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Social Strategies That Work

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by Mikołaj Jan Piskorski

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More than a billion people use social platforms such as Facebook, eHarmony, Renren, and LinkedIn. What's the attraction? They satisfy two basic human needs: to meet new people and to strengthen existing relationships. Fee-based dating websites, which collectively grossed $1 billion in 2010 by connecting strangers, now account for an estimated one in six new marriages. Facebook, which fortifies friendships, boasts a staggering 750 million users and a valuation in excess of $100 billion.

Numbers like those attract traditional companies, which have launched Facebook fan pages and Twitter accounts in hopes of finding new customers and engaging existing ones. But few of those companies succeed in generating profits on social platforms, despite collecting lots of "friends" and "followers."
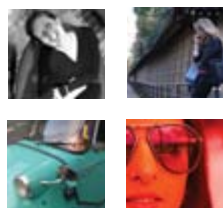
People's main goal on social platforms is to connect with other people—not with companies.

To find out why some firms fail while others succeed in these venues, I studied more than 60 companies across industries ranging from manufacturing to consumer packaged goods to financial services as they ventured into online social realms. What the poorly performing companies shared was that they merely imported their *digital strategies* into social environments by broadcasting commercial messages or seeking customer feedback. Customers reject such overtures because their main goal on the platforms is to connect with other people, not with companies. That behavior isn't hard to understand. Imagine sitting at a dinner table with friends when a stranger pulls up a chair and says, "Hey! Can I sell you something?" You'd probably say no, preferring your friends' conversation over corporate advances. Many companies have learned that lesson the hard way.

In contrast, the companies that found significant returns devised *social strategies* that help people create or enhance relationships. These work because they're consistent with users' expectations and behavior on social platforms. To return to our dinner analogy, a company with a social strategy sits at the table and asks, "May I introduce you to someone or help you develop better friendships?" That approach gets a lot more takers. (See the exhibit "Digital Strategy vs. Social Strategy.")

You Scratch My Back...

To explain successful social strategies, I find it useful to characterize them in a simple statement with three components that all the strategies share:

Successful social strategies (1) reduce costs or increase customers' willingness to pay (2) by helping people establish or strengthen relationships (3) if they do free work on a company's behalf.

This definition yields four types of successful social strategies that firms can pursue (see the table "Four Ways to Pursue Social Strategies"):

- Reduce costs by helping people meet.
- Increase willingness to pay by helping people meet.
- Reduce costs by helping people strengthen relationships.
- Increase willingness to pay by helping people strengthen relationships.

The work people do on a company's behalf can include customer acquisition, supplying inputs such as R&D and web content, and selling the company's products or services.

To see how the strategy of reducing costs by helping people strengthen relationships works, consider Zynga, a three-year-old company whose free social games, including FarmVille and CityVille, are on track to generate $1 billion in revenue in 2011. The games run inside the Facebook environment and have attracted more than 250 million users (the typical player is a middle-aged woman). The Facebook platform allows the games to access the demographic data of players and lists of their "friends," as well as to post status updates that those friends can see. In CityVille, players plant seeds on a virtual plot, cultivate the land, harvest crops, and sell them to local virtual businesses. They then use the profits to buy more seeds, build businesses, or expand the city.

The game presents players with obstacles such as limits on the number of plots or businesses they can possess. To increase the limit, players can pay with virtual goods they buy from Zynga—a major source of the firm's revenues. Or, to the social-strategy point, they can enlist friends, via Facebook status updates or Zynga's messaging system, to help. And they can return the favor by sending virtual gifts to friends and by visiting their plots.

The positive impact that Zynga's games have on players' social lives is clear. According to a survey done by Information Solutions Group, almost a third of players reported that the games helped them connect with family and current friends; another third said games facilitated connections with old friends; and a third used the games to make new friends. My interviews with dozens of players revealed how. Many use the opportunity as an excuse to connect. A woman with two children told me, "When I am done with work and kids, I want to reach out to my friends, but it's too late to call. So I go to play, and see if I can help them out with something. They notice it, which helps us stay connected." Others consider posting a game-status update on Facebook as an invitation to contact them. A younger male player said, "I am not going to post on Facebook that I had a bad day, but I might mention something about it, when I post, that I need something in a game. My friends will see it and often someone will call or e-mail."

To obtain these social benefits, people undertake actions that help Zynga. In exchange for an opportunity to reestablish and maintain contact with friends, players encourage others to join or return to Zynga's games. By my estimates, those social mechanisms slash Zynga's customer acquisition and retention costs by half, improving its profitability by

Idea in Brief

Most companies don't succeed in online social platforms.

