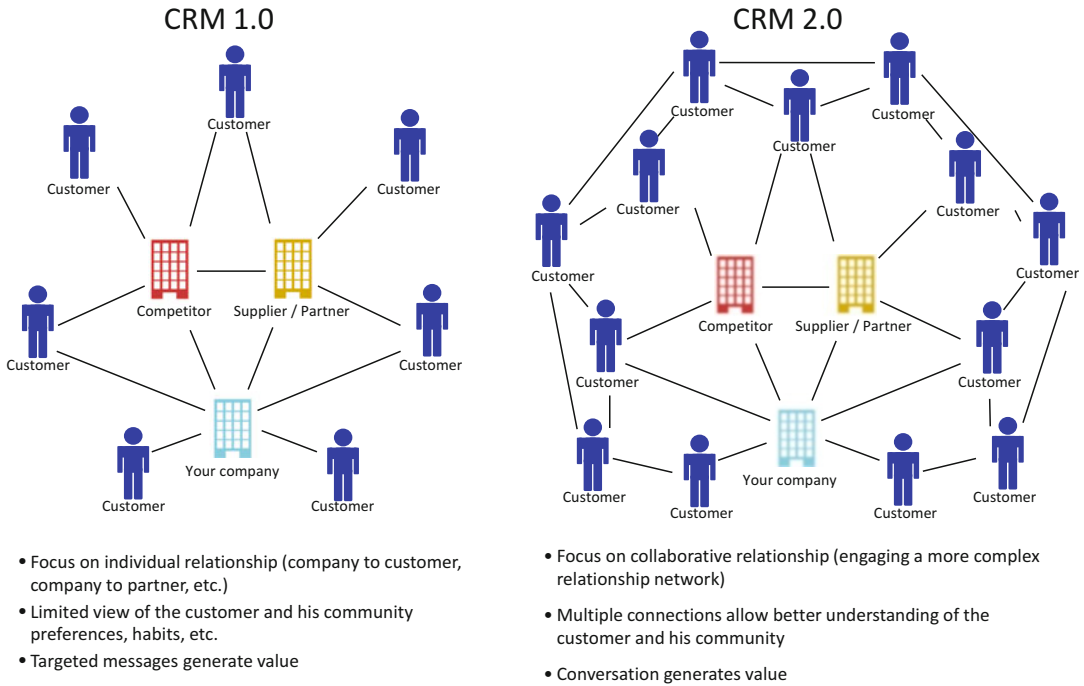


Figure 7.5 The landscape of CRM versus SCRM (Source: Courtesy of F. Cipriani, “Social CRM: Concept, Benefits, and Approach to Adopt,” November 2008. [slide-](#)

share.net/fhcipriani/social-crm-presentation-761225 (accessed January 2012). Used with permission)

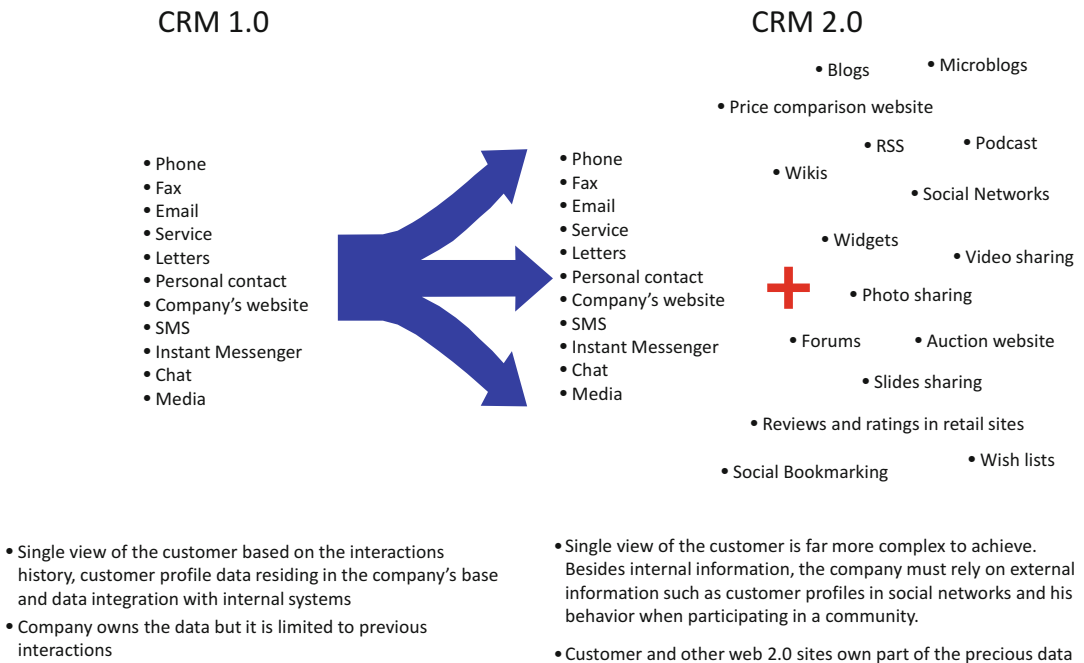
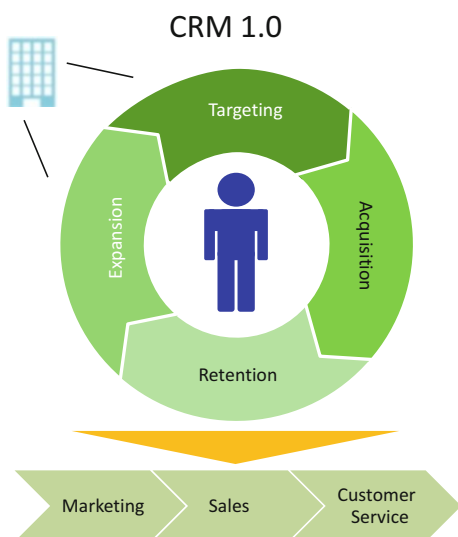
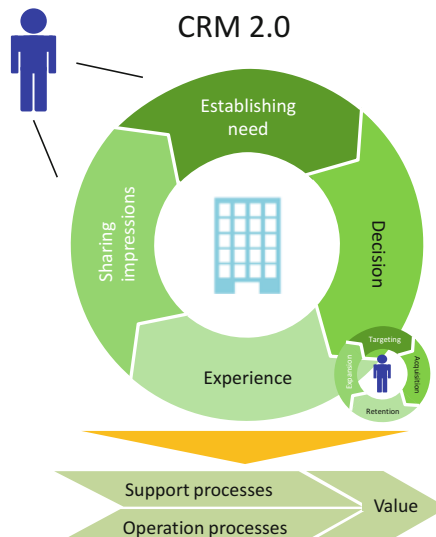


