



State of the LOYALTY INDUSTRY™

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Loyalty...The Social Way

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Social is to strategy what the internet was to commerce back in the early part of this century – a new way to reduce costs and increase revenue by improving and enhancing the ways in which company and customer interact. For this reason, as we enter the prime of the 2010 strategic planning session, I'll wager that 100% of companies large and small have identified "social" as one of their top 3 strategic priorities.

As important as social has become, I'll also wager that there is most likely a lack of consensus organizationally about how "social" should be infused into the organization and how such a strategy should be designed, implemented, *and measured*. And, no wonder. Nary a day goes by where another report, research study, article or opinion piece is published offering, often conflicting, insights about how to go about it. Although it might have been okay in years past to allocate dollars to a series of free-wheeling "experiments" to see what might stick, today's environment of scarce time, money and resources, forces experimentation in this area with tangible outcomes that have more than a reasonable shot of being quickly deployed on a broader scale.

One of the most common links being explored around social strategy is how it can be used to improve and monetize customer loyalty. It seems like a logical leap to make, especially since social, as a concept, is all about the relationships that people have with each other. Most of these discussions are also focused on the extent to which existing social networks can help facilitate this outcome. What follows are some observations on that score, drawing on both research and practical experiences in architecting and implementing social strategy designed to improve the relationships between customers and brands – and also ring the cash register.

Start with the basics

All good strategy starts with a clear mission statement about what an organization is trying to achieve. Obvious, yes, but in the frenzy to hop on the social bandwagon, it's often this very important first step that is overlooked. This, brands say, turns out to be a pretty useful exercise. What many have found is that many of the strategies used to drive behavior in other online



media don't transfer well to existing social networks and their expectations about their relative appeal to social network members is a bit unrealistic.

To that end, there are three tangible elements of a social strategy designed to increase both loyalty and revenue: (a) *identify* and be specific about what you want your social strategy to accomplish (e.g. increase revenue, reduce costs or improve efficiencies within or outside of your organization), (b) *design* strategies that leverage the dynamics of the groups of customers already on these networks and (c) *define* the unmet social need that this strategy overcomes. We've found that the most effective social strategies demonstrably correct a failure that groups of people have today to meet and interact with other. Brands that understand and embrace this strategic definition of social will, by default, also establish an important loyalty "baseline" to their social strategy that more realistically converts to revenue.

To take an example, GM's social strategy around Volt, is designed to build affinity to the GM brand and create demand for its new electric car by allowing people to follow the design and production process online and to provide a forum for sharing input along the way. The car won't be available until 2011, but education and awareness of the car must start now in order to drive sales of the product once it is available. Local dealerships are also a part of this strategy which helps to facilitate local meet ups where people in similar geographies can visit the dealer to learn more and to meet others with an interest in this "green" automobile. Comments and updates can also be shared on all social networks as a way to reach (and GM hopes will also influence) social graphs.

Segment the Social Way

All good strategy also includes a clear view of the intended target audience. Rather than starting with a targeting strategy based on gender, age and income, the most effective social strategies start with an understanding of why people want to interact with others on these social networks and the "social failure" that a social strategy could correct for these groups. Since comScore data shows surprisingly little distinction, other than at the margin, between the age and income characteristics of Facebook and MySpace social network members, a segmentation strategy that distinguishes between those who know each other today (and where a social strategy could enhance those relationships) and those who don't (and where a social strategy could facilitate a "meet up") seems a more relevant starting point.

Knowing, in the first instance, whether you must first *facilitate* social interactions or *foster* existing social relationships will help to inform how the strategy must be designed to monetize loyalty. For example, brands that wish to leverage LinkedIn's community to further their own social strategy can monetize loyalty if they are able to add tangible value to the professional networking activities among those who interact on that network today – or would like to. Amazon's reading list on LinkedIn facilitates the sharing of books among the members, who will presumably be influenced to buy those books on Amazon.

Don't waste the power of social

Last week's *New York Times* magazine article entitled "*Are Your Friends Making You Fat,*" put some empirical heft around the influence of our social graph on our behavior. The article described research done by two sociologists on data extracted from the famous Framingham

Heart Study, a study begun in 1948 that evaluated some 15,000 people who live(d) in this Boston suburb. Their conclusions suggest that friends, even those 3 degrees of separation apart, and regardless of their proximity to each other geographically, highly influenced the behavior of their social group – on everything from whether people smoked, to whether they did and quit (and remained quitters) and whether they gained or lost weight and kept it off.

