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Social Commerce: A New Electronic Commerce

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Abstract: The paper explores the concepts of social commerce, the behavior of consumers in social commerce, business models and revenues models of social commerce. We use the Facebook social network commerce as an example to explore the social commerce concept models, classifications of social commerce, revenue model and limitation of social commerce. The social commerce is still in infant stage, there are a lot of research opportunities waiting for exploring both in theoretical study and practical applications.

Keywords: Social Commerce, F-Commerce, Facebook, Electronic Commerce, Social Networks

1. THE CONCEPTS OF SOCIAL COMMERCE

Since the Facebook has launched one product of Graph Beta in September 22, 2011, it has been attracted a large number of practitioners and academicians to concern on the social commerce in electronic commerce world. Booz and Company^[3,4] (A leading global management consulting firm) estimated that social commerce market is growing fast and estimated revenues are set to US\$ 30 billion globally in the next 5 years. 1.2 billion is the projected size of the US virtual goods market in 2011 (see Figure 1). However, the term social commerce was introduced by Yahoo! in November 2005 to describe a set of online collaborative shopping tools such as shared pick lists, user ratings and other user-generated content-sharing of online product information and advice^[1].

There are a lot of definitions for social commerce. From practice perspective, CIC.com (one social commerce consulting firm in China) and sina.com's microblog name the social business as a shift from social media. Wikipedia defining the social commerce is as follows: **Social commerce** is a subset of electronic commerce that involves using social media, online media that supports social interaction and user contributions, to assist in the online buying and selling of products and services. Or, more succinctly, social commerce is the use of social network(s) in the context of e-commerce transactions. In recent literature, from marketing perspective, Stephen and Toubia^[9] propose that broadly defined the social commerce and social shopping are forms of Internet-based "social media" that allow people to participate actively in the marketing and selling of products and services in online marketplace and communities. From information system perspective, Curty and Zhang^[7], Wang and Zhang^[6] and Wang^[5] consider social commerce can be understood as the activities by which people shop or intentionally explore shopping opportunities by participating and/or engaging in a collaborative online environment. In particular, Curty and Zhang^[7] comprehensively reviews the status of art about the social commerce from both practice and academy. Stephen and Toubia^[9] empirically demonstrate that allowing sellers to connect social network generates considerable economic value. The social network value lies primarily in making shops more accessible to customers browsing the marketplace ("virtual shopping mall" created by SNS). The sellers who benefit the most from the social network are not necessarily those who are centered to the network but rather those whose accessibility is not enhanced by the SNS.

In 2011, the F-commerce has been attended more than other social commerce media. Simply speaking,

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Facebook Commerce is selling with Facebook. But more completed definition by **Paul Marsden (2011)** may be: F-Commerce, derived from e-commerce, is the use of Facebook as a platform for facilitating and executing sales transactions – either on Facebook itself or externally via the Facebook Open Graph. F-commerce is a form of social commerce, the use of social media, online media that supports social interaction and user contributions, to assist in the online buying and selling of products and services. The purpose of f-commerce is to help businesses facilitate and execute sales transactions using Facebook. F-Commerce can be used to drive customer acquisition (trial), customer loyalty (re-purchase) and customer advocacy (word of mouth), and improve customer experience. From a consumer perspective, f-commerce allows shoppers to shop with their social graph and make smarter shopping decisions using their social intelligence (learning from others).

Comprehensive above concept, from electronic commerce perspective, we think that the social commerce is a kind of e-commerce in which users can share and exchange the shopping experience and can make an intelligent business decision.

