Introduction

LEVERAGING SOCIAL MEDIA AND SOCIAL SHOPPING FOR BUSINESS PERFORMANCE

In the early 1990s, e-business ushered in what is now called “the digital economy.” It revolutionized the process of buying, selling, and exchanging products and services, and spawned a host of business and technological innovations. As globalization and competition pose new opportunities and challenges, firms face increased pressures from stakeholders to create e-business values. They are attempting to find which e-business models and applications will contribute effectively to their sustainability, growth, and innovation. Innovations in technology in the e-business area have constantly encouraged firms to improve existing business processes and develop new business models and applications.

Since the late 2000s, social media has paved new ways of accessing customers for businesses and conducting business activities. Social media, also called Web 2.0, represents a variety of dynamic and community-based web initiatives that place value on the power of distributed knowledge, leverage data, and provide users with rich multimedia experiences (O’Reilly, 2005). Online social networking services such as MySpace, Facebook, and LinkedIn provide firms with significant business building communities based on interests and relationships. As a growing number of customers utilize social media to exchange information and to conduct business transactions, firms are competing to provide the most value-added, innovative, convenient e-services for their customers.

Recently, advancements of social media have extended the reach of e-business to social commerce. Social commerce enabled by social media has provided firms with new ways of approaching, acquiring, and retaining customers with the use of social media. With the widespread adoption of social media by customers, businesses must find ways to capitalize on the social commerce to stay competitive in the global economy. For traditional businesses, investment in social commerce is on the rise. According to a recent IBM survey of more than 1,100 businesses around the world (CIO, 2012), forty-six percent of the businesses surveyed increases in their investments in social commerce in 2012, and sixty-two percent planned to increase their investments in social commerce in the next three years. According this survey, most firms are convinced that social commerce is enhancing their business value.

Although a large volume of literature is already available on social media and social shopping, many new ideas and applications are constantly emerging and provide potential opportunities and challenges for further research. This preface reviews the literature on social media and social shopping to understand what has been studied, presents a framework of emerging social media and social shopping business models, and discusses challenges and opportunities.
SOCIAL MEDIA AND ITS IMPACT ON BUSINESS

Many traditional businesses integrate a variety of social media tools into their core business processes to achieve competitive advantage. High-profile companies, from Siemens to Lockheed Martin to Motorola to Cisco, have all adopted social media tools, and claim to derive strong competitive advantages from it. Companies are beginning to capitalize on social media tools in a variety of ways. Many companies are expanding social media efforts to capture customer data and leverage it to generate instantaneous, customer-tailored customer experiences (Bughin et al., 2008). For example, Amazon uses data generated from site visitors in order to provide targeted product suggestions to other visitors. For a potential purchaser who is interested in a certain product, Amazon lists products that other purchasers of the same product also looked at. Netflix aggregates and analyzes subscribers’ movie preferences in order to provide accurate online movie recommendations. Businesses leverage social media technologies in order to dynamically collaborate with customers and partners in efforts to generate new design innovations (Brown, 2008).

The following introduces four types of social media tools.

Social Networking Services

Many companies leverage their own private internal social networking services (SNS) to increase productivity in the workplace. SNS facilitate recruiting and connecting potential contributors for distributed innovation processes. As recruiting tools, SNS enable recruiters to view the manner in which candidates behave in an online setting and the type of people they socialize with. Job seekers use SNS to network with professionals for internship and job opportunities. Companies can also use SNS to engage in direct market research and maintain a positive relationship with customers. LinkedIn’s new service, Company Groups, allows a company’s employees to participate in a single internal web forum where they can talk to one another, share ideas, and ask company-related questions.

Collaborative Platform

Social media has also led to a collaborative platform. As a collaborative platform, prediction market tools can help aggregate a vast amount of information from employees within organizations to better guide company actions. An example of this is the sales forecast at HP through prediction markets (Chen & Plott, 2002). HP pioneered prediction markets in sales forecasting and expanded it to several business units. HP is working towards a commercial launch of the implementation of it as a product.

