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CRM in Social Media

Overview

Managing social media is delicate and often associated with a considerable amount of uncertainty. Unlike some of the more traditional (push) marketing channels, social media can only be controlled by the company to a limited degree. Rather, consumers process messages and experiences with a brand in public, creating and advancing a brand image that may or may not have been intended by the messenger. Consequently, social media platforms have developed into highly visible touchpoints with a brand driven, in large parts, by consumers themselves. The rapid growth paired with the lack of experience with and sound knowledge about the mechanisms of this medium have turned social media into a large gamble for many companies.

On the other hand, there has been substantial research about social media phenomena throughout the past 10 years, which can help guide CRM activities and structure the discussion. Company activities on social media may be complex, but not utterly unpredictable. Among the most interesting topics for researchers and practitioners has been the generation of word-of-mouth. Social media provides a means to quickly dissiminate and multiply opinions and experiences. If something goes «viral» it can easily reach audiences around the globe that would otherwise take huge advertising budgets to spread. Reaching positive word-of-mouth and avoiding negative word-of-mouth is thus among the key goals of firms' social media usage. Quantifying the effects of such activities remains difficult, however. Reaching some users may be more beneficial than reaching others. The measurement of marketing activities thus still puzzles many firms and researchers – especially so in the dynamic environment of social media. This is why we also lay emphasis on the topic of measuring the effectiveness of marketing activities on social media platforms.

In summary, this chapter provides a discussion on how CRM is being conducted on social media. This is done by first identifying how word-of-mouth on social media impacts brands. Specifically, we discuss the impact with respect to the intention to purchase and intention to retransmit messages. Once we see how brands can be influenced on social media, we then discuss how to evaluate the ROI of investing in social media channels. Then we look at the specific effect of social media on brand sales with respect to the entertainment industry. Finally, we look at how social media recommendations impact small businesses through the use of social coupons.

15.1 The Social Media Landscape

It is hard to imagine a time before social media. From a business standpoint, this phenomenon, originally conceived as a way to connect with friends, has evolved rapidly into a multibillion-dollar industry. From a social standpoint, it has metamorphosed into a ubiquitous method of sharing pertinent news and personal information, locally and around the globe. The Digital in 2017 Global Overview report places the number of global active social media users in January 2017 to be over 2.7 billion. This represents a 37 percent penetration globally, and has increased by more than 21 percent since January 2016. Similarly, the penetration of globally active mobile users is estimated at 34 percent, representing nearly 2.5 billion active users worldwide. This has witnessed a growth of over 30 percent since January 2016 (Kemp, 2017). In light of these revealing numbers, it would be safe to say that social media has fundamentally altered the marketing landscape, and continues to do so.

Whether on Instagram, Facebook, Twitter, LinkedIn, or any other social media networking site, the landscape of social media has become vast and multifaceted, to the degree that the business community now considers social media to be a necessary tool for generating and gathering information, connecting with customers, growing brand recognition and marketing new products. The Digital in 2017 Global Overview report estimated the total value of the global business-to-consumer (B2C) e-commerce in 2016 to be in excess of $1.9 trillion, and the average revenue per

user in the global B2C e-commerce in the same period to be over $1100 (Kemp, 2017). This indicates the critical role played by social media in driving business around the world.

Social media allows consumers to create user generated content (UGC) which enables them to connect with businesses and other consumers. Consumers are no longer passive recipients of marketing messages, but are actively engaging with firms they buy from, as well as other consumers sharing their own insights from their personal experiences (Chu & Kim, 2011). As of June 2017, Facebook, for example, had 1.23 billion users logging on daily – a 9 percent increase from the previous year. This is an inarguably large number. Consider, for a moment, the population of the world of approximately 7.5 billion people. Now consider that only 16 percent of the world's populations has access to internet, of which 14 percent is using Facebook.

So what does this mean in the context of business? It means five new profiles – of a business' potential customers – are created on Facebook every second. It means 300 million photos – of potential services or products provided by firms – are uploaded daily. It means the «like» and «share» buttons – of potential products and services – are viewed across nearly 10 million websites daily. And it means 42 percent of those marketing for businesses assert Facebook is crucial to their business survival. Consider how when working across social media sites, the impact each social media site may have on a business. When all of the log-ins, photo uploads, content sharing and advertising activity is combined and measured from the nearly one hundred domestic and international social media networks and their billions of daily users, it is easy to understand the importance of social media, its influence on the modern world, and why its activity is important to a business' success and failure.

Consumers engage in a range of online activities, including product discovery and recommendation, organizing and participating in discussions, and information sharing. To make sense of all these social media activities, it would be helpful to group them into five broad buckets – Online Interaction, Collaboration, Multimedia, Entertainment, and Reviews. Online Interaction includes social media avenues such as blogs, micro-blogs and social networking websites (e.g., LinkedIn, WordPress, MySpace and Twitter). For purposes of collaboration, typical avenues include Wikis, social bookmarking, and social news (e.g., Digg and Wikipedia). Multimedia functions are typically used in activities such as photo/video sharing, live-casting, and producing online experiences on networks (e.g., Instagram, Snapchat, Skype and YouTube). Entertainment avenues produce virtual worlds and online gaming, such as World of War Craft and Second Life. And finally, reviews on social media sites typically include consumer forums that contain question and answer sections, product and firm overviews, and the ability to rate and recommend experiences to other users. Of course, the ones listed here are only the popular functions of social media portals. Many niche social media applications and portals exist that are popular among the respective user communities.