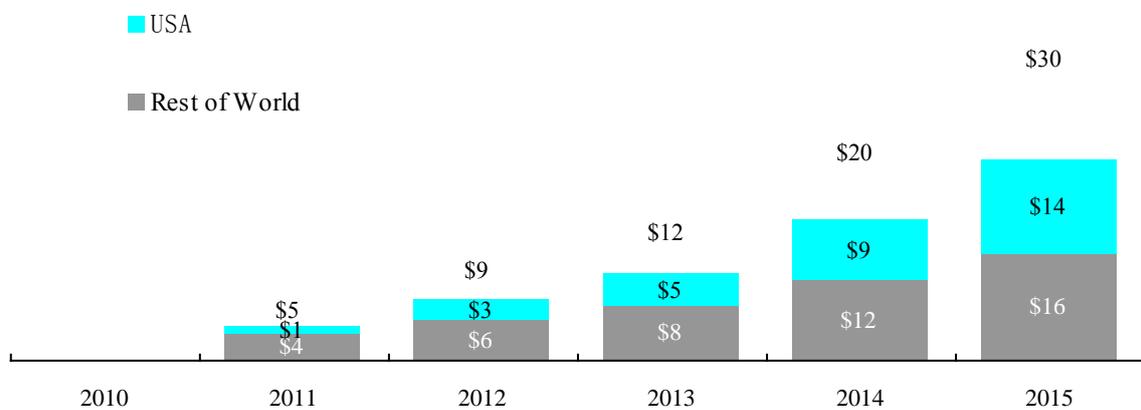


Figure 1 Estimate of Social Commerce Market Size (2010-2015; in US\$ Billions)^[4]
 (Note: Numbers might not add up because of rounding. Source: Forrester Research; GP Bullhound; Euromonitor; Booz & Company analysis.)

2. A CONCEPT MODEL OF SOCIAL COMMERCE

The business environment of social commerce is of the following characteristics. As well is known, the most noticeable characteristic of social networks is its possessing mass users or fans (named netizens in China^[2]) online and these users or fans can propagate the information very fast. The second, as the platform for shopping, chatting, rating products in online or offline on the social networks, the users or fans are shopper’s friends, these people can be identified and trusted. The comments or rating for seller’s products given by these users or fans are more objective and fair and are not controlled by the e-commerce sellers. Thirdly, all of information of products shared on the social networks is voluntary by the fans or shoppers, in which they are purely motivated by spiritual interests. No sellers, shoppers or third part can control product comment information. Lastly, the contents or information about products are user-generated contents. Therefore, the basic model of social commerce can be described by Figure 2, which is revised according to Lee, Chan and Fan^[8].

According to Curty and Zhang^[7], the social commerce can be described in four dimensions: people, business strategies, technology, and information. The *people* dimension represents the individuals, consumers,

communities and societies which are essential to the social aspect of social commerce. For example, Facebook has 100 million “likes” per day for Facebook pages, 250+ million people engage with Facebook on external websites monthly, 350 million users are engaging with Facebook on mobile phones. The *business* dimension embraces strategies, business models and opportunities for retailers and other entities that are perceived to benefit or to make profits from social commerce transactions. For example, Wal-Mart, Bestbuy, Sears, Starbucks, et al. traditional e-tailers and brick-and-mortar retailers are designing their social business strategies. American Express launches “Link, Like and Love” on Facebook, that means, links consumers Facebook account data with their AmEx card. Even more, Asos.com and Coca-Cola have earned the profits from Facebook. The *technology* dimension refers to the information and communication technology infrastructure and applications responsible for social commerce’s technological feasibility. Facebook has launched it Open Graph Beta, Timeline and Ticker, and Mobile platform and Facebook credits. The *information* dimension symbolizes the particularity of this extremely user-generated content-sharing of online product information and advice, with socialization in nature, being constantly produced. In particular, the emotion information as an important service can be propagated through social networks. According to consumer psychological study, emotions can significantly affect the consumers’ purchasing behaviors (Machleit and Eroglu^[10]).

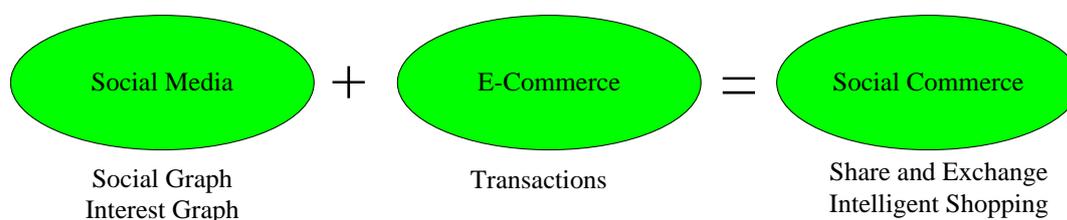


Figure 2. A Concept Model of Social Commerce

3. THE TYPES OF THE SOCIAL COMMERCE

Social Commerce are combined with online, offline, and mobile commerce (see Figure 3). Specifically,

“Online social commerce”

- Online social commerce is online store like typical e-commerce. For example, Facebook stores (f-stores) – e-commerce enabled Facebook pages, such as that of Starbucks gift card used to sell coffee. In addition, it can also use Facebook Credits payments, that is allows customer to make “frictionless” in-game payments and buy directly from their newsfeed (with Facebook Credits)

“Offline social commerce”

- **This it an enhanced web-stores, that is**, traditional e-commerce sites that integrate with Facebook to offer customers a Facebook experience whilst shopping on-site. For example, Amazon allows shopper to login with Facebook details, and uses the Open Graph data that comes with the login to offer instant personalisation (recommendations, birthday notifications, etc.). Another enhanced e-commerce is traditional retail stores – traditional brick and mortar retailers that integrate with Facebook to offer customers a Facebook experience whilst shopping in-store. For example, Wal-Mart superstore is a Facebook-connected “My Local Wal-Mart” retail chains that allows customers to order and share goods or services – in real life and virtually.

