



Turning “Like” to “Buy” *Social Media Emerges as a Commerce Channel*



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EXECUTIVE SUMMARY

As consumers around the globe spend more time on social media of all kinds, it is inevitable that some of their posts and comments relate to what they are going to do at the mall and what products they like. Many consumer-oriented companies have already responded to this shift by setting up Facebook fan pages or Twitter feeds. These can be great ways of engaging with and influencing customers, especially since the individuals on a social networking site are usually connected to other individuals whom they trust and respect. So, in the best case, a company that has something appealing to sell can, through an initiative involving social media, provide an impetus far superior to traditional advertising—recommendations from the most influential people of all, the prospective buyer's friends and family.

But company influence through social groups and traditional marketing models is stopping well short of the emerging opportunity. For many customer segments, shopping in the physical world has always been social: I can go to the store with you and put an item in your shopping basket, saying “This is perfect for you.” Now, some companies are using social media in a similar way: as a place where they can transact business with their customers and where customers can shop with each other. E-commerce is coming of age. These trendsetting companies are focused on products and services that benefit

from the unique characteristics of social media, including the opportunity to get quick feedback from multiple friends and family members.

The market for social commerce has been embryonic to date, but that will change over the next five years as companies race to establish stores, pushing up social commerce revenues sixfold, to US\$30 billion globally. As this growth surge happens, social commerce will take its place alongside stores, telesales, and the more traditional Web to emerge as a significant sales channel in its own right.

THE IMPACT OF SOCIAL MEDIA ON CONSUMER BEHAVIOR

Social media has revolutionized the way people communicate and maintain relationships. Globally, Internet users now spend more than four and a half hours per week on social networking sites, more time than they spend on e-mail.¹ There is a public quality to how communication happens on social networks—people are, to use the Facebook analogy, sharing their thoughts on “a wall” for others to see. As more and more of what people think and do ends up getting communicated on these new-age bulletin boards, it is inevitable that social networks will start to affect what consumers buy and how they shop. In a way that has never before been true, consumers are determining which products and services succeed and are shaping the messaging. Underlining this point, Altimeter Group says there is now a fifth “P”—people—to add to the traditional four “Ps” of marketing (product, price, placement, and promotion).²

If the new medium of social networks is creating challenges for

companies, it is also handing them an opportunity. Retail, consumer electronics, and media companies are among the many types of organizations that have followed consumers into the social arena, creating Facebook fan pages, sending microblog messages, and building communities. A 2010 presentation by Shop.org said that 68 percent of North American business-to-consumer (B2C) companies have acquired at least some customers through Facebook.³

Lead generation—the ubiquitous “likes” of Facebook—will not be the most important activity for long, however. The next phase will go beyond mere communication and influencing. Consumers will transact commerce inside social networks—selecting products, adding their selections to shopping carts, and completing purchases through payment with credit cards and points. As they do so, the era of social commerce will commence in earnest.

Consumers will transact commerce—from selecting products to completing purchases through payment with credit cards and points—inside social networks.

EARLY DEVELOPMENTS IN SOCIAL COMMERCE

Companies that are pursuing social commerce regard it as a distinct channel underpinned by a significant new aspect of consumer behavior.

This new channel represents the merger of e-commerce and social media, as transactions are actually performed within the platform rather than at the retailer's e-commerce site. While social commerce is still nascent, there are some notable examples of companies that are innovating in this area.

For instance, 1-800-Flowers, a floral retailer that has ridden a history of channel innovation to a national presence with more than \$700 million in revenue, now has a fully functioning Facebook store. It has embedded its e-commerce platform

directly into its Facebook fan page, allowing consumers to make quick purchases without having to leave Facebook. The company has also used Facebook as a component of its Mother's Day campaign and has plans to integrate with other Facebook features such as birthday calendars and group gifting. It isn't hard to imagine a company like 1-800-Flowers taking advantage of other social networking features, such as a person's likes and dislikes about colors, to help gift givers decide which bouquets to send.

Facebook isn't the only social network on which commerce is happening. Many companies, for instance, have used Twitter to sell their products. As of late 2009, Dell Outlet had already sold \$6.5 million in products through its Twitter feed;⁴ airlines such as AirTran Airways have also used Twitter to sell discounted tickets. Since November 2010, users of Apple's Ping recommender have been using tweets (Twitter's 140-character posts) to send song previews and iTunes purchase links to their followers.⁵

The innovations in social commerce are happening globally. Hyves, the most popular social networking site in the Netherlands, has developed a payment system that allows users to transfer as much as €150 (US\$201) to other users to pay for goods available within the Hyves payment system. The Hyves site, which has more than 10 million accounts, has also created a consumer-to-consumer marketplace called Supply & Demand that is analogous to Craigslist, allowing members to post items for sale.