That's because they merely import their digital strategies to these venues. But commercial messages and feedback opportunities are not what customers primarily seek. They want to connect with people, not companies.

Businesses that win in this arena adopt a social strategy that **(1)** reduces costs or increases customers' willingness to pay **(2)** by helping people establish or strengthen relationships **(3)** if they do free work on the company's behalf.

Successful social strategies have all three components. They're built, bit by digital bit, through helping people with the social challenges of connecting and interacting with friends and strangers.

approximately 20 percentage points. Hence, Zynga's social strategy (1) reduces its acquisition and retention costs (2) by allowing people to reconnect with friends (3) if they invite them to return to the game.

The reviewing site Yelp uses a different type of social strategy: It reduces costs by acquiring its most valuable content for free by helping people meet. Advertisers provide Yelp's revenues, but its content—18 million reviews of local establishments so far—is written by an educated cadre of volunteers, called Yelpers, mostly in their twenties and thirties. The site traffic, about 50 million visitors a month, attests to the usefulness of the reviews; it's the company's social strategy that significantly accounts for that quality.

The most passionate and prolific Yelpers may be invited to join the Elite Squad, a select tier in the Yelp community. Squad membership gives them access to exclusive Yelp-hosted events that range from the refined, such as cocktail parties at museums, to the rowdy, like a Mardi Gras–themed bacchanalia at San Francisco's Bubble Lounge, which attracted hundreds of revelers in 2009. Such events commonly produce new friendships and other relationships that continue beyond the confines of Yelp.

To maintain these social benefits, Squad members must continue to produce reviews, as the elite status is renewed—or not—every year. My interviews with elite Yelpers indicate that they will continue to write reviews specifically to maintain their status. The effects for Yelp's business are substantial. My research shows that an average elite Yelper will write reviews at a constant rate for nearly two years, whereas otherwise identical nonelite Yelpers without such social benefits will reduce their contributions after about six months. Therefore, the average elite Yelper will produce about 100 more reviews than a nonelite; without these elite contributions, Yelp's review stream would fall by about 25%. Thus, Yelp's social strategy (1) helps it

obtain quality content for free (2) by allowing the best contributors to meet like-minded people (3) if they write reviews.

Business and Pleasure

Because Zynga and Yelp are online startups with inherently social products, devising their social strategies is relatively straightforward. But companies in very different sectors are developing social strategies as well.

Consider eBay's Group Gifts online application, launched in late 2010, which people use to pool funds to buy gifts for their friends. A group organizer logs on to eBay and names a gift recipient, either directly or by picking the name from a list of her Facebook friends. eBay then offers a set of general gifts, or the organizer can authorize an eBay application to access the recipient's Facebook "about me" profile and base a gift recommendation on that. The organizer then selects a gift and issues an invitation to other contributors by posting a request to contribute on her Facebook page. The invitation contains a link to the eBay gift page, where contributors can contribute and write a note to the recipient. When the gift price is reached, eBay sends the gift and well-wishers' notes. The social benefits are clear: Group Gifts helps people purchase better-targeted and more-expensive gifts than they might otherwise. That not only strengthens relationships with the recipient but also can help enhance relationships among the joint gift givers. As one interviewee said, "If it wasn't for the Facebook update, I would never know about the farewell gift for this guy, and no one asked me to contribute. But I saw this and chipped in, and just yesterday I got a thank-you note....I think it will be easier to stay in touch with him."

To obtain such social benefits, people must advertise Group Gifts to their friends and respond to their friends' advertisements. Such friend-to-friend advertising generates dramatic results: A third of

Group Gifts participants sign up for new PayPal accounts, and a third return to eBay within a month to purchase other items. What's more, the average price of Group Gifts goods is five times higher than that of an average eBay sale. Thus, eBay's social strategy (1) increases willingness to pay (2) by allowing people to strengthen their friendships through gift giving (3) if they ask their friends to buy from eBay.

Social strategies can also be tailored to address the challenges of meeting people for professional purposes. American Express developed such a strategy for its OPEN credit cards, which target small business owners. Customer churn is a challenge in the credit card business, so AmEx set about making OPEN cards stickier. Initially, the company hosted conferences focused on small business management for card members and then launched an online platform, called OPEN Forum, to showcase conference content. The forum site was a hit, attracting more than a million visitors a month.

Management observed that cardholders were connecting with one another through the content and launched a members-only social network called Connectodex, which allows users to post profiles, list services they offer and need, and freely connect for business. More than 15,000 small businesses have joined the network. Although members could use other professional networks such as LinkedIn, they report preferring Connectodex, as small businesses with which they interact are already vetted by AmEx. A Forrester Research study confirmed this need when it found that nearly half of owners of small businesses with more than $100,000 in revenues say they wanted to learn from other owners.

