

## The role of social networks in marketing

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### 1. Introduction

In order to create marketing strategies suitable for our customers, we must first understand what the customer is influenced by during the decision making process. This might be the most important way to learn how and where to correctly invest our marketing efforts.

Recent research shows that more than 75% of customers will consult a friend before deciding on the purchase of a certain product or service. But the main issue here is whether organizations know how to utilize this fact to their advantage.

In recent years, it has become evident that large organizations are beginning to appreciate the importance of Word-of-Mouth marketing. However, we are still nowhere near effectively utilizing this information resource.

This article describes what social networks are, what the best way of creating such networks is, and how an organization can utilize these networks in order to create efficient marketing strategies for its customer base.

### 2. The business problem

We'll examine what would make a customer feel confident enough to purchase a certain product according to a survey conducted by eMarketer, in which each participant could choose multiple answers:

- A friend's recommendation (76%)
- Previous experiences you had with this company (68%)
- A recommendation in a newspaper/magazine (22%)
- Advertisements (15%)
- The company's website (8%)

In other words, most of our customers will consult a friend prior to making a decision about a certain purchase.

This type of promotion is called Word-of-Mouth marketing, and can take place between any two or more connected people, i.e., via a social network.

Conversely, companies invest millions of pounds annually in an attempt to market their products, although most of them neglect to consider the influence of word-of-mouth.

Moreover, even the companies who have already taken notice of this matter are usually doing so based on a gut-feeling, rather than a statistically based analysis.

A good example is current word-of-mouth marketing tactics, such as viral campaigns. However, as the organization does not properly map the social network itself, it is very difficult for it to track and measure the results of such campaigns, and recognize its successes and its problems.

Consequently, as an initial step in the road to an optimal solution, we should map the social network accurately. But we must first understand what a social network is.

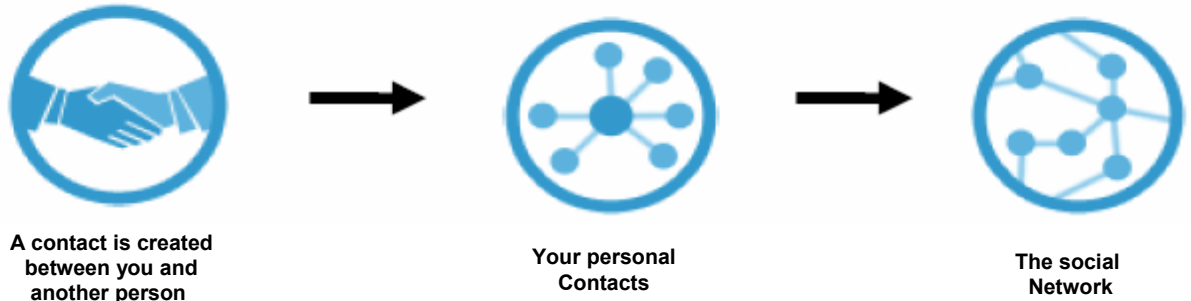
### 3. What is a social network?

A social network is a collection of inter-connected people.

Social networks comprise of points (people, potential customers) and connections between those points. These connections may be manifested in many different forms. Examples include:

- Email exchange
- SMS exchange
- Purchases
- Telephone calls

Below is a figure visually illustrating how a social network is formed



Each of us has a personal contacts list. For instance, if we examine email exchange, each email I send will create a connection between me and the recipient of that email. That recipient can, in turn, forward that email to his contact list, thus creating another connection between him and his recipients. Consequently, a network of personal connections is created or in its official title, a social Network.

## 4. So how do we use these networks?

Now we know what a social network is. So what is the next step?

It is important to understand that the first step towards a solution is our ability to identify the existence of a social network within our potential customer base.

Once we've identified the social network, we can move on to the next stage.

## 5. Identifying a social network

This is quite a tall order, but no longer an impossible one. There are quite a few technological tools developed for the sole purpose of efficiently and quickly identifying social networks, without having to invest any additional resources.

So now that we have identified the social network, what is the next step?

The second step is isolating those network members worth investing our marketing efforts in. In other words, out of the potential customer base, we need to determine who the **opinion leaders** are.

## 6. Identifying opinion leaders

Opinion leaders are network members regarded as having relevant knowledge, and who are probably the first ones to be consulted in regards to purchasing decisions.

Usually, most opinion leaders possess one or more of the following characteristics:

- Part of a social network
- Good communicators
- Usually early adopters of products or services
- Information hungry

There are different technological tools that can help identify the opinion leaders amongst our customers.

Now that we have identified the opinion leaders and their connections within the social network, we can divert all of our marketing efforts to focus on those specific customers, assuming that they, in turn, will spread the word to other network members. This way, we can reduce marketing costs and refocus our resources more effectively.