Figure 7.6 Touch points in CRM versus SCRM (Source: Courtesy of F. Cipriani, “Social CRM: Concept, Benefits, and Approach to Adopt,” November 2008. [slideshare.net/](http://slideshare.net/fhcipriani/social-crm-presentation-761225)

fhcipriani/social-crm-presentation-761225 (accessed January 2012). Used with permission)



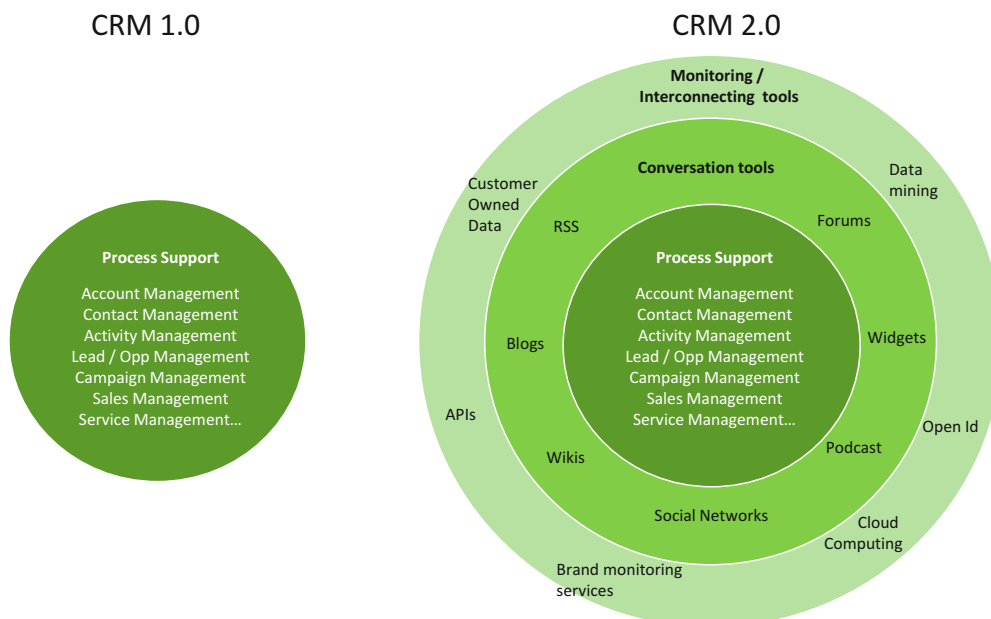
- Customer processes developed from the company standpoint (customer life cycle for the company)
- Process centric – adapt and optimize processes to support better customer interaction
- Focused on CRM processes



- Company processes developed from the customer standpoint (company life cycle for the customer)
- Conversation centric – include the conversation factor to establish brand community, enable idea capturing and better segmentation
- Focused on the evolution of CRM processes and resulting impacts in the value chain

Figure 7.7 The evolution of business processes in SCRM (Source: Courtesy of F. Cipriani, “Social CRM: Concept, Benefits, and Approach to Adopt,” November 2008.

slideshare.net/fhcipriani/social-crm-presentation-761225 (accessed January 2012). Used with permission)



- CRM Solutions focused in automating and supporting internal business processes

- CRM Solutions focused in community creation internal and externally

Figure 7.8 The evolution of technology from CRM to SCRM (Source: Courtesy of F. Cipriani, “Social CRM: Concept, Benefits, and Approach to Adopt,” November

2008. slideshare.net/fhcipriani/social-crm-presentation-761225 (accessed January 2012). Used with permission)

Notice that in CRM 2.0, the community is larger than in CRM, and it includes interconnections among the customers that were not present online in the early days of CRM.

Touch Points

The term *touch point* refers to any point of interaction a customer has with a brand or seller. Some points are company initiated (e.g., advertising or e-mail discussions) and others are out of the company's control, such as word-of-mouth. CRM 2.0 adds additional touch points, as shown in Figure 7.6 (all the Web 1.0 tools + Web 2.0 tools). We can add crowdsourcing to this list.

Example: Get Satisfaction for CRM

Get Satisfaction (getsatisfaction.com) is a platform where customers can interact with one another and voice their opinions and complaints. Using a forum, they can quickly get resolutions to their problems. Each community is organized around four topics:

1. **Ask a question.** Customers can answer one another's questions.
2. **Share an idea.** Aggregated feedback is provided from customers (by topic, product, vendor).
3. **Report a problem.** Search to see if anyone posted a similar problem. Post yours.
4. **Give praise.** Customers can praise a product or vendor.

Get Satisfaction provides management of the customers' conversations to interested vendors at no charge.

For an example of a Get Satisfaction Support Community, see getsatisfaction.com/safarichallenge.

Evolution of Business Processes in CRM

Traditional CRM was a part of a linear process that started with marketing that led to sales and then was followed by customer service (if needed). In CRM 2.0, the process starts with listening to customers' needs based on social media conversations rather than only on traditional market research through quantitative surveys or small scale qualitative research. The objective is to gen-

erate value for both the customer and the company. This difference is illustrated in Figure 7.7.