Across the social media landscape examples, users experience a perceived utility of what the scope of social media networks offer them. The longer users engage on social media, they develop a need to share mentality, which generates usage across a variety of social media platforms in varied and unique mechanisms, therefore continuing the cycle of embedding social media usage into the cultural fabric. There is ample managerial evidence that consumer activities on social media influence purchase decisions of other consumers. For example, a recent study by ODM group found that 74 percent of consumers rely on social networks to guide purchase decisions (Beese, 2011), 43 percent of social media users purchase a product after sharing it on Pinterest, Facebook or Twitter (Vision Critical, 2013) and 58 percent of IT decision-makers use social media to learn from trustworthy peers (Maddox, 2013).

When businesses tap into the social media landscape, they can immediately access a customer base, who is willing to dialogue about products and services, and may already be doing so. Through the social media landscape, firms can begin to measure, build and track product and brand performance, sell, highlight and market products to specific audiences, as well as directly and poignantly plug in to interactions with customers. But how do these elements come together?

15.2 How Do Word of Mouth on Social Media Impact Brands?

Industry studies report that on average, 3.8 billion daily conversations take place that involve a brand (Keller & Fay, 2012), and marketing managers

continue to invest in multiple ways to influence and understand consumer word-of-mouth patterns (Berger & Schwartz, 2011). To better understand the consequences of online WOM on brands, a recent study investigated which types of WOM conversations are more or less likely to stimulate consumers' intention to buy the brand or retransmit the received WOM conversation to others (Baker, Donthu, & Kumar, 2016). The study was focused at the individual WOM conversation level, within each WOM conversation, where valence of the brand sentiment, the channel of the conversation's occurrence, and the strength of the social relations between those in the conversation was captured.

At the aggregate-level, WOM analysis tends to assume that consumer impact of WOM is equal across WOM. Therefore, researchers have called for disaggregated analysis to test for different outcomes. This study complemented other research (e.g. Berger & Iyengar, 2013) in demonstrating the asynchronicity of offline communication channels and why people are more likely to talk about interesting brands online than offline. The study also explains why the richness of an offline conversation may increase a recipient's clarity of the WOM message, which may increase their willingness to retransmit. When we consider how a WOM episode from one consumer can subsequently influence other consumers' behavior through retransmission activities, it becomes even less clear whether negative word-of-mouth (NWOM) or positive word-of-mouth (PWOM) truly has asymmetric influence.

For example, when a person experiences a positive or negative interaction – with a service, or product – it is common to share the experience with others in personal and professional networks. On social media, it is not only easier for customers to share, but it is also expected for daily users to endorse, denounce, and review their experiences with brands and firms. The influence of WOM, its purchases and retransmissions, can have a direct correlation to a firm's return on investment (ROI). This cycles forward to predict brand sales and future purchases, which then loops back around to again influence WOM.

15.2.1　Influence of WOM Conversations on Brands

The influence of WOM can have a tremendous effect on a brand's cache. To analyze this influence,

Baker et al., (2016) analyzed nearly 186,775 conversations pertaining to over 800 brands during July 2006 and March 2010 through the TalkTrack proprietary database.

WOM conversations about brands begin with indirect variables. A WOM giver will transmit information to a WOM receiver through certain properties pertaining to the conversation and the brand. The degree of strength of the social tie between the giver and receiver will determine how information is received. A strong social tie would typically be a spouse or partner, family member or friend. A weak social tie would typically be a co-worker, acquaintance or stranger. WOM can flow through both strong and weak social ties, but in different ways with different degrees of impact. In a WOM instance, whereas the properties of a conversation include the WOM channel, social tie strength and WOM valence, the properties of the brand include brand equity, the level at which people would tend to find the brand interesting or uninteresting to talk about with others, among others.

Exchanging conversation content through WOM, includes neutral WOM conversations, which typically contain strictly informational content about a brand. Mixed WOM includes brand sentiment with both positive and negative elements. The WOM valence is the primary influence on purchase and retransmission intentions, derived from the conversation flow from givers and receivers and how emphatic, neutral or mixed the review is. Most brand conversations are positive, and lead to either PWOM or NWOM. Through offline channels, strong social ties demonstrate the highest percentages of social tie valence in outputs of positive, mixed, neutral and negative WOM transmissions. In online channels, strong social ties also output the highest percentage of WOM valence, but the effect is overwhelmingly smaller. Offline channels and face-to-face exchanges of WOM will have a greater impact than online WOM exchanges through both strong and weak social ties.

In this study, the positive WOM exchanges were found to have a greater absolute effect on retransmission intentions. The ratio of PWOM to NWOM is approximately 7.16 to 1, meaning PWOM about a brand is more likely to be retransmitted than NWOM. Positive experiences, therefore, are more likely to be shared across online and offline channels. This information contradicts what many managers believe about positive and negative

WOM. However, NWOM will have a greater effect on purchase intensions than PWOM. That means NWOM may prevent a customer from purchasing, while PWOM will be more frequently discussed, rapidly transmitted at a greater rate, and this may lead to future purchases. The benefits of WOM on brands is that with strong social elements, and those that stimulate emotional responses, tend to be shielded somewhat from the adverse impact that NWOM may have on purchase intentions. Brands with high brand equity disproportionately benefit from WOM because of greater resulting purchase intentions. The more interesting brands disproportionately benefit from WOM by avoiding the propagation of NWOM.

15.2.2 Implications for Marketers

Because WOM conversation properties tend to have different relationships with purchase and retransmission intentions, brand managers should carefully consider the types of WOM are most relevant depending on the immediate WOM objectives, or driving immediate purchases, or influencing the spread of additional WOM. Marketers might want to find ways to mitigate the occurrence of mixed WOM conversations if the goal is to immediately influence purchases. Marketers might also want to encourage mixed WOM if the primary goal is to stimulate more WOM conversation transmissions. Marketing managers concerned with designing WOM marketing campaigns should know that WOM marketing is commonly discussed and frequently practiced in the context of eWOM (e.g., social media sharing, posting consumer-generated content). Stimulating consumer engagement is recognized as an important metric of such campaigns. For example, on the annual Word of Mouth Marketing Association's awards is the Engagement Award. It is beneficial for marketers to carefully consider how to implement WOM marketing that is designed to translate online sharing that will travel offline and promote engaging conversations. This is the best platform where the influence on intentions to purchase and retransmit is the most pronounced. WOM therefore can impact the customer's desired usage of a product or service, and possibly increase the usage of a product or service by other customers simply through sharing their experiences. Now

that we know WOM can spread and influence users of social media, let us examine how it can be used in a marketing campaign.