## 7. Why now?

Word-of-mouth marketing is no novelty. It is actually one of the earliest forms of marketing, going back as early as biblical times, when Eve suggested that Adam taste the apple, because it was very sweet...

Nowadays, there are a number of ways in which we can utilize word-of-mouth to effectively meet our marketing objectives:

- We can use technological innovation to effectively detect social networks and opinion leaders.
- It is a well known fact in our world that the customer is in control, deciding for himself what the right product is, and when and how to buy it. Therefore, traditional marketing no longer suffices for answering our customers' constantly changing needs.
- The rapidly evolving world of internet created a whole new game plan, e.g., online forum debates, blogs, etc., which, in turn, produce new forms of word-of-mouth marketing.

## 8. The result

Once we fully understand the social networks surrounding us and learn to identify the opinion leaders within those networks, we will be able to establish suitable marketing strategies that will spontaneously produce word-of-mouth marketing.

Additionally, we will also be able to allocate our financial resources towards strengthening connections with opinion leaders and recruit them as advocates for our business.

## 9. Case study – Fashion retailer

This case Study is based on a fashion retailer in a European Market.

### 9.1 Approach

The client provided the analysis team with data from the loyalty scheme on 500,000 customers.

This data included:

- Customer name and address
- Date they joined the loyalty scheme
- Summary purchase behavior
- Primary branch details
- Purchase history at a product level
- Coupon and voucher redemption data
- Attendance at special events
- Marketing contact history
- Response to previous communication and promotional activities

### **9.2 The data set covered:**

- All customer included in the loyalty scheme both active and dormant.
- Transactional data since the scheme was introduced (9 years worth of history)

### **9.3 The team merged this customer data with relevant reference data on:**

- Product and product groupings
- Stores and store hierarchy
- Branch and customer geography

The data was then refined and data quality problems removed.

The data was then processed through a social network analysis solution that was able to cope with the data volumes.

The basic stages were as follows:

- Extract social networks
- Calibrate the connections between the parties in the network
- Measure the flow of information/behavior through the network
- Use the social network parameters to drive predictive analytics (e.g. churn)

### **9.4 The key output from the social network analysis was a set of attributes describing social effects for each individual. These included:**

- Total number of parties in the friends
- Number of friends a customer has that are at risk of churn.
- Number of friends a customer has that are very loyal
- How many opinion leaders in the customer network are influencing him/her to churn
- How much cumulative influence (depending on connection quantity and strength) is the customer under to churn
- How many of the customer's friends have joined/left the network over any time period

### **9.5 The following example illustrates the power of the social network analysis:**

- A customer (Lucy) started shopping on her own in 1998
- Within 8 months she was shopping on a regular basis
- Over the next 18 months we identify 8 other people who become part of her social network
- The purchase behavior of the network shows that the initial customer (Lucy) is the opinion leader

- Three people in the network have the same second name
- Over the next few years we see a consistent purchase behavior pattern across the customers (Lucy) network
- The opinion leader stop purchasing
- Within three month all other members the social network stops shopping.

In order to understand what triggered the change in purchase behavior of Lucy and the social network a number of the members where contacted (including Lucy) and their purchase behavior discussed.

It appeared that Lucy had purchased a blouse that had lost its color in the wash. When she took the blouse to the store the sales assistant badly handled the situation and refused to make a refund. Ever more damaging she claimed with it was not defective and that Lucy had incorrectly washed the item.

Lucy has been so upset she told all of her friends including those in a social network not to purchase at the chain any more.

As a consequence of this and other examples the retailer changed it refund policy.

This and other analysis shows that opinion leaders can represent 7-20% of the total customer population.

The retailer then went on to develop a range of marketing communication that focused on the either the opinion leaders or the network as a group. These have proven to be very successful.

## 10. Conclusion

Social network analysis although well proven in other disciplines is only starting to be applied with rigor to solve marketing problems. The initial results are proving to be valuable.

As we see a growth in the use of this approach I have no doubt that is will see the emergence of new marketing disciplines that focus on marketing to the social network and the influencers.

## **About Synergy**

**Synergy** is a consulting company specializing in information-based customer management, and enabling organizations to maximize the business potential of their end customers, while providing these organizations the tools to improve their marketing, service and preservation activities.

**Synergy's** customer management solutions involve Analytical CRM, Operational CRM, Loyalty and Web strategies, as well as Marketing Research Management solutions.

**Synergy** was established in 2003 and has operations in Israel, Poland and the UK, working with both local and international organizations. Our customer base includes some of the largest foremost organizations in the Israeli and international communications, finance and retail markets. We provide solutions to banks, credit card companies, insurance companies, mobile operators, internet providers, long distance call providers and television networks, as well as leading member clubs in the fashion, airline and food industries.

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