The Evolution of Technology

Traditional e-CRM focused on automating and supporting the internal business processes that relate to customer service. In CRM 2.0, an attempt is made to provide this same process support, but it is based on community creation and on improved interactions among customers and between vendors and customers, as illustrated in Figure 7.8.

Organizational Mindset

In CRM 1.0, there is a dialog between one customer service employee and one customer, or between a sales support team and one customer. Most interactions are routine, with limited innovations. In CRM 2.0, as shown in Figure 7.9, interactions occur among all employees (as in the Sony opening case) and several customers who also interact with each other (as in the iRobot case). This environment facilitates innovation and increases customer satisfaction.

Conclusions

Incorporating the previous five areas requires empowering the employees, which means that a new set of employee skills is needed. For a long time, marketers have said that everything starts with the needs of consumers. With social CRM and all the social media product discussions, marketers must now learn how to incorporate this philosophy in their strategies.

Implementation of Social Customer Service and CRM

There are several models and methods for implementing social customer service. First let us look at what Safeway is doing in this area.

Example: How Safeway Provides Social Customer Service

Safeway, a large grocery chain, has a virtual customer club. Members can get in-store discounts as well as e-mails with coupons and a description of what is on sale. An online newsletter with

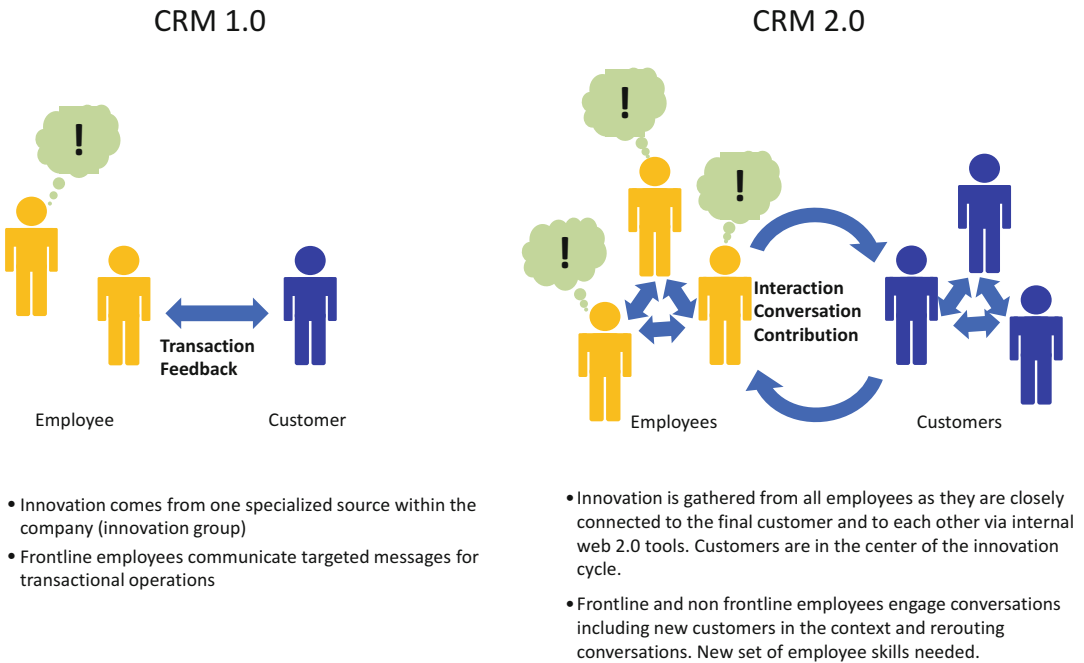


Figure 7.9 The organizational mindset for SCRM (Source: Courtesy of F. Cipriani, “Social CRM: Concept, Benefits, and Approach to Adopt,” November 2008. [slide-](#)

share.net/fhcipriani/social-crm-presentation-761225 (accessed January 2012). Used with permission)

health news and recipes, shopping tips, etc. is also available to members. To extend this service, Safeway invites their customers to become Safeway Fans on Facebook and follow the company on Twitter. This allows customers/members to know about exclusive promotions. Also, members can connect and share information with other Safeway shoppers.

In their ‘Just for U’ program, shoppers can get virtual coupons and personalized deals when they click on a certain coupon, say for milk; then, when they buy milk they get a 10–20% discount. There is no need to cut coupons anymore. See the video at youtube.com/watch?v=VaRnJCZVBtw&list=PL2D85D3BE900AA5CB&index=2.

Additionally, customers can visit the company’s blog, *Today at Safeway!*, where the company’s team members post items from Floral, Bakery, and other departments throughout the store. Safeway’s experts also publish information about nutrition, environmental sustainability, and more. Members of the virtual customer club

can comment on the blog and are asked to post original content only.

Some Recent Applications

There are many advanced applications to better serve customers.

Example: How Best Buy Used Twitter to Provide Real-Time Customer Service

Best Buy is a large appliances retailer. The company uses their Twitter account @twelpforce to interact with customers.

Best Buy empowered its technical support service (called Geek Squad) and other corporate employees (total 4,000 participants) by implementing a service called @twelpforce. There, any employee who finds a relevant tweet can answer by using an @twelpforce reply to the customer. The answers are visible on Twelpforce, allowing other employees to add information.

@twelpforce answers tens of thousands of customer concerns every year. See a video titled “Best Buy Twelpforce Case Study” at [youtube.com/watch?v=ZDpQOjpIpgk](https://www.youtube.com/watch?v=ZDpQOjpIpgk).

For additional examples, see thesocialcustomer.com.

Social Networking Helps Customer Service in Small Companies

Most of the examples provided so far have dealt with large companies. What about the small ones? Obviously, there are some applications the SMEs cannot afford. But many other applications can be deployed.