Procter & Gamble, through its ‘Connect and Develop’ platform opened to inputs from company alumni, current employees, and even customers, has successfully secured a large stream of new product innovations (Huston & Sakkab, 2006). While Procter & Gamble’s best innovations had come from connecting ideas across internal businesses, after studying the performance of a small number of products they had acquired from external sources, they realized that external connections could produce highly profitable innovations as well. Its ‘Connect and Develop’ platform taps into the creative thinking of inventors and others on the outside would.

For businesses, wikis serve as an excellent collaborative platform for collective intelligence and can facilitate innovations (Tapscott & Williams, 2007). Internal corporate wikis can be used as a collective intelligence tool to tap the expertise of a large group. For example, Nokia has been using internal wikis for engineers to solve product-design problems. Internal wikis are increasingly used by companies such
as Adobe Systems, Amazon.com, Disney, Intel, Pixar, and Microsoft. External corporate wikis enable companies to have the opportunity to derive value from the mass collaboration of the public that participates in wikis. By allowing consumers to contribute ideas revolving around the company’s products, the company can not only develop a core consumer base, but can also create values for any consumer that can benefit from the collaborative works. Sun Microsystems’ Sun Wikis is a directory of over 800 wiki spaces (as of June 2011) where contributors inside and outside of Sun Microsystems can share information with each other and contribute ideas to the wikis.

**Blogs**

Blogs are online journals that are characterized by short entries and regular updates. Blogs are inherently flexible and can be used for a variety of purposes, ranging from personal opinions of the contributor to knowledge management initiatives and customer relation tools. The publication of a blog enables the company to interact directly with consumers. Leading companies like Boeing, IBM, Accenture, Southwest Airlines, and GE are all early adopters of corporate blogs. While the blog can be used for public relations, it can also be used to promote new products and receive consumer feedback to products and services. Senior management can also utilize internal and external blogs to make announcements and seek inputs from various user groups. Internal corporate blogs offer a communication channel for individual employees to express themselves, share information, and discuss ideas with each other. Internal blog sites can be used as an ongoing information and knowledge repository to store key information, expert knowledge and experience, and as a connection point among employees. Personal or public blog sites are used to host blogs and the posted messages can be distributed to other sites or readers via RSS. Examples include political blog sites, such as HuffingtonPost.com, consumer electronics blog sites, such as engadget.com, and entertainment blog sites, such as perezhilton.com.

**Social Bookmarking**

Social bookmarking, also called folksonomies, has become part of social media application and an important alternative to search engines or other instruments for navigating the web. An empirical analysis of the complex dynamics of social bookmarking has shown that a consensus around stable distributions and shared vocabularies emerge, even in the absence of a centrally controlled vocabulary (Halpin et al., 2007). Companies are increasingly using photo sharing like Flickr and tagging sites like Delicious.com to promote new products and services and also to share photos of major company events with existing customers, employees, and potential customers.

**SOCIAL MEDIA-BASED BUSINESS MODELS**

Social media is moving beyond the early diffusion stage and best practices emerge. Many new pure-play social media business models arise by leveraging social media such as wikis and blogs. In addition, bricks-and-clicks organizations try to leverage social media to improve their business processes. Organizations must understand the impacts of social media on their existing business model in order to be competitive in this fast-paced environment. In this section, we investigate the emergence of new social media-based business models in which the use of social media is the primary driver of revenue and corporate existence. Based on the analysis of popular social media-based organizations, we identified the following six social media-based business models.
**Broad Online Community:** A broad online community is an electronically supported social network of a wide range of user groups. It can be seen as a group of people who have regular social interaction but without any specific idiosyncratic group characteristics. The broad online community allows individuals to form or maintain online social connections and share their skills, talents, knowledge, and/or preferences with other members. The viability of this community model is based on user loyalty, since users need to invest both time and emotion to the community. Revenue can come from the sale of products, information services and/or advertising. A large community may expect revenue from subscriptions for premium services. Examples include Twitter, Facebook, Bebo, and Friendster.

