

Social Networks for Marketing: Benefits and Challenges

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Abstract

Social networking sites have become increasingly important in consumer's purchasing decisions because they can shape the public opinion. Nowadays, customers do not have access to all information; also they do not have enough ability to process and evaluate every alternative available for them and choosing the best one. So, an easy way which is economical and intellectual would be trust to other people who they know and are in relation with them in different social networks. These trustworthy people called opinion leaders, individuals that lead in influencing others' options. Social network theory joining the opinion leadership and word-of-mouth concept can be used to identify opinion leaders in a network. Utilizing interpersonal relationships in a social network is a powerful force in word-of-mouth marketing. Firms and marketers through using social networks for marketing can increase product and brand awareness. Furthermore, they have increased access to customer service and feedback, as well as they can find the customer needs better.

In this paper, related studies used social networks for marketing are reviewed. The aim of this paper is to propose a three step process to show how firms can apply social networks for their marketing activities. In addition, the benefits and challenges of finding opinion leaders and utilizing the relationship between people for improving marketing response are categorized.

Key words: social network, social network analysis, word-of-mouth marketing, opinion leader

1. Introduction

Consumers do not make their decision by evaluating every alternative available to them and choosing the best one. Because regarding the range of alternatives, only limited information is available for them. Also, people do not have enough ability to process and evaluate all that information (Simon, 1982). Moreover, the success of social network sites like Facebook and MySpace reveals that in recent times interaction with others plays an important role in our lives (Barabási, 2003). Instead of spending lots of time and money to analyze every option, people usually make their decision based on trust to others who are close to them and have common interests with. These trustworthy people called opinion leaders, influential people or key players in literature. Opinion leaders can help the spread of any idea, behavior, innovation or advertisement among the people on the community. Companies by using these sites or making their own social networking sites can identify

influential people, understanding consumer's need and employ them to promote their product. Utilizing social networks and the relationship between people for marketing have received more attention in recent years. The aim of this study is to show how firms can use social networks for their marketing activities as well as discuss the benefits and challenges of using social networks for marketing by reviewing related studies. Our paper is organized as follows: Section 2 describes an overview of the related literature review including social network, opinion leader and word-of-mouth marketing. In section 3, related studies on marketing employed the relationship between people in social networks are reviewed and a three step process to show how firms can utilize social networks for marketing is proposed. Then, some benefits and challenges for marketing via social networks are categorized. At the end, the conclusion and our future work are discussed.

2. Literature review

In this section, we summarize the existing literature related with social network, word-of-mouth marketing, opinion leadership and identifying influential people in a network.

2.1 Social network

The term of social network was first introduced by Barnes (1954). Social networks are communities of people who typically share a common behavior, idea, interest or activity. A social network indicates a graph of relationships (social familiarities) within a group of individuals (people, organizations). Social networking sites have increased in the last decade. The most popular social networks include Facebook, MySpace and LinkedIn. They facilitate communication by providing a variety of ways for users to interact with each other like e-mail or instant message.

Social networks provide a medium for people to interact with others who are influential and make recommendations about products and services. These sites can improve lots of business activities, including: word-of-mouth marketing, market research, general marketing, idea generation & new product development, co-innovation, customer service, public relations, employee communications and reputation management (Red Bridge Marketing, 2008).

2.2 Word-of-mouth marketing

Word-of-mouth marketing which is a type of viral marketing (Phelps et al. 2004) is an informal way of passing information among people about the characteristics, usage, and ownership of particular products or services. Viral marketing can be defined as the use of network value of customers. Customer's network value is defined as the expected profits from sales to other customers whom he/she may influence to buy, the customers those may influence, and so on (Domingos and Richardson, 2001).