Example

Teusner Wines (teusner.com.au) is a small 3-person boutique winery in Australia. Using Twitter, the company’s one-person marketing department:

- Initiates online conversations about wine with influential people in the wine industry.
- Sends tweets to people he finds talking online (e.g., in communities) about Teusner Wines, praising them for trying the wines.
- Starts to build trust with customers via online conversations.
- Invites people to tour the winery and taste the wines.
- Advises potential customers in the United States and Canada where they can buy the Australian wine.
- Monitors real-time online feedback from customers.
- Encourages customer-to-customer social media conversations.
- Posts customer reviews using Twitter.
- Shares all information with Twitter followers.

All this is done in a tiny company at virtually no cost. For details, see dottedlinecollaborations.com/social-media/case-study-using-twitter-attract-new-customers.

com/social-media/case-study-using-twitter-attract-new-customers

For large companies, it is necessary to integrate marketing, customer services, and social networks.

Reputation Management System

Not all postings in social networks are positive. The problem is what companies do when they see negative comments (see Christman 2014 for an overview). According to Carr (2010), when you create a Facebook business page, you may see negative posts by disgruntled customers or unethical competitors.

Companies cannot block people from posting negative comments on social platforms, including Facebook pages. If a company blocks such postings, it eliminates the potential positive comments from its fans, losing the positive WOM and customer feedback. If companies delete posts, the poster and others may retaliate. A possible solution for reputation management is to design the space for comments in a way that encourages positive ones. According to Dellarocas (2010) and Carr (2010), reputation systems should:

- Build trust in the sellers.
- Promote quality of the products and services.
- Sustain loyalty.

For comprehensive coverage, see Dellarocas (2010), Beal and Strauss (2008), and reputationinstitute.com.

SECTION 7.9 REVIEW QUESTIONS

1. Define social customer and describe their characteristics. (Consult Chapter 1.)
2. Why and how are customers empowered by social networks?
3. Define social CRM.
4. What are the needs of social customers?
5. List 5 to 8 benefits of social CRM.
6. How does social CRM differ from traditional CRM?
7. Describe a reputation management system.

MANAGERIAL ISSUES

Some managerial issues related to this chapter are as follows.

1. **How will social commerce influence businesses?** The impacts of social marketing can change the manner in which many shoppers make purchasing decisions. Social commerce will change both B2B and B2C by increasing interactions, engagement, and collaboration. The impact will change business processes, the manner in which companies treat customers and employees, and may even restructure some organizations. A strong impact will be felt in advertising, viral marketing, collaboration, and brand recognition. The impact will also be strong on delivering customer service, conducting market research, and organizing collaboration.
2. **Do companies need to sponsor a social network?** Although sponsoring a social network might sound like a good idea, it may not be simple to execute. Community members need services, which cost money to provide. The most difficult task is to find an existing community that matches your business. In many cases, the cost of a social network may be justified by its contribution to advertising. However, social network service providers need to create various revenue models to maintain sustainable services. Creating revenue is the most challenging issue to social network service providers.
3. **Is it wise for a small business to be on Facebook?** The answer depends on the business and on what you are trying to achieve. It could be helpful for those that need to constantly reach customers and/or suppliers. Facebook, at present, may not be very helpful for direct sales. However, just having a presence costs little and therefore should be considered. A major issue for SMBs is the loose security in social networks. See Shih (2011) for comprehensive coverage of this topic.
4. **How to deal with false reviews and fake followers?** Unfortunately, there are many fake followers. Some are paid by companies to

boost their image; others are paid by competitors. It is possible to use software to detect some fake accounts. These fictitious data can mislead companies when deciding, for example, where to advertise. This issue is discussed in Chapter 8.

5. **Should we embark on selling via social networking?** For most cases the answer would be yes. Just view it as additional channel to increase sales. Which model to use will depend on the product, the competition, and the potential risks. See Chapter 13 for strategy and Chapter 14 for implementation.

SUMMARY

In this chapter, you learned about the following EC issues as they related to the chapter's learning objectives.

1. **Social commerce definition and evolution.** Social commerce (SC) refers to conducting EC in the social media environment. It can be viewed as a subset of EC where activities are done in social networks and by using social media tools. It operates at the intersection of social media, EC, e-marketing, and supporting theories from several disciplines including social psychology, marketing, sociology, and information technology. SC is able to add value to the performance of organizations while at the same time increasing the satisfaction and added value to individuals. Social commerce's main activities and content are in the areas of social media marketing, social enterprise, and social games and entertainment.
2. **The scope, content, and drivers of social commerce.** Social commerce is a comprehensive field comprised mostly of social media marketing (advertising, market research, and customer service) and social enterprise (problem solving, recruiting, and collaboration). It also includes social entertainment, social games, and crowdsourcing. Social commerce is driven by the existence of giant social networks, Web 2.0 tools, and the emergence of social customers.

The major models are: group buy, which is frequently combined with daily deals;

providing reviews, recommendations, ratings, and conversations; shopping clubs and communities; location-based shopping; peer-to-peer trading; f-commerce, and shopping using the support of Twitter. Groupon, Pinterest, Foursquare, Gilt, Kaboodle, and hundreds of other start-ups are active participants. Competition is getting strong, and success is visible mostly in Facebook and Pinterest.