**Focused Online Community:** A focused online community is a niche/specialty online community dedicated to people with a common interests and needs such as professions or hobbies. One of the major distinctions is in professional and private users (e.g., business social network services as LinkedIn and private social networking services as Blakbplanet targeted at African American users). Users add their profile and portfolio to the community and become part of a common interest such as a problem, task, hobby, or business. Revenue can be based on the sale of specialty advertising, premium services, specialty-related products and services or contributions. Shopping communities bring like-minded people together to discuss, share, and shop. Using the wisdom of crowds, users communicate and aggregate information about products, prices, and promotions. An example of a focused online community is an Internet car forum, such as NASIOC (North American Subaru Impreza Owners Club, forums.nasioc.com). In this forum, members of the community can gather to share information such as car pricing, purchasing tips, technical details/troubleshooting, and events the community may hold in their region. They can also post products for sale or trade with other members. Like most focused online communities, forums.nasioc.com is funded through banner advertisements, as well as sponsors who sell their products on the forum.

**Content Intermediary:** Content intermediaries are businesses that function as a third party between content generators and content users. Sometimes, users serve as both content generators and content users. Content intermediaries aggregate content and deliver it to users. In addition to text content, content generators often contribute to the sites with video, audio, or other types of rich media. Product reviews, comments, recommendations, and news or information posted on the sites represent high quality market information and an unbiased customer voice. Three types of content intermediaries are

1. Blog sites,
2. Collective intelligence sites, and
3. Content aggregating/sharing sites.

As users contribute new content to the web, the web of connections and associations among users grows stronger as a result of their collective activities. Content intermediaries depend on massive user participation and collaboration via the web. Innovative web business models such as social bookmarking and online encyclopedias take advantage of the network effects: the more people participate in generating and refining content, the more useful they become to the users. The ease of content generation and the speed of content sharing are critical to the success of content intermediaries. The online reputation systems are an example of an innovative content intermediary. The online reputation systems are based on intelligence of crowds. People provide opinions of the products, services, or users they have experienced in the form of scores, rankings, and comments. The reputation systems collect and publish
reputation scores and comments to a community or general public. While most reputation systems are product review systems, the objects of the reputation system used by eBay are transaction participants who provide ratings of the transaction party after they conduct a transaction. eBay’s reputation system is designed to reward good behavior and punish bad behavior. Examples of collective intelligence sites include online encyclopedias, such as Wikipedia, social bookmarking/tagging sites, such as del.icio.us and Digg, and online reputation systems, such as Epinions, Bizrate, and Yelp.

Content gathering/sharing sites gather web content (and/or sometimes applications) from users. The value of the sites depends on the quality and quantity of the content contributed by the users. This content is in the form of video, audio, music, images, and text. Compared to the blog sites, the journalistic function is limited. Examples include video-sharing sites, such as YouTube, event sharing sites, such as Upcoming, and photo publishing/sharing sites, such as Flickr.

**Virtual World:** Virtual worlds are persistent virtual reality spaces (Schroeder, 2008). Virtual world enables users to interact with each other without geographical barriers. In virtual worlds or games, it is possible for users to interact using avatars. Avatars are the representations of users in virtual worlds, often graphically displayed as 3-dimensional characters and completely customized according to the user’s preferences. These worlds are available 24/7 - users can explore, socialize, and solve collaborative challenges. Virtual world technologies have affected education, information, and gaming industries. From a marketing perspective, virtual worlds create opportunities for a new form of commerce - virtual or v-commerce (Nasco, Boostrom Jr., & Coker, 2010). V-commerce is an alternative and/or supplement to traditional forms of commerce. Virtual commerce is a viable type of commerce in which products are created with infinite virtual resources and exchanged for real world money.

One of the more successful virtual worlds is 3-dimensional Second Life, created by Linden Lab in 2003. Avatars are central to the way that users interact with people and objects in virtual spaces. Second Life centers on socializing within communities, the sale and resale of goods, and the advancement of its virtual economy. Virtual characters known as Residents run businesses, own land, travel, and buy and sell goods and services with the Linden Dollar. Virtual worlds represent a significant social media business model due to its business potential. Other virtual worlds include Smallworlds, Zwinktopia, ActiveWorlds, and Twinity.

**Shared Social Media Services:** Shared Social Media Services facilitate the growth of social media populations by providing sharable services in the form of software and hardware. Using the shared social media services, users/groups can develop their own social media applications at minimum costs and technical skills. For example, users/groups may set up their own wiki sites using wiki development tools provided by wiki hosting sites such as Wikispaces and WordPress. WordPress is a popular blog hosting site available to individuals and firms. The revenue sources include advertising, premium services, and subscription fees. Examples of shared social media services include social networking host services for private specialty social networking, mashup platform vendors, Widgets, wiki host services, Google apps for social networking and collaborations, blog host services, and collaborative host services.