Word-of-mouth is a new marketing method that uses electronic communications among a widespread network of buyers (e.g. email) to trigger brand messages (Dobele et al. 2005). It has stronger credibility than other forms of marketing (Li and Du, 2010) and changes communication from a company-to-customer mode to a customer-to-customer mode (Westbrook, 1987). Marketing techniques that apply the social networks of consumers to increase brand awareness are called word-of-mouth marketing (Kiss and Bichler 2008).

The existence of rating websites such as Epinions, which can distribute negative or positive about products among people in the network, reveals that marketers need to consider the prominent effect of word-of-mouth phenomenon on their brand's position. In general, word-of-mouth marketing is a significant market force that influences consumer decision-making.

2.3 Opinion leaders

It is a central idea in marketing and diffusion research that influential people - a minimum number of individuals, which influence on a significant number of their neighbors -, play a vital role on the formation of public opinion (Watts & Dodds, 2007).

The study of Lazarsfeld et al. (1948) is the starting point for opinion leadership theory; they discovered that voting decisions were heavily influenced by relatives, friends and co-workers. Opinion leadership is defined by different authors. Rogers (1962) defines opinion leadership as “degree to which an individual is able informally to influence other individuals' attitudes or overt behaviors in a desired way with relative frequency” and opinion leaders as “individuals who lead in influencing others' options”. Opinion leaders have a large amount of information about a variety of products, categories, retail concepts, and markets (Blackwell et al. 2001).

Li and Du (2010) identify five characteristics for opinion leaders: influential, knowledgeable, communicable, respective, and innovative. Burt (1999) describes opinion leaders as “people whose conversations make innovations contagious for the people with whom they speak”. Flynn et al. (1994) provide marketing perspective as follows: “as consumers frequently rely upon other people as sources of information, in addition to advertisements and media, opinion leaders exert a disproportionate amount of influence on the decisions of other consumers.” The base of all definitions is people who are able to influence others.

In recent years, many research in word-of-mouth marketing investigate discovering influential nodes in a social network (Duan et al. 2008, Kiss and Bichler, 2008).

3. Marketing using Social network (Related Work)

In this section, the previous studies on utilizing social networks for marketing are reviewed; also some benefits and challenges for marketing using social networks are classified. Besides, a three step process to help firms use social relationship between their consumers to promote their product and services is proposed.

Social networking sites have become increasingly important in consumer's purchasing decisions. Because, they are a powerful force in word-of-mouth marketing and they can shape the public opinion. The key point in word-of-mouth marketing is to identify the influential nodes (Li et al. 2010). Valente and Davis (1999) showed that diffusion is faster when it initiates by opinion leaders instead of random people. Social network theory links with the opinion leadership and word-of-mouth concept can be used to identify the opinion leaders in a network and help to the diffusion of any behavior. As it is shown in Fig. 1, we propose a three step process to help firms use social network for their marketing activities. In step 1, firms should first find a proper social network or build their own social network to establish their relationship with consumers. Then, step 2 includes identifying and selecting opinion leaders that firms think they are influential among consumers. An

influential node has more links to others and can pass a message to the most of the people in the network. Many studies on finding the most influential nodes consider how many other influential people point to them. They are based on the pioneering study of hubs and