3. **Benefits and limitations of social commerce.** A large number of benefits are available for customers, retailers, and other businesses. Customers can get better prices, improve customer service, and also receive social support (e.g., product recommendations) from friends. They can find new friends as well, and establish new contacts. Retailers can reach more customers, get quick feedback, improve relationships with customers, go global, and use free word-of-mouth marketing communication. There are also benefits to businesses. Businesses can conduct fast and inexpensive market research, recruit employees from all over the globe, innovate, collaborate, and locate experts when needed. Companies can receive help from other companies, sometimes with little or no cost. The major limitations are security, privacy, and changing user attitudes issues.
4. **Describe social shopping.** Social shopping refers to online shopping that is supported by social media and involves friends and online social media communities. The major drivers are the large number of people who are engaged in social networking, reliance on friends' recommendations, the potential of receiving large discounts for the buyers, the increase of sales volume for sellers, the socially-oriented shopping models, and the rise of the social customer. The major models are group buying, daily flash sales, use of social communities and clubs, and the application of shopping aids such as reviews and recommendations.
5. **How advertisings and promotions are conducted in social networking.** The major driver of SC is the money spent by advertisers who see a huge potential market. Advertising

can be done in many ways. Using word of mouth is almost free for companies, but it can be dangerous (e.g., negative comments). The use of banner ads and other paid advertisement and social search models generate billions for social networks (mostly to Google and Facebook). Large numbers of advertising apps exist. Also, bloggers can provide positive (but sometime negative) comments. LBS combines geolocation with advertisements and coupons (delivered in the right time and place). Many companies have developed special campaigns that engage community members in advertising-related activities (play games, vote, generate ideas, etc.). In addition, advertising on Pinterest, Twitter, and YouTube is becoming popular.

6. **Conducting social customer service and CRM.** When the CRM platform involves social media (e.g., Web 2.0 tools and social network sites), CRM is referred to as social CRM (SCRM). SCRM provides many benefits for customers, vendors, and the public institutions that includes an improved relationship between the empowered customers and the vendors, and service providers as well as providing better service to customers. The evolution to SCRM can be described along the following five dimensions: The landscape (e.g., structure and focus); the touch points (e.g., the use of social media tools); business processes (e.g., how to listen to customers); the technology (e.g., socially oriented tools); and the organizational mindset (e.g., patterns of interactions). This evolution is driven by the explosive use of social network sites, the rise of the social customer, and the importance buyers place on social recommendations. Customers are empowered by social networks so they can get attention quickly for problem resolution. Organizing a Facebook complaint blitz is not difficult. Customers can make suggestions for improvements and vote on them. Letting customers help themselves and each other is offered via social networking while reducing merchant expenses. Customers can become more loyal because they work closer with vendors. Social

networking provides innovative ideas for improved and timely customer service (e.g., Twitter can be very helpful).

Key Terms

Business model
Communal shopping
Customer relationship management (CRM)
Enterprise 2.0
Geosocial networking
Social business
Social commerce (SC)
Social customer
Social customer relationship management (SCRM; CRM 2.0)
Social marketplace
Social media marketing (SMM)
Social shopping
Viral blogging
Viral marketing
Viral video
Virtual economy
Virtual goods

Discussion Questions

1. Compare social computing to traditional computing.
2. Discuss the social element in social media.
3. Discuss the contribution of social commerce to e-commerce.
4. Compare Polyvore to Pinterest.
5. Discuss the reasons why people buy virtual goods.
6. Discuss how traditional online vendors can add social networking capabilities to their sites.
7. Under what circumstances would you trust an expert's recommendation rather than a friend's?
8. How can marketers use social networks for viral marketing?
9. Why are advertisers so interested in social networks?
10. View the slide show "Altimeter Report: The 18 Use Cases of Social CRM, The New Rules of Relationship Management" by

Owyang (2010) at altimetergroup.com/2010/03/altimeter-report-the-18-use-cases-of-social-crm-the-new-rules-of-relationship-management.html. Discuss the major attributes of CRM. What are the major improvements since 2010?

11. Discuss the shortcoming of user generated reviews and recommendations.

Topics for Class Discussion and Debates

1. Debate the privacy dangers to social shoppers.
2. Debate: "Is the social media influence on purchasing overrated?" Start by viewing the slideshow titled "Social Media Influence on Purchase Overrated" (McCafferty 2011) at baselinemag.com/c/a/Intelligence/Social-Media-Influence-On-Purchasing-Overrated-660095.
3. Debate: One day all e-commerce will be social.
4. Daily deals are being offered today by many offline and online retailers and other organizations (e.g., newspapers). Only on the Internet are these offers common. Is there a need for intermediaries? Debate.
5. Discuss how trust is affected in social shopping. (Consult: Bazaarvoice.com).
6. Why do you think that Wanelo is popular?
7. Examine Facebook Offers. What is the potential of the viral service? What is the advantage of mobile newsfeeds? Explain the competition with Living Social and with Google Offers.
8. Discuss Cipriani's five dimensions of social CRM.
9. Debate the viability of companies such as Groupon. Begin by reading the Amazon.com description of Srinivasan's (2012) "To Group Coupon or Not?"
10. Clinique has a comprehensive customer service platform. They offer e-mail, phone service, and live chat. The live chat platform clinique.com/customer_service/chatlivenow.tmpl has regular live chat, live chat with your photo, and face-to-face live chat using webcam and speakers. Describe the multi-channel service support concept. Comment on the different modes.

