Social networks and E-commerce

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1   Abstract

Social networking has become popular and raised a controversial question on its profitability and future influences. This paper is to provide a general snapshot of social networking and discuss its pros and cons. A useful method judging whether or not a company should apply the technology is presented. It is suggested in this paper that social networking is not necessarily useless or a panacea, and only with careful judgments it can be wielded rationally.

2   Introduction

In October 2006, Google made its biggest buy in its 8-year history by offering USD 1.65 billion to Youtube. At the mean while, Facebook, Youtube, MySpace and many other social networking websites emerge and bloom in the Internet environment. The objective of this paper is to study how social networking sites bring added value to e-commerce and online advertising, and at the same time, detect why many famous E-enterprises are interested in them.

2.1   Changing realities in customer behavior and advertising

Customers nowadays are changing their behavior dramatically in line with the technologies and world business environment. They are getting great volume of information and product acquaintances, loosing trust towards advertisements, preferring product and service customization, changing their buying channels, etc. Therefore, survival business has to modify or even change their advertising strategies to cope with the changing realities of customer behavior.

As informedness plays a key role in changing customer or potential consumer behaviors, advertisers and E-enterprises have been exerting a lot of efforts on finding new effective advertising channels and measures to increase sales and materialize advertising investments.

Lack of trust on paid messages and advertisements could be a main reason in which resulted from some significant collapses of commercial fish harvests. Nowadays E-commerce is transiting from transaction-based towards social network-based or trust-based and from paid corporate promotions to organic informedness [4]. For traditional advertising channels keep loosing attentions and trusts from customers, social network-related communities gain eyeballs more and more recently.

2.2   Social networking as an emerging ads tool

Social networking as an emerging phenomenon holds many attractive properties both interesting to customers and businesses. Youtube, Facebook, and MySpace demonstrate big volumes of traffic online, and credited for around 6 percent retail traffic in 2006, redirect considerable click-through to E-commerce websites. When Google purchased Youtube, New Corp acquired MySpace, and probably later the combination of Amazon and Facebook [5], high expectations and statements appeared from their official website for better customer service and prospects.

In the rest parts of this paper, the definition of social networking, its drives, opportunities and challenges are discussed in chapter 2 and Chapter 3 introduces the useful Braudel rule that is regarded useful for companies to judge whether social networking is a good choice in their own company situations. In chapter 4 conclusions upon this paper are made.

3   Social networking

3.1   What is social networking

A social network service focuses on the building and verifying of online social networks for communities of people who share interests and activities, or who are interested in exploring the interests and activities of others, and which necessitates the use of software. It involves plenty of relationships and interactions within a group of individuals, which often plays a fundamental role as a medium for the spread of information, ideas, and influence among its members. The social network could be a chat room, a discussion forum, or sometimes with rating and comment functions embedded in a e-shopping website, such as a social recommendation system. [4] [2]

Suggested that social network is not necessarily being groups of people or friends from physical world, but also from virtual one. Those relationships could be people to people peering, people to stuff peering, stuff to stuff peering, and many other possibilities. To give some examples, friends can be generated from virtual gaming environment with common values and interests, from same purchasing behaviors

for specific products, and may also from same situations like divorces encountering in real life.

3.2 Forces of applying social networking

The upcoming addiction towards social networking infrastructure from E-enterprises is driven by economic and technological forces emerging these days. Forces of applying social networking could be changing realities of customer behavior, decreasing sales, and dropping advertisement effectiveness and efficiency. To be specific, it can be classified as followed.

Firstly, big volume of information provides customers acquaintance with diverse options including price, attribute, and possible discount. This so-called informedness make customers more proactive than ever before so that they could adjust their needs and compromises with various choices without confined by a small number of sellers. The available information indicates that informedness alters customers shopping behavior even for purchases that are made in traditional physical venues.

Secondly, paid messages and advertisements are loosing their attractions. Having more available information and plenty of choices for customer makes a great challenge to sellers as a simple advertising campaign can not work ever as effective as before. From several analysts, it has been testified that people are loosing their traditional advertisement reading behavior and also trust towards paid messages.

Last but not least, the fast development of technology, especially the prevailing of Internet and its implications drive companies to change, and provide them new advertising options at the mean while. Even though some scientists and criticizers still hold negative stands towards social networking, it is manifest that social networking indeed has some good attributes which may be useful if well utilized. However, it is necessary to understand that the profitability or monetizing of traffics generated from social networking is still a question mark as this area is pretty new, and needs more exploration.

3.3 Opportunities and challenges

A controversial problem rose when talking about social networking is whether it is profitable or not. This is something mentioned later in chapter 3, but here we discuss more on social networking opportunities and challenges, in both which E-enterprises should be motivated and prepared.

3.3.1 Opportunities

Google, New Corp and many other E-businesses [3] have shown great interests towards web-based social networks. There must be some reasons initiating them. Despite of the solid amount evidence that social networks redirected to e-business, there are many other interrelated implications.

First of all, by finding the reality of decreasing trust from traditional paid messages, the trust from social networking

is crucial for advertisement. People are provided a number of high quality and personalized reviews of a product from trusted sources to convince them to buy. The idea lying in social networking is that valuation generated from trusts within specific social networks, and therefore, can improve profitability, effectiveness and efficiency of advertising.

Also, by incorporating social networking and other technologies such as recommendation system, E-enterprises can reach useful data for predictions of market trends, customer behaviors and so forth. For example, an E-commerce website can identify opinion leaders with high influence and maximize the effectiveness of marketing based on a social network surrounding opinion leaders. It can help the company establish its competitive advantage differentiating from others.