15.3 Measuring the Return of Investment of Social Media

With so many people worldwide participating in online social networks, influencing consumer preferences and purchase decisions through these networks and generating positive WOM is increasingly important for every marketer. Many enterprises are investing in social channels to create their brand through viral content, social media contests, and other engagement efforts. Their traditional campaigns are changing, too. Companies like Geico, Dell and eBay are adapting the traditional one-way advertising message and using it as a stepping stone to begin a dialogue with customers. Effectively building campaigns with social media strategies can develop opportunities for businesses to reap a healthy return on investment (ROI). So how can companies do this?

A recent study found that by identifying social media users who are both influential and using them in marketing campaigns, companies can improve their ROI on social media campaigns (Kumar, Bhaskaran, Mirchandani, & Shah, 2013). Specifically, this study answered four key questions:

- How can an individual's influence be captured in monetary terms in a social network?
- Is it possible to quantify the intangible benefits to the brand generated through the halo effect of influencers in the social media?
- What is the impact of an influential individual on social media on the company's bottom line, in monetary terms (i.e., profit), and in subsequent sales generated?
- Can the intangible effect and monetary impact of a customer's influence be predicted ahead of time so that the firm can use these influencers to generate a profitable buzz in the future?

15.3.1 Measuring the Influence of a Social Media User

To answer these questions, the study developed two key metrics. First, the customer influence effect (CIE) metric, defined as *the net influence*

wielded by a user (in a social network) in terms of his or her ability to spread positive or negative WOM through his or her direct and indirect connections, was developed to measure the influence of an individual in a social network. The CIE is determined by taking into consideration three essential components regarding a WOM instance. They are: (a) whether there is a connection between two users, (b) if there is, was the receiver aware of the WOM message being spread? (c) If yes, did the receiver spread the message to other users? In other words, CIE refers to the net spread of an instance of WOM attributable to an individual user in a (social) network. The CIE is also dependent on data pertaining to the user, the type of network in which the communication occurs, the contents of the message, and how much the message appeals to the user for it to spread.

Second, to link the influence of an individual to the monetary value contributed, the customer influencer value (CIV) metric was developed. The CIV metric is defined as *the monetary gain/loss realized by the firm that is attributable to a customer's influence effect*. To compute the CIV, the store-level sales were integrated with the corresponding social network, message and influencer social graph through tracking tags and dynamically generated coupon codes. The monetary value attributed to an individual whose influence resulted in sales for a set of customers is used to compute the CIV. Subsequently, the drivers of influential behavior in a social network (i.e., network and WOM characteristics, and purchase characteristics) were identified.

15.3.2   What Drives the Influencers?

Businesses can use the drivers of influential social media behavior to locate all the influencers throughout the desired social media platforms so that the brand, product, or service can be communicated to have the maximum reach. The study found some of the drivers of influence to be:

- Activeness compatibility, or the number of times the influencer and their network friends «see and share» a message.
- Host clout, or the number of user connections and number of users «following» an influencer.
- Talkativeness of receiver, or how often the influencer's message is retweeted and «hashtagged».

- Generosity, or the like-mindedness and similarities shared by the influencer with their network friends.

Identification of such drivers enables companies to move beyond simply «listening» to conversations on social media platforms, to actively engaging in the identification of brand ambassadors.

15.3.3   Creating a Successful Social Media Campaign

When implemented correctly, social media strategies can drive profit from positive WOM. This can be achieved by a clear 'call-to-action' that encourages users to engage in a behavior such as clicking the 'Like' button, or sharing (re-tweeting) the posts. Kumar and Mirchandani (2012) suggest that a seven-step framework will help identify and recruit influencers (individuals who are influential on social media) so that businesses can promote social media WOM about their product or service (see ◨ Fig. 15.1).

Step 1: Monitor the Conversations

Businesses must monitor and capture relevant social media conversational exchanges by customers and analyze them with respect to the context to glean information on customer behavior, customer influence and brand awareness. They should also make sure that they do not violate any rules and regulations in the process of monitoring, capturing and analyzing conversations.

Step 2: Identify Influential Individuals Who Can Spread Messages

After monitoring and recognizing the conversations, businesses should identity the «right» individuals who engage in these conversations. This can be achieved by identifying the specific factors that make the individual the right candidate to spread the message.