How ready are consumers to buy products through social media? A 2010 survey by Booz & Company of consumers who spend at least one hour a month on social networking sites and who have bought at least one product online in the last year provides some insight. Twenty-seven percent of respondents said they would be willing to purchase physical goods through social networking sites. Moreover, 10 percent said their buying through social networking sites will be incremental to other buying they do—that is, they will end up buying

more physical goods overall. (The 73 percent who said they would not purchase goods through social networking sites largely cited concerns related to security and privacy, two areas that many big social networking sites are already working to improve.)

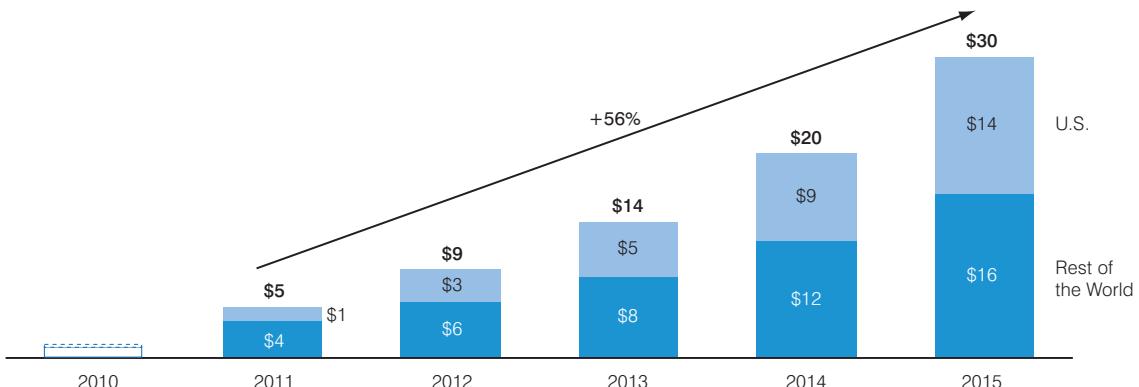
These emerging attitudes make it unlikely that social commerce—a cousin, after all, of the more familiar e-commerce—will face hurdles related to its newness. And

as companies find ways to embed their e-commerce engines within social media, the market for social commerce will skyrocket, helped in part by new models for buying and by the availability of products developed specifically for social networking sites.

By 2015, the dollar volume of goods sold through social media should rise sixfold, to \$30 billion from \$5 billion this year, according to Booz & Company estimates

(see *Exhibit 1*). This estimate is only for hard goods—electronics, apparel, movie tickets, and the like. Services are equally promising for social commerce—the online storage company seeking new customers, the wireless company offering an upgrade, the cable television company providing downloads or streamed versions of old episodes. Companies like these will have multibillion-dollar opportunities too.

Exhibit 1
Booz & Company Estimate of Social Commerce Market Size (2010-2015; in US\$ Billions)



Note: Numbers might not add up because of rounding.

Source: Forrester Research; GP Bullhound; Euromonitor; Booz & Company analysis

WHERE SOCIAL COMMERCE CAN HAVE AN IMPACT

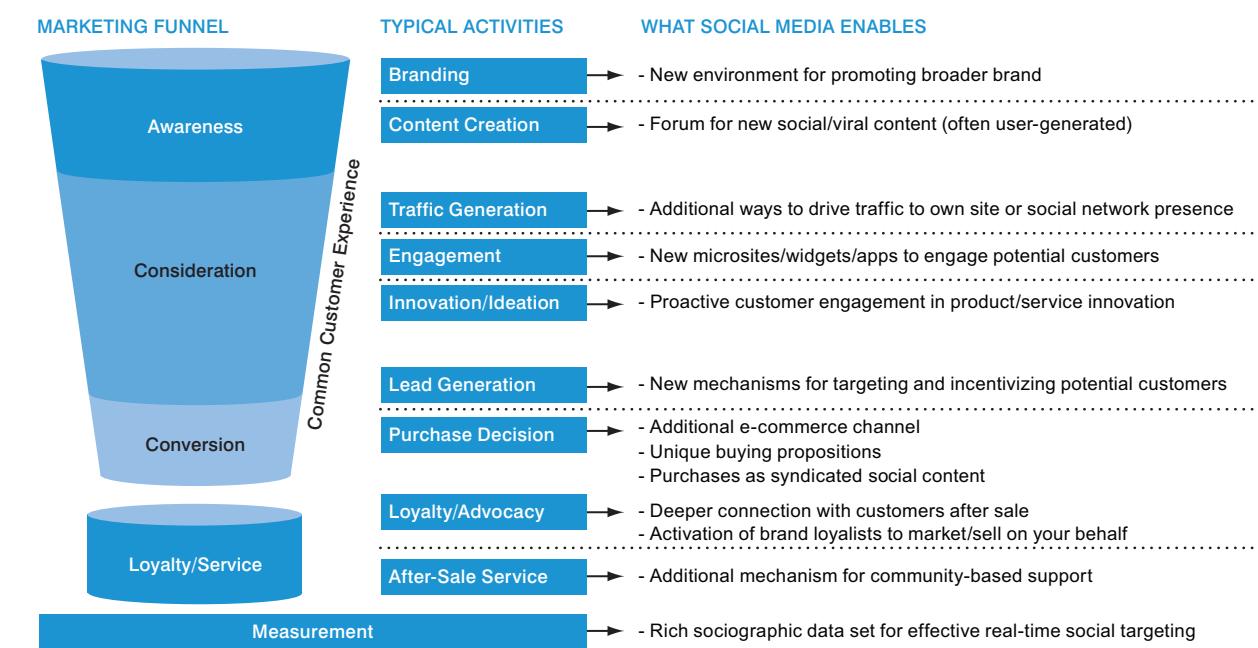
Companies see opportunities to use social commerce at every moment along the path to purchase—awareness, consideration, conversion, and loyalty and service—and also to measure the success of their efforts.