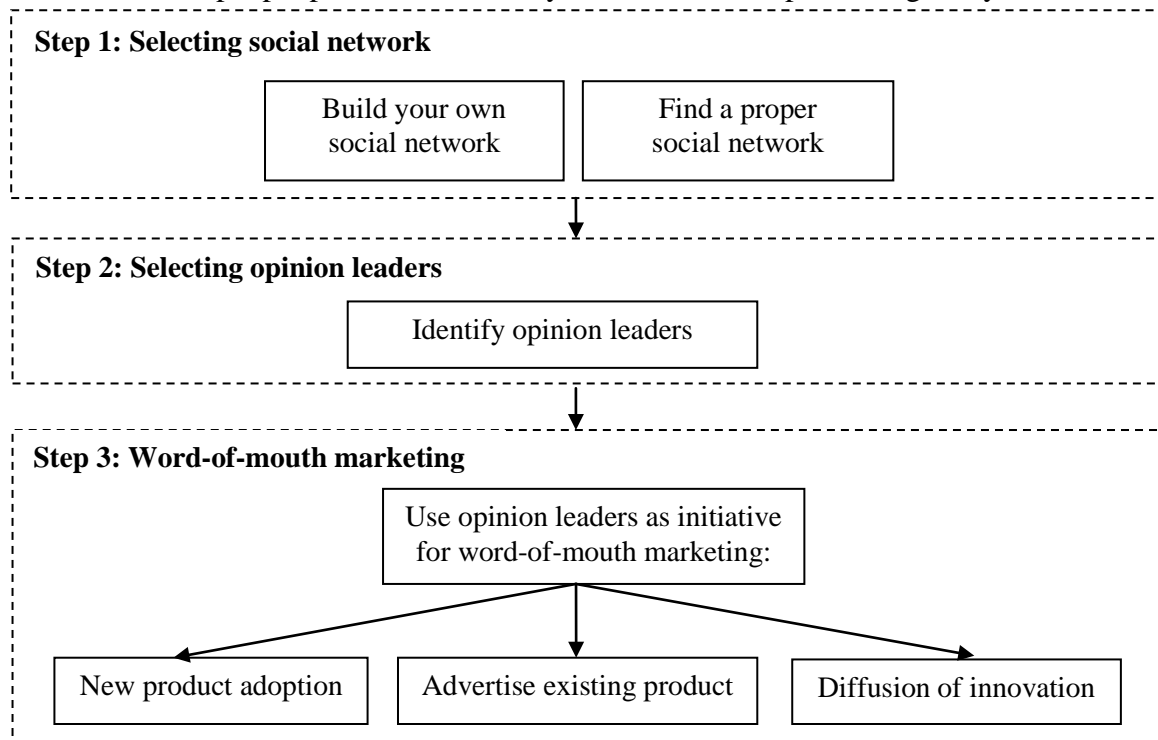


Fig 1: A three step process for firms to use social networks for marketing

authorities by Kleinberg (1999), and the study of Brin and Page (1998) on Google's PageRank algorithm. Both studies are based on social network analysis. So, related notions of social network analysis, like centrality and prestige can be used to indicate how opinion leaders become influential through their relationships (Wasserman and Faust, 1994). Finally, in step 3, these influential people can be considered as initiative nodes to help diffusion of innovation, new product adoption and spread of any behavior in the whole community. In addition, companies need to identify opinion leaders among customers to advertise their products (Hirsh, 2001).

Many studies in marketing (Van den Bulte, and Yogesh, 2007; Vernet, 2004) and diffusion of information (Rogers, 1962; Valente, 1995) investigate how social networks affect individuals' decision. By reviewing prior studies some benefits and challenges could be identified for using social networks in marketing discussed in the following subsections.

3.1 Benefits

The role of social networks as an important medium for the spread of ideas, behaviors, information and diseases has been largely studied. Many studies related to marketing explore the effect of word-of-mouth and viral marketing in the success of new products (Rogers, 1963; Valente, 1995). Moreover, the advancement of IT technology and the Internet reduces the cost of marketing activities such as advertising (Li et al. 2010).

In fact, online social networks and virtual communities provide lots of opportunities for marketers, managers, and researchers (Valck et al. 2009) because they influence individuals' decision-making process. The decisions of people can be influenced by opinion leaders in several ways. According to Chau and Hui (1998) opinion leaders are "1) acting as role models who inspire imitation; 2) spreading information via word-of-mouth; and 3) giving advice and verbal direction for search, purchase, and use".