To reap social and networking benefits from Connectodex, small business owners must obtain or continue holding an AmEx OPEN card. As a result, the service has effectively reduced customer churn and increased willingness to pay for the card. At the same time, platform users' net promoter scores (a gauge of their likelihood of recommending the card) now significantly surpass nonusers' scores. Thus, the American Express social strategy (1) increases willingness to pay (2) by helping professionals to meet others like them (3) if they maintain their card membership.

How to Build a Social Strategy

I have observed many companies seek to build social strategies, with vastly different outcomes. Those that failed in the effort focused on their business

Digital Strategy vs. Social Strategy

The primary advantage of a social strategy over a purely digital one is in tapping into how people *really* want to connect—with other people, not with a company. A business with a successful social strategy helps people form and strengthen relationships in ways that also benefit the company.
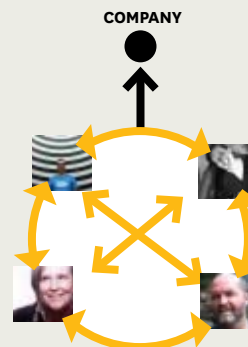
DIGITAL STRATEGIES broadcast commercial messages and seek customer feedback in order to facilitate marketing and sell goods and services.
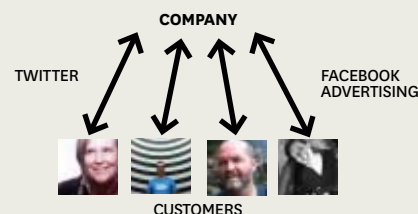
SOCIAL STRATEGIES help people improve existing relationships or build new ones if they do free work on the company's behalf.

goals and paid less attention to customers' unmet social needs. These strategies didn't effectively help people with relationships, so they were unwilling to do jobs for the company. In contrast, companies with successful strategies first thought through how to address unmet social needs and then connected the proposed solutions to business goals. Because the process of identifying unmet social needs is often hard, I recommend that firms focus on helping people with four types of social challenges: connecting with strangers, interacting with strangers, reconnecting with friends, and interacting with friends.

Let's look at how a major credit card company I'll call XCard devised and tested a social strategy (the company requested that its name be disguised). The CMO assembled an eight-person team that included members from marketing, product development, and IT—plus consultants, myself included. The group ultimately reported directly to the CEO. We led the team in a structured strategy-development process in which team members devised at least one strategy for each of the four types of social challenges that card members may face. In each case, the goal was to increase card-member spending or retention, or acquire new customers, in exchange for

solutions to those challenges. Each of the four social strategies of course adhered to the core principle: They reduced costs or increased customers' willingness to pay by helping people establish or strengthen relationships if they did free work on the company's behalf.

Social challenge A: Reconnecting with acquaintances and friends outside a core group can be awkward.

Social strategy A: Help people reconnect through shopping with friends. The team devised a program that would give cardholders an excuse to reconnect by inviting others who already had the card or who had agreed to sign up for one to join them for shopping. Shopping together at the same retailer at the same time would yield additional reward points.

Social challenge B: People need help interacting with acquaintances and friends outside a core group.

Social strategy B: Help people interact through gift giving. The XCard team envisioned a gift program in which, upon request, XCard would examine another member's purchases or purchase locations (only if they had opted into the program) and recommend gifts targeted to their purchase profile. The program would give members an incentive to use XCard more in order to build an accurate purchase history, resulting in well-targeted recommendations for friends.

Social challenge C: Finding strangers with whom you have something in common isn't easy.

Social strategy C: Connect executive women who have XCard's high-end charge card. Many of these customers travel frequently and have few opportunities to socialize with women like themselves. The team devised invitation-only events at exclusive hotels in major cities to convene these cardholders when they traveled.

Social challenge D: People find it uncomfortable to interact with strangers without first knowing more about them.

Social strategy D: Help moms with young children learn something about one another. These customers have an appetite for information about child care products, but some have difficulty finding trusted advice about them. The team conceived a branded card that would allow moms to access a dedicated social platform, search for other cardholding moms who had bought a particular product, and connect to them. Only moms who made themselves searchable and continued to make purchases with the card would be allowed to search.

First think through how to address customers' unmet social needs; then connect the proposed solutions to business goals.

Theory into Practice

Having identified several potential strategies for helping people create or improve relationships, the team evaluated them using three tests.

Social utility test: Will the strategy help customers solve a social challenge they can't easily address on their own? This test requires that you focus on an important—but unmet—social challenge for the target group. People doing such analyses often assume that if they don't personally experience a given social challenge, others don't either. That is usually wrong. Social-strategy development requires an unprejudiced look at the target group's social needs.