3.3.2 Challenges

Despite of the optimistic perspective some disputes exist suspecting its promising profitability and effectiveness. The main point of optimistic opinion is virtual social networking holds the same attribute of real social network so that persons inside the society trust each other, and the virtual nets promise the credibility for people. However, there is doubt about the similarities between the virtual and the physical one.

According to [4], incredibility lies somehow in nowadays most popular social networks. For example, MySpace does not indicate to be a trusted community on college campuses; Advertising on Facebook or MySpace will either be unseen by Millennials or ignored etc. Simply thinking social networking as something money promising, however, probably may cause a failure of investment as customers or online surfers may consider advertisements offensive and intrusive. It is suggested that overstatement may arise and careful exploration should be conducted.

4 Value creation

4.1 Why value creation is important

When talking about changes in business whatever it is a organizational structure change or a new technology introduced, it is necessary to make sure that the change decision is strategic and efficient. Even though it is unlikely to materialize every change to monetary form, it is compulsory to present the investment company that the change is to influence the company in a good way in short or long terms. Electronic and Mobile technologies are difficult to some extent to be judged if they are good or bad investments as they are normally investments towards company business infrastructures. Social networking is one example of this kind of investments.

In order to make proper decisions on choosing whether or not to use the social network, it is prerequisite to find

some method other than monetary one. A popular method for judging mobile commerces technologies is the Braudel Rule. According to [1], a technology will create value for potential users if it is built and implemented in such a way that it will expand the limit of the possible within the structure of users everyday life. However, the author regarded an important rule also for e-commerce and other increasing technologies. When remove the barriers rather then just provide more options, it can offer opportunities for better support compared with existing technologies. To make it clear, the characteristics of value determine how the value could be created. Therefore, it is necessary to understand what value means in order to increase it, or lets say in this situation, to increase the value of advertisement means.

4.2 How value is created

It is necessary to understand how value created within the supply chain management. Generally, value created is the difference between the consumer benefits (or the maximum willingness to pay for the product) and the costs for providing the product. Figure 1 [1] demonstrates the idea.

Exhibit 5.1 Value creation depends on benefit and cost positions

Source: Adapted from D. Besanko, D. Dranove, M. Shanley and S. Schafer, *Economics of Strategy*, John Wiley, 2003, p. 368.

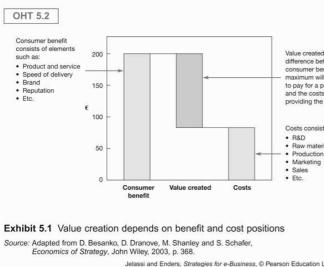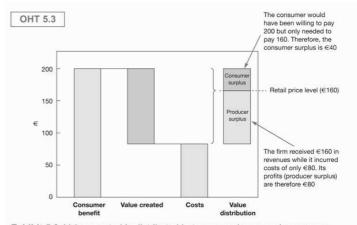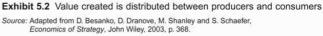Jelassi and Enders, *Strategies for e-Business*, © Pearson Education Limited 2005

Figure 1: Value creation demonstration from

However, the value created goes not only to sellers but also to customers. According to [1] and Figure 2, creating value is not just about making visible profits but also creating competitive advantages by setting companys strategies. The customers willingness to pay is crucial and can be only reached by distinctive products and services offered and well-leveraged organizational efforts.

The objectives of introducing and utilizing new advertising channels therefore should focus on creating long-term relationships, reducing the rate of customer defections, increasing the share of wallet through cross-selling and up-selling, increasing the profitability of low-profit customers, and fostering on high-valued customers. By improving customer relationship management, the main problem of lack of

Exhibit 5.2 Value created is distributed between producers and consumers

Source: Adapted from D. Besanko, D. Dranove, M. Shanley and S. Schaefer, *Economics of Strategy*, John Wiley, 2003, p. 368.

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trust can be solved by social networking to some extent.

4.3 Value-creating properties of social networking

For those properties social networking creating value, it is necessary to find whether they are good-to-have or have-to-have. During the value creation process, or letąŕs say supply chain, the Braudel rule helps a lot in judging whether valuable or just more options of a service. That is to say, value is created through the whole value chain after the new technology is introduced. The Braudel rule is used to judge if a service is to create new possibilities of everyday life or just options.

The view of the interests holding by researchers and businesses should be on how to make social networking valuable rather than on whether or not to adopt social networking. Creating value by using new technologies is more art than science. Many may be pessimistic on credibility of social networking and customers attitudes towards it, while the First Wives Club does make money through its divorced group of people. The power of the online experience and of online friendships may give the website much of the character of a true community, but how to create resonance and upcoming values highly depends on the innovation and creativity of companies.

5 Conclusion

Social networks in a way is changing e-commerce and helping it towards new directions. With its help, e-commerce can conquer some problems facing by e-business enterprises. However, its opportunities and limitations should be carefully studied so as to be fully utilized. It is important to understand how much value created depends on innovative use of technologies than simply duplicate others activities. To establish competitive advantage requires great efforts, in

which the activities are art more than science.

For further researches, customized company strategies depending on different businesses situations can be improved. For example, it is efficient to advertise in a cooking forum with rare and demanding cooking wares and seasonings contrasted with Moto products even though it is a chat forum without any commercial purposes before. Improvements on recommendation systems and data mining are extremely important for queuing keywords and attributes of a social network so as to properly judge on users preferences.

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