Internet Exercises

1. Enter smartmobs.com. Go to the blogroll. Find three blogs related to social commerce, and summarize their major features.
2. Enter thisnext.com. What are the features of the site? What do you like? Dislike?
3. Enter salesforce.com and identify all SCRM activities supported by the company, especially those related to their Chatter product. View the slide show at: slideshare.net/Salesforce/salesforce-customer-service-best-practices-25640141. Write a report.
4. Enter facebook.com/dreamforce and salesforce.com/dreamforce. Find topics that deal with SCRM. Write a summary.
5. Enter bazaarvoice.com. Summarize its major services. Examine SocialConnect and TweetConnect in particular.
6. Enter thisnext.com. What are the features of the site? What do you like? Dislike? Why?
7. Enter tkg.com/social-media-marketing. Prepare a list of information you can get there about social shopping.
8. Enter select2gether.com. What services can you get from this site?
9. Enter kaboodle.com. What are the major benefits can you derive from being a member there?
10. Enter bristoleditor.co.uk and find guidelines related to ethical and etiquette issues in social shopping.
11. Enter powerreviews.com. Compare their activities to those of similar sites.
12. Enter deal-of-the-day-review.toprenreviews.com, and dailydealsites.biz and summarize the lesson learned.
13. Enter socialshoppingnetwork.org. Find material related to this chapter. Write a report.
- (d) Relate Sony's use of Pinterest to social CRM. (Start by entering community.sony.com.)
- (e) Find CRM-related activities. Summarize.
- (f) Go to Sony's community and ask a question. Get results. Summarize four experiences.
2. Facebook is increasingly offering marketing tools (e.g., Open Graph, Social Plug-ins). Identify all the tools offered. Each group concentrates on the business implications in one of the following areas: advertising and search engine optimization (SEO), shopping, market research, customer service, CRM, and others. Make a class presentation.
3. Each group adopts one or two of the following companies that actively advertise and engage on Facebook and Twitter: Coca-Cola, Starbucks, Ford, Pepsi, Levi's, Disney, Victoria's Secret, iTunes, Toyota, Sony, or P&G. Find and summarize what advertising methods they use and how they do their campaigns.
4. The class will investigate group buying in China and India. What is the prospect for group buying in Asia? (Start with Madden's article "China Pioneers Group Buying Discounts Without Groupon" at adage.com/article/global-news/advertising-china-group-buying-discounts-groupon/147641.)
5. Search for a group in a social network site or a community that is interested in social CRM. Join the group. Follow the discussions for one month. Each group member concentrates on one topic from this chapter and interacts with the group about this topic. Each member prepares a report, and the group makes a summary presentation for the class.
6. Shopping communities for fashion are exploding on the Internet. Make a list of the major sites (e.g., Plyvore, ShopStyle, Pinterest, My It Things, etc.). Investigate their activities and list their competitive advantage. Why is this industry a prime setting for social communities? How are they related to Facebook and Twitter? What are their business and revenue models? Write a summary report.

Team Assignments and Projects

1. **Assignment for the Opening Case**
 - (a) What social media tools and platforms does Sony use?
 - (b) How does each tool facilitate customer service?
 - (c) What are the major benefits of social CRM to Sony?

CLOSING CASE: Groupon: WILL THE COMPANY PROSPER?

The name Groupon is a combination of *group* and *coupon*. Groupon was founded in November 2008 and has been considered the fastest-growing company ever by 2012 (in terms of sales). Initially, Groupon offered both *group buying* and *deal of the day* (one highly discounted deal per day) in selected metro areas in the United States. As of 2013, Groupon serves 500 markets worldwide, in 48 countries. According to Groupon's Q3 2013 financial report, the number of customers, that have purchased a Groupon deal within the last twelve months, grew by 10% year-over-year, to 43.5 million by September 30, 2013, with about 50% in North America, and the rest are all over the world. (See grouponworks.com/merchant-resources/FAQs). For statistics and facts about Groupon, see (statista.com/topics/824/groupon).

The Opportunity

Groupon is a start-up that offers special highly discounted deals, mostly via e-mail. The idea is that when subscribers hear about a big discount, they will forward the news to friends who may also place an order (the 'social' element). Initially, the more buyers who joined in the sale, creating a group buy, the larger the discount. However, this model has been changed as will be described next.

The Solution

To exploit the opportunity, Groupon developed a unique business model.

The Business Model and the Strategy

According to Groupon (groupon.com) and Carpenter (2010), the company offers special sales, called "Groupons," in each city that the company serves. The advertised deal lasts for a limited time (usually between 24 and 72 hours) and becomes available to all registered members.

According to Groupon's customer service department, in the past, Groupon's policy was to guarantee participating merchants a certain number of sales. In other words, the customer would only get the discount if enough people (hence, the "group" element) purchased that particular Groupon. If Groupon did not meet that promised quota, there was no need for the seller to honor the deal, nor was any commission paid to Groupon, and the customer was not charged.

Groupon charges advertising and promotions fees, usually a percentage of the revenue generated by the sellers. The retailers can use the system to promote their business, gain new customers, and run sales during their slow seasons (e.g., running a promotion such as liquidation during the late summer). The initial process, a combination of *group buys* and *flash deal models*, is illustrated in Figure 7.10. Today, it is basically a flash (daily) deal. The reason merchants are willing to offer a 50–80% discount to volume shoppers is that the merchants' marketing and overhead costs are lower, while their market share is increased.

Groupon's business strategy is to work with quality merchants who are willing to provide substantial discounts. Groupon uses both traditional e-mail and social networking (e.g., Facebook, Twitter, Pinterest, etc.) to promote the deals. Deals are e-mailed directly to members when available, but those interested in current daily deals can go to the Groupon website (Groupon Goods; groupon.com/goods). Groupon offers a "refer a friend" program, where the shopper can earn \$10 for every friend they refer who buys their first deal (see groupon.com/referral).

Benefits and Expansion

The major benefits to customers are:

- Steep discounts (50–80%)
- Discovery of new/specialized services and products
- Deals related to the daily offer are presented by Groupon
- Useful recommendations provided to family and friends