The shopping-with-friends, executive-women, and moms strategies passed the test's requirement to address an important, unmet social need. This evaluation required researching the demand for social solutions in each group—for example, executive women's interest in networking opportunities. The research revealed that although networking groups are plentiful, invitation-only events for executive women that capitalize on their heavy travel schedules are not. The team also confirmed that moms want to find other moms who have bought a specific product and that no existing tools allowed them to do so. Similarly, the research revealed a substantial appetite for shopping with friends. However, the team found that people would hesitate to use a program that, by making gift recommendations based on their purchase patterns, in effect revealed their purchase preferences to others. For that reason, the team disqualified the gift-giving strategy.

Social solution test: Will the strategy leverage the firm's unique resources and provide a differentiated, hard-to-copy social solution? The team realized that the card's leadership in an exclusive segment and its superior rewards program were distinctive. Those resources conferred a hard-to-replicate advantage for the executive-women strategy and offered a better-than-alternatives option for that segment. Likewise, the shop-with-friends strategy continued to look promising, primarily because it leveraged the card's superior rewards program. The moms strategy didn't fare as well in this analysis because the firm lacked the detailed transaction data needed to create a service that competitors couldn't readily replicate or even outperform. Concerns also surfaced that large retailers of children's products, such as Toys "R" Us or Walmart, could create a more effective platform. The team sought to address this concern, but ultimately the moms strategy was disqualified.

FOUR WAYS TO PURSUE SOCIAL STRATEGIES

Here's how four companies have successfully implemented their social strategies. Each firm reduces costs or increases customers' willingness to pay by helping people establish or strengthen relationships if they do free work on the company's behalf.

	STRATEGY IMPACT	
	REDUCE COSTS	INCREASE WILLINGNESS TO PAY
ESTABLISH RELATIONSHIPS	**Yelp** acquires valuable content by helping people meet if they write reviews.	**American Express** helps professionals to meet others like them if they maintain their card membership.
STRENGTHEN RELATIONSHIPS	**Zynga** helps friends stay in touch if they recruit new players and retain existing ones.	**eBay** allows people to strengthen friendships through gift giving if they ask friends to buy from eBay.

(SOCIAL IMPACT)

Business value test: Will the social solution directly lead to improved profitability? This test requires that the strategy directly lower costs or increase willingness to pay. The executive-women strategy that had thus far survived stumbled here because of the small size of the target group—only 0.2% of cardholders. Although reducing defection among this small but disproportionately profitable segment could have a measurable bottom-line impact, the team determined that it was not as large as that offered by the shop-with-friends option.

Before piloting this option, the team checked that the activities intended to improve relationships were directly related to jobs that help the company lower costs or increase willingness to pay. That was true, for example, in the Zynga and eBay Group Gifts strategies, which allowed people to connect only if they posted status updates advertising the product. Indeed, the shop-with-friends strategy tightly aligned social and economic benefits: The social act of inviting a friend to shop is the very act that yields profits, by generating fees if the friend becomes a new card member, makes a purchase with the card, or both. Because each new customer recruited, for free, by a card member roughly halves customer-acquisition costs, the team calculated that the strategy had great economic potential. As this strategy performed best on all three tests, the team chose it as the one to pilot.

The Pilot Takes Off

By e-mail, XCard invited 10,000 customers in one metropolitan area to receive a pilot Facebook shop-with-friends application. Almost 45% of recipients checked out the application; half of that subgroup signed up. Signatories were required to enter their credit card number for validation and then were asked to pick a time to go shopping with friends. Subsequently, they were prompted to post a Facebook status update announcing when they would like to shop and informing others that all involved would receive additional XCard rewards for coshopping.

When friends clicked on the update, they were returned to the application, where they could sign up for an XCard or register their existing card and confirm their attendance. During the two-month pilot, a fifth of those who had signed up posted a status update, of whom three-quarters received at least one response (some received as many as six responses). A third of those who responded became new cardholders, and 75% of invitations to shop together resulted in purchases.

Pleased with the results, the CEO and CMO greenlighted the social strategy for a full rollout in 2012. With changing corporate priorities and increased focus on the exclusive cards, the executive team also asked the group to pilot the executive-women strategy. Most important, the company established a permanent social-strategy unit that reports to the CMO and is tasked with developing and testing new social strategies.

AS MOST BUSINESSES are accustomed to helping people meet their economic rather than their social needs, creating social strategies will require fundamental changes in the way companies approach strategy development. As social platforms become even more central to consumers' lives, companies that don't figure out how to appropriate their value and create true social strategies will find it harder and harder to compete with those that do. Starting this process soon, even in small steps, is both a critical defensive and offensive move. ▽

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