Step 3: Identify the Factors Shared by Influential Individuals

After identifying the «right» individuals (we refer to them as «influencers»), businesses should determine the common factors among them to create «influencer» profiles. Such forms of user profiles allow businesses to identify all the influencers, and design ways to encourage them to talk about
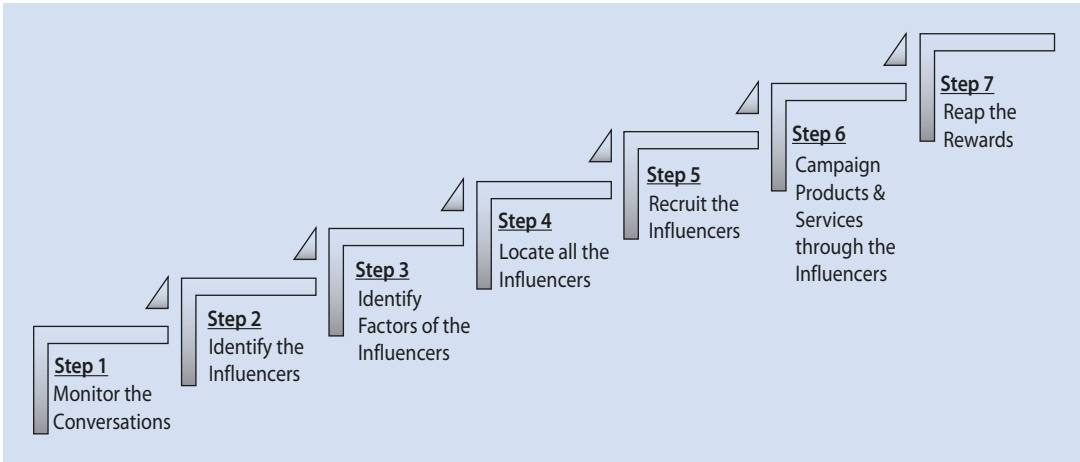
Fig. 15.1 Seven-step influencing framework (*Source*: Kumar & Mirchandani, 2012)

the products/services. «Influencers» are seen to exhibit heavy social engagement in three aspects – (a) Message spread (the number of times a message is forwarded by the receivers), (b) Influence (the number of times the message is forwarded to their friends), and (c) Social Impact (the number of comments/replies received for each message).

Step 4: Locate the Relevant Potential Influencers

Businesses can use the drivers to locate all the influencers throughout the desired social media platforms so that the brand/product/service can be communicated to have the maximum reach. Identifying these drivers call for a careful analysis of each type and instance of the WOM and how it spreads that can be used to locate all the influencers.

Step 5: Recruit the Influencers for the Campaign

Businesses must enlist the influencers in the social media campaign(s) to spread positive WOM. Recruitment of such influencers is possible by providing users ways to interact online and spread positive WOM that can be tracked and measured (e.g., survey and online games).

Step 6: Incentivize those Influencers to Spread Positive WOM

The next step is to engage the influencers to spread positive WOM and this can be done by incentivizing the influencers. The incentivized diffusion of positive WOM can help businesses retain customers, attract prospects, and further identify poten-

tial brand ambassadors. Businesses can choose to offer tangible, intangible or a combination of them for the incentives.

Step 7: Reap the Rewards from the Social Media Campaigns

Following the above prescribed steps will enable businesses to measure effectiveness of their social media campaigns with more accuracy than before. Associating conversations and positive WOM to brand recognition and product sales will result in businesses seeing a quantifiable increase in financial performance, increased customer engagement and stronger brand awareness.

15.3.4 Social Media Performance at Hokey Pokey

When each of the following aspects are utilized at the firm and customer level – social media ROI, brand and customer-level metrics, customer influence effect (CIE) and customer influencer value (CIV) – they factor into the business impact. When an Indian ice cream business Hokey Pokey launched a social media campaign to connect with customers and grow its presence on social media, it was somewhat unprecedented in India.

Over a period of 6 months, the social media environment was examined in the city where Hokey Pokey had the most outlets and potential for generating and influencing purchase decisions. Kumar et al., (2013) monitored 825,091 conversations involving 1736 individuals across

various social networking sites on Hokey Pokey, and identified influential individuals in the local market who could spread Hokey Pokey's messages based on three parameters: Number of times an individual's messages were forwarded by recipients; number of connections that those messages jumped; and the number of comments and replies the users received for each message.

Based on these characteristics and the ease of data collection, the study zeroed in on Facebook and Twitter as suitable platforms for this study. To help increase WOM, the study implemented strategies to engage customers, «Creations on the Wall» and «Share Your Brownies.» These two stages of the campaign encouraged the influencer recruited for the campaign to make custom ice-cream creation at any of the Hokey Pokey parlors, identify themselves with their creations and spread WOM via social media. Influencers could name their creations, pose with their creations, and customers coming into the parlor could browse the wall and purchase these creations or order from the regular menu. The «Share Your Brownies» section of the campaign was aimed at generating a viral spread of ice cream creations by allowing customers an opportunity to be personal with Hokey Pokey products. When customers tweeted their creations, they were incentivized with prizes, such as T-shirts. Each creation was shared with all the Hokey Pokey locations. When customers made purchases of the special creations, the influencers were given «Brownie Points,» which were also redeemable for prizes.

The campaign implementation at Hokey Pokey was effective at both the company and the customer level. At the company level, the main impact was in the area of social media accountability. While most companies are still grappling with social media accountability, the use of the CIE and CIV metrics gave Hokey Pokey an important competitive edge. Further, Hokey Pokey also had limited marketing resources to promote the business, yet they were determined to acquire and retain profitable customers and get the highest return possible on their investment. Hokey Pokey came up with a strategy to capitalize on social marketing, which allowed the company a platform to create a buzz about the store.

At the customer level, being able to calculate the value of an individual's influence in a network and measure the monetary value of customer influences made it possible for Hokey Pokey to

greatly enhance the efficacy of their social media campaign. In evaluating the performance of the framework, we benchmarked Hokey Pokey's revenue (based on ice cream sales) generated through Facebook and Twitter against the previous 16 months' performance metrics, including sales growth rate, ROI, number of positive and negative conversations, and number of repeat visits.

Over a period of about 15 months, Hokey Pokey's incremental revenue continued to climb, while campaign costs were kept low. Specifically, the study found that out of the total revenue generated from the «Share Your Brownies» campaign, about 23% was attributable to conversations on Twitter and about 80% was attributable to Facebook, with a 3% and 8% overlap between the two social networks. Profits with the campaign far exceeded what the store expected to earn if it had chosen not to participate in the social media campaign. As a result of the campaign on social media, Hokey Pokey realized increases of 40 percent in sales revenue growth rate, as well as an 83 percent increase in social media ROI and a 49 percent increase in brand awareness. In addition, the company saw a greater number of PWOM instances each week, an increase of sales related to custom creations, and increases of repeat customers making more than two purchases a week.