Awareness

To date, most companies' social commerce activities have focused on branding and user-generated content in support of existing marketing initiatives. This is the topmost part of the marketing funnel—the level of simple awareness—and it would be hard to find a sizable B2C company anywhere in the world that isn't

doing anything at all in this area (*see Exhibit 2*). Many companies in China are in some way using or planning to use Tencent QQ (Facebook is still prohibited by government authorities) to create awareness of their products; most Brazilian companies are looking for ways to use Orkut, a social networking service operated by Google. In the U.S., many companies are past the looking stage; as of the end of 2009, approximately 69 percent of U.S. retailers had social network pages, 54 percent used microblogging sites such as Twitter, and 58 percent published customer ratings and reviews.⁶ Most of this

Exhibit 2
Typical Social Activities in Each Stage of Marketing Funnel



Source: Booz & Company

early activity, however, has been decentralized and uncoordinated, making it impossible for companies to accurately assess their ROI from these efforts.

At least for the moment, awareness seems to have limited value in actually spurring social commerce. In Booz & Company's 2010 survey, 71 percent of social networking users said their "liking" a company on Facebook would have no impact on their propensity to buy from that company.

Social commerce will almost certainly have the biggest impact at the lower end of the funnel, in the consideration, conversion, and loyalty and service stages. These are areas where it is possible to establish clear metrics—including conversion rates,

incremental revenue, and repeat business—and thus more accurately measure ROI. The key for companies will be understanding how to use social media in each of these stages.

Consideration

Many companies have already started efforts in the area of consideration, mainly in the form of applications that entice customers to leave the social network site and move to the companies' own websites. Companies can and should do more in the consideration stage, principally in two areas: generating leads and generating new ideas.

Leads can be enhanced significantly by developing new mechanisms for targeting, data gathering, and motivating potential customers. For instance, Starbucks used a Chinese

social network called iPartment to promote the opening of a new retail location in Shanghai. Through the promotion, the site's users, mostly affluent Chinese women creating virtual apartments, entered contests and sent coupons for free Starbucks products to their connections.

Savings.com also put a social spin on the age-old coupon concept. The coupons it posts to its site are voted up, commented on, or shared via Twitter, Facebook, Digg, Reddit, Delicious, or plain old e-mail.

Generation of new ideas can be enhanced through the use of communities. Dell's IdeaStorm has been particularly effective at eliciting ideas from users—what might, in this context, be called social ideation. Thousands of ideas have been sub-

Social commerce will have the biggest impact in the consideration, conversion, and loyalty and service stages of the client relationship.

mitted through the site, and several hundred have been implemented. The well of ideas is more reliable because it originates with customers.

Conversion

This is where social commerce will have its biggest impact—providing unique buying propositions for customers and new touch points for companies.

Group buying and group gifting are good examples of new buying propositions. Social platforms can conveniently bring together family and friends to contribute to a gift for a specified recipient. Facebook applications such as TheBigGift.net and websites such as eDivvy.com provide a simple platform for users to set up group gifting and handle the logistics of collecting money, sending reminders, and sending the gift.