**Social Shopping:** Taking advantage of social media’s user participation and social networking capabilities, social shopping intermediaries such as Groupon and LivingSocial have emerged as a promising online intermediary between merchants and consumers by offering group discount deals to price sensitive customers. Merchant reputation sites such as Yelp, TripAdvisor, and Angie’s List enable consumers to generate online product reviews, merchant reviews, blogs, and social tagging. Social merchants use social shopping intermediaries to promote their products or services at large discount prices.
SOCIAL MEDIA AND CONSUMER INFORMATION SHARING

Stigler (1961) observed that the one-price market will occur only where the cost of information about the prices offered by buyers and sellers is zero. In most situations information is scarce and costly to obtain, and therefore it can be thought of as an economic good. Since then, consumers’ information search behavior has been explained in terms of the costs and benefits associated with a search (Foster & Lin, 2010). Once the consumer has identified a problem, he/she searches for information on products and services that can solve that problem. The kinds of information sought by online consumers typically relate to product/service and merchant reputation in terms of specification, price, and quality standards, and expert and consumer opinions and ratings.

A growing number of online retailers add a customer review function on their website in order to enrich their consumers’ shopping experience. Reviews written by consumers are perceived to be less biased than the information provided by advertisers and can provide information that enhances the credibility of what is already available from retailers and manufacturers. The validity of reviews can be further enhanced by providing a function for other consumers to rate the usefulness of the particular reviews. Three types of consumer reviews are widely used:

1. Product/service reviews,
2. Content reviews, and
3. Merchant reviews.

Table 1 summarizes these three types of consumer reviews.

5. SOCIAL SHOPPING

Social shopping brings buyers and sellers together in e-commerce where shoppers’ social networking facilitates the shopping activities. Social shopping attempts use technology to mimic the social interactions found in physical malls and stores. Social shopping can largely be divided into two categories:

1. Group shopping sites and
2. Social shopping marketplaces.

Group shopping sites group individual consumers to purchase products and services together from merchants at discount prices. Examples include Groupon, Gilt City, LivingSocial, and BuyWithMe. Social shopping marketplaces bring social shopping sites, merchants, and consumers together to connect and transact. The marketplace brings together independent buyers and sellers and creates a forum for them to conduct business transactions. Examples include Sttorenvy and Jasmere. Social shopping also encourages people to exchange information about products and services. The revenue sources include sales commission and advertising. Social shopping sites develop Android and iPhone-based mobile apps to provide location-based services.

The success of the social shopping sites depends on the customer satisfaction, customer loyalty, partner management, and quality policy, including refund policy. As the number of the social shopping sites grows rapidly, the competition intensifies and social shoppers’ complaints increase about overbooking,
poor product/service quality, and stockout. Participating companies usually pay a high rate of commission to social shopping sites. Many social shoppers are bargain hunters.

Theoretical Perspectives on Social Shopping

Among the theories relevant to the growth of social shopping, five theoretical perspectives are reviewed in the following: information asymmetry, price discrimination, shopper orientation, advertising, and network externality.

**Information asymmetry** is the difference in the information between two parties (Ba & Pavlou, 2002). Information asymmetry occurs in transactions where one party has more or better information than the other. Information asymmetry may give rise to opportunistic behavior such as misrepresentation of product quality (Akerlof, 1970). Since consumers usually cannot determine the quality of a product/service prior to consumption, merchants may attempt to defraud consumers of experience goods and services, such as wine, healthcare services, and software. In cases of information asymmetry, it is natural for consumers to assume that whatever the merchant is offering, it must be that the merchant is still selling the product for more than it is worth. Thus, many consumers may even avoid purchasing the product/service altogether.