15.3.5   Implications for Developing Social Media Campaigns

The implementation at Hokey Pokey describes the application of these metrics in the case of an offline retailer (localized setting and small business). The same strategy can be extended to online retailers also. Several social media networks like Facebook, Twitter and Google + to name a few have implemented seamless sign-in so that online retailers can allow their customers to sign-in using social media accounts, which makes tracking conversations easier. However, despite the vast amount of individual and relationship data available through these media, organizations have been unable to directly and efficiently measure the effectiveness of their social media strategy using tangible metrics.

Social media has both tangible and intangible values. The Hokey Pokey implementation clearly reveals a methodology to simultaneously measure the spread of influence and the impact of social media conversations. It also provided a way to

15

convert abstract social media measures into monetary gains that can be easily understood by businesses. For the first time, social media marketers have a tool that can be readily implemented as social platforms evolve towards openness. The CIE and CIV measures presented arms chief marketing officers (CMOs) with new metrics that can be used to communicate concrete business and monetary gains to the board room compared to former intangible measures like engagements and hits. It is therefore clear that the value gains posted by Hokey Pokey were impressive. Given that one brand benefitted significantly from a social media marketing campaign, can social media help multiple brands?

15.4 Impact of Social Media on Brand Sales in Entertainment

When examining brands and marketing trends, the music industry is both economically important and culturally relevant. The industry is comprised of music artists (brands) offering their music (products) to listeners (consumers). Social media interactions have a significant influence on a consumer's listening and purchasing habits. On Twitter, seven of the top ten accounts on Twitter are musicians. Consider the music industry in the United States from the standpoint of the prominence and ubiquity of its entertainers. Across new and established entertainers, many (if not most) of these entertainers have social media networks as a tool to connect with fans and followers, and potential consumers of their brand and products. In the music industry, social media activities such as sampling, following and commenting may influence brand sales.

Recently, the phenomenon of how consumers engage with brands on social media and how it influences their purchase process was studied by Saboo, Kumar, and Ramani (2016). Specifically, the study aimed to investigate the inter-relationship between social media behaviors and their impact on music sales.

Drawing on two theoretical foundations – the social identity theory (SIT) and the brand attachment theory – this study provided arguments for the consumer-brand interaction. The SIT suggests the self-concept comprised a personal identity that relates to the idiosyncratic personality attributes that are not share by others. A social iden-

tity is derived from knowledge of memberships to different social groups or organizations. Social identity relates to the identification with a group and predicates on the desire for self-definition, identification with an individual is argued to be predicated on the desire to appease, emulate or vicariously gain the qualities of others. A person may identify with a group because their identity is similar to their own. SIT has been used in marketing to explain brand communities, such as Harley Owners Groups, where members engage in collective behaviors to showcase their favorite brands.

Human brands, similarly, make consumers feel appreciated, empowered, and autonomous, and beget strong emotional attachments with their consumers. The consumer-brand emotional attachment creates an environment where groups collect and evolve and create a social identification for the individual. Human brands are the loci for group-level identification, and can been seen interacting on social media, official websites, forums and other sites. On Facebook alone, a typical Katy Perry post generates over 400,000 likes, 6000 comments and 3000 re-shares, reaching millions of users. These two theories formed the theoretical backdrop to understand the relationship between social media interaction and human brands.

Using the Billboard Hot 100 Chart, data was analyzed over a 73-week period containing 36 music artists. Social media metrics were obtained from the artists to see how their social media campaigns allowed them to meet a threshold of popularity on the Billboard charts, which included radio and streaming activity, as well as weekly sales. The data on the social media activities that were collected included: *(a) the number of times music is played from a brand's (artist's) social media web page (referred to as SPLAYS), (b) the number of people who publicly Like, Follow, or Subscribe to the brand on a social media website in a given period (referred to as SFANS), and (c) the number of online comments posted on the social media web page of an artist in a given period (referred to as SWOM).* For the three social media activities, the study advanced hypotheses that were empirically tested.

The modeling framework for relationships between social media attributes and brand sales is comprised of plays, fans and WOM. Plays is defined as the number of views or visits to an

artist's media page. Fans is the number of people who «Like,» «Follow,» or «Subscribe,» to an artist. And WOM is the number of comments posted on an artist's social media page. The control variables would be the number of days since the last track or album was released by the artist, as well as the total number of albums released the artist since the start of their career. The effect of these social media attributes can categorically raise an artist's brand awareness and sales. A social sampling of Plays, combined with followers (Fans), and comments (WOM) reinforce one another, such that the increase in one of the social media activities positively influence the other. An increase in brand sales, which typically accompanies an increase in awareness, has a positive influence on all three activities. An increase in the number of albums by the artist increases the odds of new consumers becoming aware of the artist or energizes existing fans thereby, increasing the likelihood of following or commenting on the artist's social media websites. So the value of sampling decreases at a decreasing rate by reducing the consumer's willingness to pay for the original, which then reduces overall sales. A social following has a positive effect on brand sales, and the attractiveness of a brand increases as the number of consumers following a brand also increases. Finally, the value of social WOM increases at a decreasing rate when the positive relationship between social WOM and brand sales diminish at higher levels, thus becoming negative.

Based on the analyses, the findings suggest that (a) the sampling of music reduces the appeal of the original, and reduces the overall sales, especially for digital goods such as music, (b) social following has a positive effect on brand sales, and (c) it is important to encourage participation on social media websites rather than focusing only on the number of followers.