Social shopping is another example of a unique buying proposition and is particularly relevant for fashion-related products. A study published by eMarketer.com showed that 81 percent of teenage girls use their friends and peers as a source of trend information and 45 percent seek the opinions of those same groups when purchasing clothing or footwear.⁷

Wet Seal, a popular retailer serving teen girls, has developed a virtual

runway where site visitors can put together outfits to share with their friends or to present to the community to be voted on. A pair of friends shopping at Wet Seal can use a service powered by Sesh.com to view the same product pages, chat in real time, and use a drawing tool to notate or highlight products they are considering.

Social commerce is also ideal for facilitating conversion in other areas. Take the example of music concerts, which for many urban consumers are a popular way to spend time. Many fans would be more likely to attend an event if they knew their friends would accompany them, and if the process of inviting friends and buying tickets jointly were more seamless. A site called Eventbrite allows for just that sort of group planning through Twitter and Facebook. Eventbrite does not yet allow for sales directly through social media sites, but that may change.

Developments like group gifting, social shopping, and ticket buying provide a small glimpse of what is in store. They are the equivalent of Amazon selling its first book and eBay its first collectible in 1995. Much more is coming.

Loyalty and Service

After a sale, companies want to build

loyalty and give customers a chance to advocate on behalf of the brand. Social commerce introduces the possibility of multiple new touch points after a purchase. These touch points can have many benefits, including reducing churn.

For example, when a user “Likes” a brand on Facebook, he or she can become part of a community that receives special incentives, promotions, or early access to new products. And in the future, the “Like” button (notwithstanding its casual use today) could become the one-click way to join a loyalty card system. Social loyalty platforms will have the advantage of allowing customers to exchange points in a socially based marketplace.

Measurement

While ongoing measurement is not actually part of the marketing funnel, it is a critical way for companies to gauge the success of their initiatives. Social commerce will marry multiple types of data—purchase, behavioral, and demographic—to form socio-graphic data that tracks not only what individuals buy but what their friends buy. Sociographic data is collected in real time as customers browse, recommend, buy, and rate products. This gives companies the chance to influence behavior along the entire purchase path.

GETTING STARTED: FOUR IMPERATIVES

For most companies, social commerce represents a new channel, with much to learn and master. There are four imperatives that every company should keep in mind.

Imperative 1: Jump in soon and learn by doing. It is usually a good idea to study a new opportunity closely, but given the fast pace at which social commerce is evolving, companies must be willing to learn while doing. They should place some targeted bets, particularly in the areas of consideration, conversion, and loyalty and service. The ones that can do so should start an actual store in a social networking service where they're doing transactions. The ones that can't go that far should

fund an innovation group focusing on social media. Many companies don't have the expertise they need to design, test, and run social commerce projects and will need to add new capabilities.

Imperative 2: Develop a strategy for getting the data you need. What would a company most like to know about social media? Is it what the market is saying about the company itself and its competitors' brands and practices, or is it that a customer prospect is in the market and likely to buy in the next 24 hours? Companies should develop a "wish list" of information and then segment it by how hard it is to get. At that point, they can identify partners or vendors that can provide it. The key is to have an easy-to-use, flexible platform for collecting and using data. After all, the types and sources of data that companies need are likely to change quickly.

Imperative 3: Define what the customer experience should be. Companies should use tests, pilot

projects, and sociographic data to map out different social commerce strategies to get a sense of what their customers will see, how they will respond, and what they like best. Surveys and other forms of primary customer research can be instrumental in identifying needs and assessing how a company is viewed vis-à-vis its competitors. Together, this information can help determine what the customer base wants and how a social commerce strategy should evolve to deliver it.

Imperative 4: Integrate social commerce into an overall multi-channel strategy. As social commerce becomes a bigger part of the overall sales mix, it is important to understand its position in the company's broader multi-channel strategy, and in particular to determine the impact social commerce will have on other channels. It is especially important that the social channel not be treated as a one-off program, but rather be supported and integrated from both a resource and an organizational perspective.

Endnotes

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CONCLUSION

Now that social networking has become embedded in the fabric of everyday life for millions of consumers globally, companies are keen to find ways to leverage these online relationships for commercial gain. Social network sites promise to be the next generation of e-commerce engines and are moving rapidly in that direction. Marketers and strategists are smart to feel a sense of urgency in understanding and experimenting with direct commerce within these platforms; early movers will have a solid foundation on

which to build their social commerce capabilities as the platform evolves. As always, learning what doesn't work will be as important as learning what does.

Each step along the path to purchase—generating awareness, enticing customers to buy, and cultivating their loyalty—presents its own opportunities. Companies should be considering targeted efforts all along this path, while integrating social commerce as part of an overarching multi-channel strategy. Developing an integrated and comprehensive strategy for gathering customer data and mining it for insights, imagining new methods for customers to decide and buy together, and building a compelling customer experience will be essential to succeed in this new era of socially powered commerce.

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