Online intermediaries are known to decrease information asymmetry between merchants and consumers, since online intermediaries have expert knowledge on products (Duan, 2010). As an extension of online intermediaries, social intermediaries can reduce the information asymmetry between merchants and consumers. Social intermediaries make efforts to filter out misrepresented information and maintain information quality. Social intermediaries allow consumers to acquire information otherwise unavailable, such as information on merchant reputation. Social networking services, online discussion forums, and merchant reputation sites allow consumers to conduct pre-purchase research and help reduce the information asymmetry between merchants and consumers. In this way, products and services listed on social shopping sites turn into a search good with features and characteristics easily evaluated before purchase.

**Price discrimination** is a marketing method of differentiating price sensitive consumer groups from less sensitive customer groups and offering different prices for the products and services to each group. Price discrimination is common in practice, and has received careful analysis in the field of economics (Lewis & Sappington, 1994). Price discrimination allows firms to increase their revenue above what may be obtained from uniform pricing (Leslie, 2004) by reaching new customers who were not previously buying the product. However, since there is a difficulty in differentiating between loyal and new customers, social shopping can be used as a means of inducing voluntary price discrimination (Ben-Zion, Hibshoosh, & Spiegel, 1999).

Table 1. Three types of consumer reviews

<table>
<thead>
<tr>
<th>Type of Consumer Review</th>
<th>Description</th>
<th>Example Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/service reviews</td>
<td>Normally focus on the functionalities and the utility of a product and service (e.g. its usability, efficiency, quality, design, reliability, etc.).</td>
<td>Epinions and Bizrate (<a href="http://www.bizrate.com/">http://www.bizrate.com/</a>).</td>
</tr>
<tr>
<td>Content reviews</td>
<td>Share opinions on the content of a product such as a book, music, or movie.</td>
<td>Music Emissions (<a href="http://www.musicemissions.com">http://www.musicemissions.com</a>).</td>
</tr>
<tr>
<td>Merchant reviews</td>
<td>Often used as a mechanism to establish trust between consumers and merchants and to ascertain a sense of product and service quality of the merchant.</td>
<td>Froogle (<a href="http://www.froogle.com">http://www.froogle.com</a>) and Yelp (<a href="http://www.yelp.com">http://www.yelp.com</a>).</td>
</tr>
</tbody>
</table>
Under the social shopping environment, the merchant’s incentive and ability to discriminate price will continue to grow. Social intermediaries naturally identify price sensitive groups. Members of the social shopping sites signal their price sensitivity voluntarily when they apply for the membership and actually purchase the discount deals. An individual-level analysis of the frequency and size of discount deals can further identify the core price sensitive groups. It is expected that a certain percentage of social shoppers become repeat customers if the product or service satisfies them, while others remain in the same price-sensitive group regardless of their satisfaction. However, it would be challenging to accurately estimate the percentage of social shoppers who will eventually become repeat customers.

Shopping orientation has been widely studied in marketing. Among shopping orientation studies, Stone (1954) is the first researcher who offered taxonomy on shopping orientation. He suggested that as consumers gain experience in the marketplace, a fractionization of shopping orientation evolves, and developed four categories of shoppers: economic, personalizing, ethical and apathetic shoppers. Subsequent studies find that shopping behavior is motivated by a range of psychosocial needs that go beyond the acquisition of products and services (Arnold & Reynolds, 2003; Tauber, 1972; Westbrook & Black, 1985). Psychographics-based shopping orientations classify shoppers into either social shoppers, quality shoppers, problem-solving shoppers, psycho-socializing shoppers, or brand-name shoppers (Darden & Reynolds, 1971; Darden & Ashton, 1974-75; Moschis, 1976). “Psychosocializing” shoppers have affiliation and social interaction as shopping motivations (Tauber, 1972; Westbrook & Black, 1985).

Grounded in McGuire’s (1974) collection of affiliation theories of human motivation, social shoppers espouse altruism, cohesiveness, pursuit of acceptance, and the desire for affection in interpersonal relationships (Arnold & Reynolds, 2003; McGuire, 1976; Westbrook & Black, 1985). Tauber (1972) suggests that the social motives of shopping include the needs for social experiences, communication with others having similar interests, peer group attractions, obtaining status and authority, and gaining pleasure from bargaining and negotiation. Similarly, Arnold and Reynolds (2003) identify social shopping as one of six broad categories of hedonic shopping motivations and explain the motive of social shopping is enjoyment of shopping with friends and family, socializing while shopping, and bonding with others while shopping. Social shoppers report their primary shopping motivations to be social, habitual, brand-loyal, and utilitarian with the least value attached to gratification seeking. These shoppers appear to see shopping as a leisure activity (Martin & Mason, 1987), fulfilling some important role in family and social life which goes beyond the traditional shopping activities.