The implications of this study for the industry is pertinent. For instance, this study demonstrated that artists should carefully evaluate the benefits of sampling (concert attendance, merchandise sales, radio playtime, and so on) against lost sales. Further, brand managers should focus their energies on engaging their existing followers and striking the right level of consumer engagement. Brands need to keep refreshing their portfolios by introducing new offerings while effectively managing their social media activity. Additionally,

while product sampling literature highlights that sampling can produce measurable long-term effects on sales, this study showed that such effects are not universal. Now that we know social media is a powerful way to promote a brand and engage with customers, let us examine a common social media marketing method that may not be as beneficial to a firm.

15.5   Social Coupons

Coupons, discounts and sale windows have long been a part of the American culture, which prides itself on participating in cost-leadership purchasing models. In a digital and social media format, sale scavenging and couponing isn't much different. Consumers bargain hunt for the best deal on websites featuring discounted gift certificates that are usable at local or national retail outlets. Groupon, Living Social, and Snapdeal are all online leaders in social couponing. These websites are popular because they provide savings opportunities ranging from 50 to 90 percent, while provide a price-reduction incentive to try products and services they might normally be hesitant to purchase. Consumers pay for the coupon before redeeming the product or service, and businesses offering the coupon pay the service provider (Groupon, for example) nearly 50 percent of the revenue generated from the redeemed coupons. This provides the business an opportunity to acquire and retain customers and potentially increase profit.

Despite the popularity, social coupon offers have resulted in financial losses for several businesses offering them and/or angering existing customers. Given all the attention that social coupons are receiving (and too much attention, in some cases), several questions arise. Are social coupons helping or hurting the small and medium businesses? Are social coupons profitable for the businesses offering them? Can a tool that enables businesses to acquire and retain more customers *also* nurture profits? Or, is there something fundamentally wrong with the current business model of social coupons and if so, how can they be fixed?

To answer these questions, it is important to consider customer acquisition and retention (the two key outcomes of a social coupon campaign) from a customer management viewpoint. When

making decisions about allocating resources for marketing efforts, it is common for businesses to target customers who are inexpensive (easier) to acquire and inexpensive (easier) to retain. Such decision making have been shown to overemphasize the short-term gain of acquiring and retaining low value customers, over targeting customers who are going to be most profitable in the long run (Thomas, Reinartz, & Kumar, 2004). In addition, by focusing on either short-term acquisition or retention, businesses fail to look at the bigger picture of balancing acquisition and retention together.

Since businesses are presented with the option of launching social coupons as an easy and fast way to acquire and retain customers, they are often quick to seize the opportunity and launch a social coupon. And making such easy-way-out decisions makes businesses shortsighted in terms of customer acquisition, retention and profitability. Therefore, it is important to ascertain the viability of social coupons as a strategy to aid businesses on customer acquisition, customer retention and increased profitability.

Research has shown that social coupons in their current form are not ideally suited to ensure customer acquisition and yield profits for the businesses (Kumar & Rajan, 2012a). Specifically, this research answered the following questions:

- Are social coupons profitable for businesses?
- What factors lead to a more (or less) profitable social coupon launch?
- How can businesses strategically manage the factors to maximize social coupon profitability?

The evidence suggests that to prevent social coupons from cannibalizing regular profits, businesses can and should make adjustments to the nature of the deal to influence the profitability of social coupons.

15.5.1 What Happens When Social Coupons Are Launched?

Kumar and Rajan (2012a) analyzed the social coupon launches of an ethnic restaurant, a car wash service, and a beauty salon and tracked their subsequent performance for the next 12 months to ascertain the effectiveness of social coupons in customer acquisition, customer retention and generating incremental profits. The study determined whether the social coupon campaign resulted in growing profits, what factors worked for/against the businesses in acquiring and retaining customers, and the changes required to the social coupon format to ensure profitability. Each of the three businesses operated within a five-mile radius and relied heavily on social coupons to attract new customers. Based on a one-year performance of the respective campaigns, the study forecast the future performance of social coupons to help gauge the long-term business effects of the campaigns (see ■ Fig. 15.2).

With respect to the retention rates of new customers for each of the businesses, all three businesses had a retention rate of 70%. However, there were minor variations in the way the businesses retained the new customers. In effect, the study found that:

- The ethnic restaurant will not have any new customers to retain in Month 19 (assuming the coupon was launched in Month 1), and therefore have to, if at all possible, recover the shortfall in profits by Month 18.
- The car wash business will have 140 new customers that availed the coupon visit them every month.
- The beauty salon will have 31 new customers that availed the coupon visit them every month.

Based on the retention rates of the new customers and the business generated by them, the study then computed the time each business would take to recover the shortfall in profits incurred during the coupon launch. The results indicated that:

- The restaurant will be able to recover only $1164 or 12% of the shortfall in profits.
- The car wash business will be able to recover the shortfall in profits between Month 15 and Month 16. Consequently, any revenue and profit generated after Month 16 is pure profit for the business and can be directly attributed to the acquisition of new customers.
- The beauty salon will be able to recover the shortfall in profits between Months 98 and 99. Therefore, from Month 99 onward the business can start to see incremental revenue generation from the launch of the social coupon.
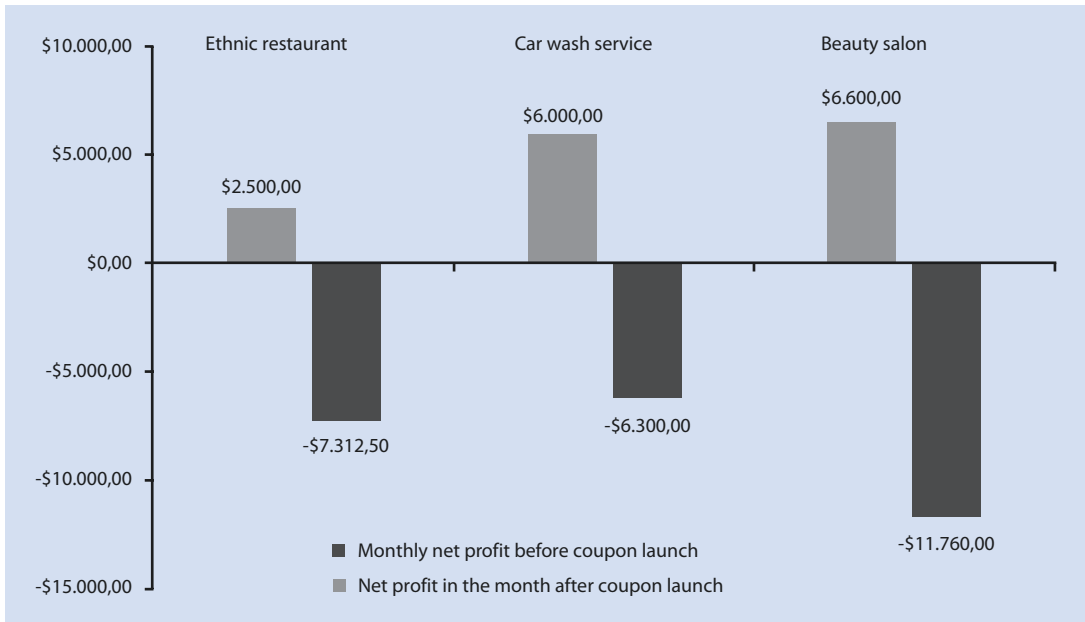
These results highlight the inadequacy of social coupons in serving the short- and long-term objectives of the businesses. First, the significant losses after the coupon launch created a huge financial burden on the businesses. This was a major setback to the financial health of the businesses. Second, despite their best marketing efforts, the businesses were not able to retain any of the new customers that visited them. As a result, their progress of recovering the profit shortfall was greatly reduced or, in the case of the ethnic restaurant, even cut short. Finally, the dismal results of the campaigns discouraged the businesses from considering any further coupon launches until they recovered the shortfall in profits.

While the social coupon model may seem attractive to businesses, often small business profits will decrease from participating in this model alone. What actually happens to the business is that by providing deep discounts to the consumers and experiencing higher redemption rates than it might through traditional coupons or free standing inserts (FSI), the business will pay a high amount to the social coupon service provider for carrying the coupon on its website, while not necessarily retaining any new customers. Those purchasing the coupons, therefore, may only be driven back to the service or product at the same rate or lower as the one purchased on the coupon.

15.5.2 How to Ensure Profitability in Social Coupon Campaigns?

On its own, social couponing may be a beneficial option for the consumer, as well as the social coupon provider, who benefits from the profits of the small businesses. But businesses participating in social couponing must use a greater scope of creativity if using social coupons to increase profits. Kumar and Rajan (2012b) present some general guidelines that can help businesses in identifying and avoiding the pitfalls of social coupon launches and ensure a profitable launch.

Customer Acquisition Does Not Always Lead to Profits

Businesses typically opt for social coupon launches to add new customers to their clientele. The three businesses we studied were no exception. Such a philosophy does not always lead to profits. Our analyses have revealed that for every new customer visiting the business due to the coupon launch, the business incurs additional shortfall in profits. This surprising result is because even though new customers account toward an increase in the customer base, the loss incurred by the business in «acquiring» them (through offering deep discounts and a share in revenue to

the coupon service provider) far outweighs the benefits of having them.

However, businesses have the opportunity to mitigate this negative effect. One way to achieve this would be to up-sell and/or cross-sell other products/services during a customer visit. If businesses manage to increase the revenue contributed by a new customer by charging them full prices on the other items, then they could potentially reduce the shortfall in profits or even prevent it. But, not all businesses can up-sell/cross-sell their offerings. In fact, despite extra marketing efforts the three businesses we worked with were not able to successfully up-sell/cross-sell that could make the customer visit profitable. This is because the customer buying the coupon does so for a specific purpose and redeems it only for that product. However, there may be other businesses that could possibly cross-sell some of their other services to the customer and make the customer's visit a profitable one. For instance, a business providing roofing services can cross-sell its gutter installation and cleaning services. Similarly, a massage studio can cross-sell some of its health and wellness products to all its customers. In this regard, the decision to launch a social coupon is likely to be viewed as part of a broader business strategy than as a specific marketing tactic.

Deep Discounts Could Become Dearer to Businesses

The attraction of social coupons is largely in the deep discounts they provide to consumers. While the low price could be viewed as an incentive for customers to try out the product/service offerings, eventually the new customers will expect to pay the same low price as they continue to transact with the business. As a result, any increase in the price is likely to be viewed by the new customers as a reason to take their business elsewhere. After all, no one would be willing to pay a higher price for the same product/service. In effect, with several businesses across many industries taking to social coupons the high level of discounts tends to make consumers deal-prone and buy items only through social coupons. The deal-seeking behavior conditions consumers to buy items only when they are on deals, reduces their switching costs and possibly disengages them from the business – all having significant negative effects on customer loyalty. Further, the high redemption rates of social coupons (compared to traditional

coupons) in combination with the deep discounts can hurt the financial performance of businesses. Therefore, it is important for businesses to understand that aiming to acquire customers by providing huge discounts is not likely to be a sustainable proposition.