Li and Du (2010) defined some advantages for identifying opinion leaders and using them in word-of-mouth marketing: they can spread product information, provide recommendations, give personal comments, and add professional knowledge to help a company to promote its products. Consumers usually seek other's opinion (usually people who they trust) when considering the purchase of products and services. They often trust behavior of others more than formal marketing activities such as advertising (Flynn et al. 1996). According to Brand Strategy (2007) 78% of global consumers trust and believe other people's recommendations more than any other medium. Word-of-mouth marketing raises brand awareness through self-replication and message diffusion (Kiss and Bichler, 2008) and it has more credibility than other forms of marketing (Li and Du, 2010). In general, according to above studies advantages of using social networks for marketing can be organized as follows:

1. Lower cost: regarding that consumers pay more attention to other's recommendations and by new advancement of internet and IT technology, employing social networks for marketing activities is significantly cheaper than paying for advertising on the media.
2. Trust and Credibility: word-of-mouth and customer-to-customer communication have stronger credibility than other forms of marketing. As a general rule of thumb companies always think about their own profit. So consumers seek to opinions of people who they trust to. Marketing via social networks will increase customers' loyalty.
3. Facilitate the diffusion of information: the most striking benefit is that social networks via relationships on the personal level can easily facilitate the spread of any idea, information, behavior and opinion among people. Furthermore, online social networks are dynamic, and information can be appended and revised at any point.
4. Gain competitive advantage: Many marketers in this competitive market have joined the social networking community. Companies by using these sites can easily expand their market niche, advertise their businesses, increase brand awareness and gain loyal customers in the future.
5. Understanding consumer's needs: As a firm investigates the social network of its consumers, it is easier to find their interest, what the online visitors want, identifying loyal consumers, and create a personal relationship with them.

3.2 Challenges

As mentioned in the previous sections, the use of relationship among consumers in marketing and identifying opinion leaders in a social network can directly increase product/service adoption. However, because of some reasons almost all researches have no exact, specific data on which (and what) customers purchase (hill et al. 2006). Also few

studies have provided direct, statistical support for this hypothesis that using the social relationship will increase marketing response. These reasons can be organized as follows:

1. Inadequate data (Van den Bulte and Lilien, 2001).
2. The need for consider the reliability of messages (Endo and Noto, 2003).
3. The need of analyze the semantic level of the message, the relationships among and the profiles of the platform participants (Sekiguchi et al. 2006 and Tsai et al. 2006).
4. Large size of data-sets (because they arise from the internet), low incidence of response (especially where the response is a consumer's purchase or reaction to a marketing event), missing data in network transaction (hill et al. 2006).

On the other hand, marketing via social networks takes up a lot of time in research. Firms need to identify a network that has the audience they wish to reach or establish their own web site with desire features (like review option). Then, they need to identify opinion leaders. The selection of these influential people is very important because they can easily stop or speed up the adoption of products or services.

4. Conclusion

One of the main concerns for any firm is to identify the set of players to market their product. Social networking sites have become increasingly important in consumer's purchasing decisions because they can shape the public opinion. Social network theory joining the opinion leadership and word-of-mouth concept can be used to identify the opinion leaders in a network. Utilizing interpersonal relationships in a social network is a powerful force in word-of-mouth marketing. Through using social networks for marketing firms can increase product and brand awareness. The main contribution of this paper is representing the three step process to help firms applying social networks for their marketing activities. In step 1, firms should find a proper social network that has the audience they wish to reach or build their own social network to establish relationships with consumers. Step 2 includes identifying influential people among consumers. Finally in step 3, they can use these people as initiative nodes for word-of-mouth marketing, including: new product adoption, advertise or promote their existing product and diffusion of innovation.

Reviewing the related studies on marketing that utilize the relationship between people in social networks is another contribution of this paper. In addition, some benefits and challenges for marketing via social networks based on researches in literature have categorized. In order to marketing via social networks identifying opinion leaders is very important, because they can easily promote or stop adoption of company's product or services. Therefore, we are planning to study proper factors for selecting influential people in a way that completely consider every aspect of their influence for future research.

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