Advertising is an important part of the business logic of social intermediaries. The major revenue sources of social intermediaries are commission and advertising fees paid by the participating merchants. Traditional approaches to advertising implicitly assume that advertising is something the firm does to attract the consumer (Pavlou & Stewart, 2000). Online advertising is typically a form of interactive advertising which extends the traditional advertising. In web-based interactive advertising, the reasons consumers seek, select, use, and respond to information are critical for understanding and designing effective advertising (Pavlou & Stewart, 2000). A majority of studies attempt to identify the relationship between the characteristics of online advertising and consumers’ behavioral responses (Briggs & Hollis, 1997; Cho, 2003; Eighmey, 1997; Yoo & Kim, 2005).

For merchants, social shopping sites can complement traditional advertising media such as newspaper, magazine, radio, and TV. Social intermediaries inform consumers of a merchant’s existence and the availability of the products/services, increase brand awareness, and ascertain the quality of the merchant. Social intermediaries employ a variety of advertising schemes. Social shopping promotes viral marketing via social networks and referrals. To maximize the effect of viral marketing, the time
limits and quantity thresholds of the deals are enforced. E-mails are sent to subscribers for ‘deals of the day’ and other special promotions. A variety of deals are posted on social shopping sites in visually stimulating ways to grab the attention of potential customers, and possibly lead to actual purchases. All of these real-time interactive characteristics of social shopping advertising go beyond the capability of traditional advertising.

Empirical data show that coupon expiration date can affect coupon profitability (Krishna & Zhang, 1999). An increased expiration date for a product tends to increase the coupon redemption rate for the product and profitability. The duration of promotion is another important decision variable for profit generation. According to a study that investigates the effects of length, frequency and pod placement on advertising recall, the length and frequency of advertising positively and significantly influence advertisement recall (Newell & Henderson, 1998).

Network externality theory was used to explain the increased value of telecommunication adoption by a large number of subscribers in the 1970s (Rohlf's, 1974), and the theory has been developed and refined over time to model many organizational technology adoption decisions (Economides, 1996). Network externality describes the increase in the value of a product or service to a user, not because of the inherent quality of the product or service, but because of the increasing numbers of other users adopting it (Katz & Shapiro, 1985). The basic premises of the theory are 1) that the value to a user from joining the network is an increasing function of the total number of users who join the network, 2) that users perceive this value and 3) that they make their joining decision based on this perceived value. Social networking services such as Facebook and LinkedIn are good examples of the network externality, since the more members that join those services, the more beneficial the services will be to the members.

Network externality applies to social shopping for both merchants and consumers. Merchants have the incentive of using social shopping sites that have many members, and members have the incentive of using a social shopping site where many merchants are providing deals. As the size of the social shopping site increases, benefits to both merchants and consumers grow significantly because they have a better chance of passing the threshold sales quantity, enjoying a variety of deals, and acquiring accurate information on products/services. Since social intermediaries are a relatively new business model, few studies on network externality of social shopping exist.

CONCLUSION

In this study, we discussed four types of social media tools including social networking services, collaborative platform, blogs, and social bookmarking. We also identified six social media-based business models:

1. Broad online communities,
2. Focused online communities,
3. Content intermediaries,
4. Virtual worlds,
5. Shared social media services, and
These social media-based business models continue to grow in size and number through the interaction with individual users and business customers.

We also presented five theoretical perspectives relevant to the growth of social shopping: information asymmetry, price discrimination, shopper orientation, advertising, and network externality. The analysis of social shopping is critical to merchants due to its potentially great impacts. As more and more merchants use social intermediaries as an alternative sales channel, the effectiveness of social shopping becomes crucial for both customers and merchants. These theoretical perspectives allow social intermediaries to understand the current status of social shopping and to make informed decisions on the ways of engaging in social shopping.

In Lee
Western Illinois University, USA

REFERENCES