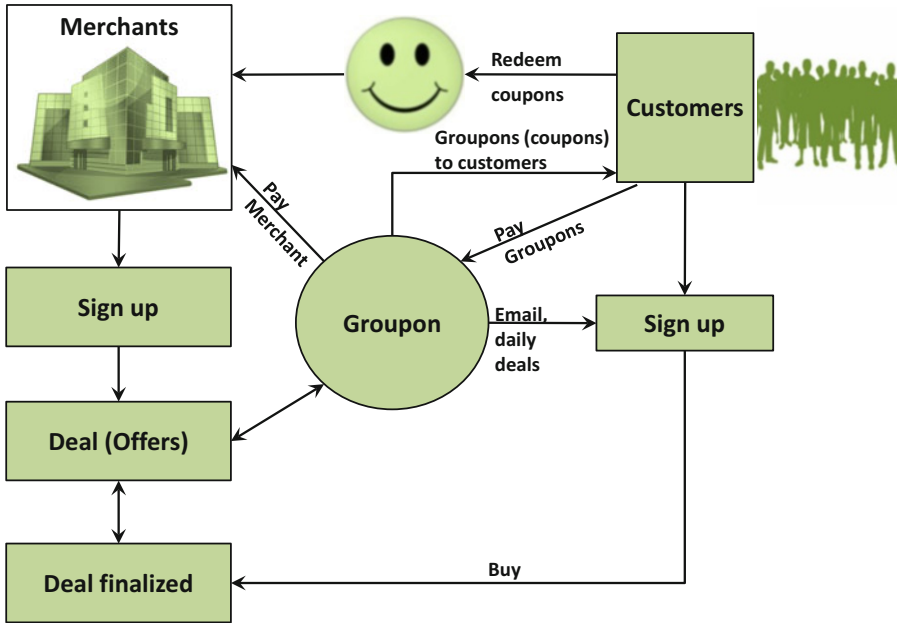


Figure 7.10 The business model and process of Groupon

The major benefits to merchants are:

- Can sell larger quantities and liquidate merchandise, quickly
- Save on advertising and marketing expenses (e.g., by using viral advertising)
- Get repeat customers (if they like the deal and the service, customers will come back)
- Lower customer acquisition cost
- Knowledge of and collaboration with vendors in a close geographical area

Limitations of the Model

Smaller vendors may not be able to fulfill large orders generated by Groupon. For example, according to Crum (2011), a restaurant in Tokyo, sold 500 Groupons for a traditional New Year's dinner, but the business was unable to process the orders in a timely fashion due to the overwhelming demand of the orders. Apparently, some of Groupon's deals became too large for vendors to fulfill, and customers complained about late deliveries and about orders arriving "in terrible

conditions." A similar problem occurred in India when a high demand for onions caused the Groupon website to crash (see AOL On News 2013).

In response to such a problem, Groupon officials have created formulas to help vendors to determine how to meet consumer demand, and how many coupons to offer (capped the orders to a reasonable number).

Another limitation is that some businesses may not make money on the deal and may possibly even suffer a loss (e.g., see Phibbs 2011). Finally, although Groupon and similar companies can generate large revenues, they may have large expenses as a result, and actually lose money by offering more deals. Thus, the profitability of the model is questioned by many especially in light of the strong competition.

Groupon is attempting to become more than just a deal of the day business. As part of their branching out, in November 2013, Groupon opened an e-commerce "marketplace" (online retail site), known as Groupon Goods (groupon.com/goods), which focuses on slightly discounted products. These deals also have a time limit (ranging from 3 to 7 days). In Q2 of 2013, less than 40% of Groupon's

North America revenue came from the company's daily deal e-mails, suggesting the marketplace store (with over 60% of revenue) is getting to be successful. (See usatoday.com/story/tech/2013/11/01/groupon-on-new-website-marketplace/3319943).

In 2011, Groupon partnered with Expedia (expedia.com) to launch Groupon Getaways (groupon.com/getaways), which focuses on discounted travel (hotels, tours, etc).

Groupon also has a program called Groupon "Reserve" (groupon.com/reserve), where participating restaurants give diners discounts when they have empty tables. Unlike the usual daily deal where you buy a voucher, with Groupon Reserve, you make a reservation online and show up.

In March 2013, 45% of North American transactions were completed on mobile devices (see groupon.com/mobile), compared with nearly 30% in March 2012.

The Competition

As with any successful business, there are many companies that are attempting to clone Groupon (see Carpenter 2010). There are hundreds of Groupon clones (between 400 and 600 in the U.S. as of 2011, depending on the source), and that number is growing. Worldwide, there are thousands of similar sites. For example, there were over 1,000 similar companies in China alone, but many did not succeed. (For more about the top 10 daily deal sites in China as of 2013, see: thenextweb.com/asia/2013/02/18/chinas-daily-deal-market-consolidates-as-top-10-sites-claim-90-revenue-share-report.) Nevertheless, as of November 2013, Groupon's only *serious* competitor is LivingSocial (livingsocial.com), sponsored by Amazon.com, with competition from Google emerging. Google Offers (google.com/offers) which is available on Google+. Other notable competitors include Gilt City (giltcity.com), Gilt Groupe (gilt.com), Woot! (woot.com; an independent subsidiary of Amazon), HomeRun (homerun.com; available nationally and in limited cities along with 3 European countries). Yipit (yipit.com) is an email-based "daily deal aggregator" that gathers deals (in your city) on products from daily deal

sites such as Groupon. Tell Yipit what you want, and they will alert you when there are deals that match. Groupon still controls more than 50% of all daily deals in the U.S.

Possible future competitors include Yahoo!, Amazon.com, Yelp, and local and national newspapers. Finally, some major retailers, manufacturers, and service providers (e.g., Walmart, Home Depot) offer daily deals independently.

In 2011, online retail giant Amazon.com jumped on the daily deals "bandwagon" with the launch of Amazon Local, a local daily deals website that offers savings on products and services. To learn more about AmazonLocal, go to local.amazon.com. Amazon itself offers deals of the day on its main web page. Amazon also has "Gold Box Deals," which are featured by accessing the "Today's Deals" link at the top of most Amazon.com pages or directly at amazon.com/goldbox.

Factors in the Competition

It is challenging to compete with Groupon, given its large size and resources. Therefore, competitors use strategies such as concentrating on a niche market, which targets consumers in smaller demographics, such as one product, or one industry (e.g., tickets for sporting events; crowdseats.com, travel, food, and fashion). In addition, some sites concentrate on a small territory (e.g., a city) where they have a competitive advantage. (e.g., see hotdealshawaii.com). Similarly, deals for certain social or professional communities are getting popular (e.g., nurses, electrical engineers), deal sites geared toward mothers and their families (plumdistrict.com), deal sites geared towards men (mandeals.com), religion-based deals (christiandeals.org), and dog lovers (doggyloot.com "Daily Deals for Dogs and Their People") may be very successful. For more about niche daily deal sites, see business.time.com/2012/02/09/a-deal-just-for-you-niche-sites-with-deals-for-moms-dudes-jews-dog-lovers-the-military-more.