To prevent or reduce the losses from a coupon launch, it is imperative that businesses revisit the existing setup of social coupons and change the discount structure. One way to do this is to launch a coupon that would be valid only on lean business days. Most service oriented businesses would encounter Fridays and the weekends as their busiest part of their work week and Tuesdays and Wednesdays as their lean days. Instead of offering coupons that can be redeemed at any day of the week, businesses should consider launching coupons that are valid on only their lean business days. This would not only keep the customer acquisition efforts going, but also ensure that the businesses do not incur losses during their busiest time of the week. For instance, the ethnic restaurant that we corresponded with is now offering dinner buffets at a 30% discount (down from a 50% discount) only on Tuesdays and Wednesdays, as these 2 days are their lean days. The initial results due to this change in coupon offerings have been promising for the restaurant.

Social Coupons Can Cannibalize Revenue from Existing Customers

Given that the primary motive of launching a social coupon is to attract new customers, businesses would not want their existing customers to avail the coupon. The reality, however, is far from this expectation. When existing customers also avail the social coupon, it presents a possibility of businesses cannibalizing their regular profits. By launching social coupons, businesses run the risk of inviting their existing customers to pay discounted prices for the same products/services they have been paying full prices. This not only cuts into the profitability of the businesses but also could encourage deal-seeking behavior among their existing customers.

For instance, a family-owned toy retail chain in Kansas City recently launched a social coupon that attracted nearly 3000 customers. After the launch of the coupon, the retailer observed that out of the 2000 coupons that were redeemed, many shoppers bought only the minimum worth of merchandise to redeem the offer, contrary to

the store's expectation that shoppers would pick up an extra toy car or doll once they walked into the store. After giving the share of revenue to the online coupon company, the retailer found that it lost money on about 75% of its coupon-related sales. Additionally, the retailer observed that roughly 90% of the coupons were redeemed by existing store customers (Ovide, 2011). While this is just one example, it does make a case for revisiting the structure of social coupons.

One way to circumvent the problem of existing customers redeeming the coupons is to target the social coupon only at prospects, and not at existing customers. When existing customers do not receive the social coupon, the subsequent savings in profit shortfall are significant. That way, businesses can ensure that the social coupons are used for the intended purpose – acquiring new customers and consequently retaining them. Some businesses have already recognized this facet and are offering social coupons only to new customers. When businesses keep track of new customers visiting them and focus such offers only at prospects, the chances of them acquiring new customers and improving profitably are greatly increased. However, the three businesses tracked in the study had not realized the negative impact of existing customers redeeming the coupons and therefore, and focused solely on efforts to popularize the coupon launch. They reasoned that with more customers signing up for the coupon, they would only profit from the increased customer visits. This is where the network effects of group buying had actually proved harmful for the businesses rather than helping them.

By changing the nature of the coupon deals, businesses can better control the number of new customers visiting them, the effect on profit margins of the discounted purchases, and the number of existing customers taking advantage of the offer.

Summary

In this chapter, we have examined the social media landscape and how social media can and does influence, and in some ways, drive the business world. This occurs not only for customers, who are buying products and services from firms, then sharing, liking and discussing them on global social media networks. Social media also behooves businesses, in that it allows firms to grow and manage their brand, directly interact with customers, as well as market new products and services to a targeted customer base. The influence of WOM, which is the essence of social media, has become paramount for businesses. It can both help and hurt sales and have an impact on a company's brand. Social media offers a variety of benefits for companies and can translate into a healthy ROI when used strategically. The chapter also discusses the evolution of social coupons for small businesses and the pitfalls that some businesses enter into when using the discounted product and service method on its own, without any cross-selling, or up-selling tactics in addition to the coupon. Social media is an inescapable aspect of operating a business in the present and future, but it must be recognized that there is a right way to engage on social media to grow a company's brand, build a wider, loyal customer base and increase future sales.

? International Perspectives: Did You Know?

1. The vast amount of information that users publish on social media can be translated into valuable insights if leveraged well. When British multinational banking and financial service provider Barclays launched its banking app PingIt that allows users to transfer money, it used sentiment metrics to analyze the valence and content of users' comments posted on social media. The diagnosis found a common pattern – many users were complaining about the inability to transfer money to people under the age of 18. On this insight, Barclays CRM-team could quickly react upon and improve the app. Thus, by sensibly leveraging information from social media, Barclays management unearthed valuable opportunities for improving their service (Harpham, 2016).

2. A prime example of a company that uses the power of social media to take its

CRM activities to new heights is Dutch Airline KLM. Following the eruption of Icelandic volcano Eyjafjallajökull in 2010 that brought about the largest air-traffic shut-down since WW2 affecting more than 10 million travelers, KLM turned to social media to handle the flood of customer requests. Since then, KLM has drastically increased the size of its social media team to handle customer inquiries on Facebook and Twitter. Today, KLM is one of the most active companies on social media, responding to more than 97% of questions with an average response time of less than 90 min (Socialbakers, 2016). A key philosophy of KLM's social CRM strategy is the one-stop shop: Instead of responding with generic answers and links to its main homepage, the social media team posts messages tailored to the specific request of the customer. In this way, customers can directly receive information e.g. on the conditions of their specific ticket, lost items and are even able to complete the entire booking process for a flight or upgrade simply by posting a message on KLM's social media sites. This allows KLM to delight their customers with a superior service experience and ensures that it does not lose customers in the depth of the internet (KLM, 2017).

❓ Exercise Questions

1. If you were a business owner, would you choose to participate in a social coupon discount? Why or Why not? How would you ensure your coupon offer did not result in financial hardship, or profit loss?

2. Why might a company like Hokey Pokey choose to market their products across social media networks, rather than traditional channels of advertising? Do you agree or disagree?

3. How important is it for a business to have a social media network account on Facebook, Twitter, Instagram, or another popular site? Would there ever be a time a business shouldn't utilize social media to market, manage their brand or attempt engage with customers?

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15