This study only served to amplify the opportunity brands have to both enable and expand the concept of social contagion. But, to really seize this potential, current efforts must dig deeper and tactics must work harder. As stated earlier, we believe that 2010 is the year that brands will eschew the social campaigns designed simply to build brand in favor of those that tangibly link social to revenue. It's why we're seeing more and more retailers, even High Street brands like Burberry, express an interest in imbedding their own social networks inside of existing social networks in an effort to tap into the power of these communities and to drive commerce. But it's hard to imagine that simply setting up what amounts to a souped up fan page on social networks is enough to drive loyalty and create new revenue streams in the process.

What we've seen and know does work is the use of social networks to popularize new music and movies (MySpace), raise money for political campaigns and causes (Facebook) and enhance professional interactions (LinkedIn). Instead of using social networks as satellites of their own websites, in each of these cases, the brand tapped into a passion around a common denominator or an unmet social need shared by members of those social networks.

Listen to the data

Much more so than any other organizational strategy, many decisions made about social strategy appear driven by what one might characterize as the “sample of me.” As such, one often heard refrain from those tasked with building social strategy is that MySpace is dead. Another is that Twitter is more relevant than Facebook. Depending upon the goal of social strategy, and the intended target audiences, these assertions could prove to be dead wrong.

For example, MySpace, in spite of its slowing growth, remains the 11th most visited web site in the US. Its 70 million monthly uniques is less than Facebook's 90 million, but it generated \$1 billion in ad revenue last year. Recent research conducted by Professor Misiek Piskorski from Harvard Business School suggests that its biggest issue is that these 70 million users happen to be in places outside the “mainstream” media news centers and urban locations, meaning that it is unlikely that MySpace users are also the decision makers sitting in offices in Manhattan, San Francisco or Chicago. But those same decision makers might find that MySpace can engender customer loyalty and drive revenue by helping this network of users connect to its brand and with others who, because of their geographic locations, are unable to do so on their own. To take a tangible example, 40% of MySpace users are Moms, who have expressed a real desire to connect with other Moms on MySpace. Strategies that help this important and influential community meet each other fill an unmet social need at the same time it can create and monetize customer loyalty.

With respect to Twitter, Piskorski, in another study this Spring, found that 90% of Tweets are produced by 10% of the Twitter population, raising a long term question about who'll be left tweeting if most people leave the platform after only doing one. With its 20 million followers in

the US, and anecdotes about how brands have harnessed Twitter to drive sales, it seems, on the surface, too difficult to ignore when designing a social strategy. But, questions arise as to whether Twitter is really a social channel (not really since it does little to stimulate group interaction) or whether Twitter is simply another one-to-many broadcast channel. Whatever your view, it has proven effective at engendering loyalty thru its use as a customer service channel, but probably isn't a tool around which a successful *social* strategy should be built.

Eat your own dog food

I was in a meeting last week with an executive at a major US company to talk about social strategy related to its customer acquisition and retention strategy. A few minutes into the discussion, I asked the following (obvious) question: "what social networks are you on?" The answer was none. Sadly, this is not a one-off occurrence. eMarketer reported recently that in spite of high level of awareness of its benefits, executives remain intimidated by social media and lack a good understanding of its potential. The fear that most cite is the lack of control that these networks represent. This article also cited research that said 50% to 60% of companies still block access to social networking sites from the workplace. (My theory is that this one fact is what has driven the sale of many iPhones since they allow employees to connect to social networks at the office.)

One does not have to be a master social networker to "get" the potential of social networks, or even to be part of the design of a social strategy. But, to fully appreciate the degree to which it can enhance or monetize customer relationships, one has to take the plunge and embrace the experience. I can't imagine having a car designed by someone who doesn't drive or who doesn't want to, it's not clear why designing and implementing social strategy, which has the potential to transform customer relationships, should be any different.

Social strategy can be a transformative enabler of customer loyalty - and social networks the strategic platform for brands to do what they contend they have always wanted to do – have a direct conversation with their customer. But, on social networks, it is sometimes the customers who start the conversation first, and in many cases, conversations that exclude the brand. Going "social" is, therefore, no longer optional. Each day, social networks add millions more to their rosters, further cementing their role as the repositories of relationships and influence that matter in an increasingly networked world. Harnessing this potential requires a different and perhaps even unfamiliar approach to integrating social strategy with customer loyalty initiatives. A well crafted social strategy provides the framework for brands to further loyalty by helping them understand how to meet and then monetize their customer's social needs.