Several sites have either folded (e.g., Facebook Deals) or were acquired by another company. For example, BuyWithMe was purchased by Gilt

Groupe, Buy.com was purchased by the Japanese company Rakuten.com Shopping (rakuten.com), and private travel site Jetsetter (jetsetter.com) was acquired by TripAdvisor in 2013. As of March 2014, Groupon has acquired 30 sites, including the hotel booking site Blink (blinkbooking.com), which is now known as “Blink by Groupon.” In January 2014, Groupon announced that it had acquired “Ticket Monster,” a Korean e-commerce company (a subsidiary of LivingSocial).

The Results

In 2010, Groupon rejected a \$6 billion buyout offer from Google. Instead, the company went public on November 4, 2011, raising \$700 million. Share prices soared 31% the first day, bringing Groupon’s valuation to about \$16 billion. Since then, the share price has declined due to concerns about profitability. Groupon lost money until the first quarter of 2013, but each share price was not recovering as of May, 2014.

Sources: Based on Carpenter (2010), Crum (2011), Sennett (2012), Phibbs (2011), groupon-works.com/merchant-resources, and groupon.com (both accessed May 2014).

Questions

1. It is difficult to do business with Groupon. About 85% of merchant suggestions are dismissed by Groupon. Why do you think Groupon is so strict and how will this policy affect the competition?
2. Some claim that Groupon is an e-mail list that charges advertisers to send out their coupons (called Groupons). Comment.
3. Why does Groupon use Facebook to promote its business while Facebook is its competitor?
4. Read Carpenter (2010) and write a short essay on Groupon’s chance of survival in the intensely competitive environment. Examine its revenue model and expansion plans. Check stock market analysts’ report about the company.
5. Learn more about Groupon’s order fulfillment (e.g., ability to handle volume, control of deliveries, and dealing with marketing and competitors). Write a report.
6. Research Groupon’s global efforts. Start with Emma Hall’s article “Groupon Clones in Europe Say They Offer Better Deals and Treatment of Merchants” at adage.com/article/global-news/groupon-clones-europe-win-consumers-merchants/147689. Write a report.
7. Groupon also deals in B2B. Search the Internet and find out how this is being done and how successful it is.
8. Read Phibbs’s (2011) book (Kindle edition \$2.99) and debate the following issues: “Are deep discounts good or bad for sellers?”

Online Files available at sites.google.com/site/efraimturban

W7.1 Application Case: Social Money Lending: Zopa and Prosper

W7.2 Examples of Successful Location-Based Applications

Comprehensive Educational Websites

socialtext.com/solutions/resources.php: A source for white papers, analyst reports, case studies and more regarding collaboration in the social setting.

mashable.com: A very comprehensive social media resource center.

dotmocracy.org: Download “Dotmocracy Handbook.”

gauravbhalla.com: Insights on customer driven strategies.

darmano.typepad.com: In David Armano’s personal blog; logic and emotion exist at the intersection of business, design, and the social Web.

wiki.secondlife.com/wiki/Second_Life_Work_FAQs: A comprehensive source of answers to questions.

socialmediatoday.com/547133/social-contract-ebook: Free e-book on the social customer experience.

slideshare.net/oukearts/transforming-retail-into-social-commerce-retail-ceo-briefing

strategy-boutique-thaesis: Comprehensive slideshow (178 slides) about transforming retail into social commerce.

bloombergmarketing.blogs.com: Diva Marketing Blog.

socialmedia.org: Comprehensive collection of material, include case studies

awarenessnetworks.com: Webinars on social media, Web 2.0, ROI, and marketing.

socialcommercetoday.com: Comprehensive selection organized by sectors, news, solutions and directories. Free subscription.

socialtechnologyreview.com: *Social Technology Review* is the industry resource for all things social media and social commerce.

westburn-publishers.com/social-business/social-business.html: *Social Business* is a journal that provides a forum for the exchange of knowledge, experience, insights and ideas about the theory and practice of social business.

GLOSSARY

Business model The method of doing business that meets the customer's needs, and by which a company generates revenue and creates value.

Communal (collaborative) shopping A method of shopping where shoppers enlist friends and other people they trust to advise them on what products to shop for.

Customer relationship management (CRM) A customer service approach that focuses on building long-term and sustainable customer relationships that adds value for both the customers and the merchants.

Enterprise 2.0 "The use of social software platforms within companies, or between companies and their partners or customers." McAfee (2009)

Geosocial networking Social networking with location awareness capabilities. This enables social networks to connect users with local businesses, people, or events.

Social business "A business that embraces networks of people to create business value" (IBM 2011a).

Social commerce (SC) E-commerce transactions delivered via social media.

Social customers Customers who usually are members in social networks, do social shopping, and understand their shopper's rights and how to use them to their advantage.

Social customer relationship management (SCRM, CRM 2.0) The delivery of CRM by using social media tools and platforms.

Social marketplace A marketplace that uses social media tools and platforms and acts as an online intermediary between buyers and sellers.

Social media marketing (SMM) The application of marketing communication and other marketing tools using social media.

Social shopping (sales 2.0) Online shopping with social media tools and platforms. It is about sharing shopping experiences with friends. Social shopping is the combination of social media and e-commerce.

Viral blogging Viral marketing done by bloggers.

Viral marketing Word-of-mouth (WOM) method by which people tell others (frequently their friends) about a product they like (or dislike).

Viral video Any video that is forwarded from a person to others, sometimes with a recommendation to watch it.

Virtual economy An emerging economy existing in several virtual worlds, where people exchange virtual goods frequently related to an Internet game or to a virtual business.

Virtual goods Computer images of real or imaginary goods.

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