“Mobile social commerce”

Hyper-interactive shopper is a new breed of engaged and informed consumer. They are researching,

chatting, booking, sharing, blogging, facebooking and tweeting every aspect in buying experience with their friend online, on mobile devices, and in multiple social networks. For example, Facebook platform for mobile is a key technology to enable more connections and meaningful engagement anywhere and anytime. There are 350 million users are engaging with Facebook on mobile phones. People can now access Facebook applications and games on a variety of mobile devices and tablets. Marketers and businesses can reach and connect with more people more often with their applications.

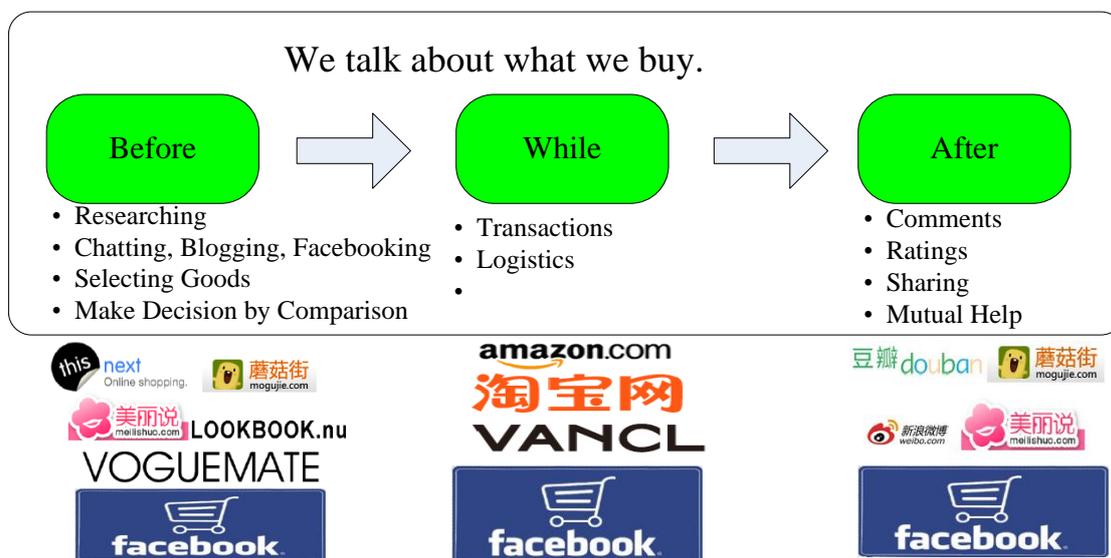


Figure 3. A Social Process or Ecosystem of Social Commerce

Ideal or expected social commerce may combine all three aspects in business perspective. In particular, F-commerce is approaching this expected model. For example, asos.com allows the its fans to use the Facebook platform to complete the fashions shopping just as common e-commerce.

4. REVENUE MODEL OF SOCIAL COMMERCE

According to Stephen and Toubia^[9], the costumers of social commerce who benefit the most from the social network are not necessarily those who are centered to the network but rather those whose accessibility is not enhanced by the SNS. Therefore, the social commerce revenue sources may not be the direct sale by the social commerce company, but those products can be easily accessed companies. Currently, social commerce mainly is a kind of Internet of Word-of-Mouth (IWOM) marketing in which it uses the social network propagating speed and its a vast of users and fans. Although some marketing consulting firm estimated the social commerce will be potentially great marketing opportunity, the earning forms of social commerce are still no innovation compared with traditional e-commerce websites. Here we summarize the revenue models about the social commerce.

Traditional C2C e-commerce schema like Taobo.com used revenues model called transaction frees model earns the revenue via capturing commissions paid on volume of transaction via e-commerce website. Facebook commerce also uses this kind of revenue model. The second form of revenue model is subscription model in which customers pay a fixed amount of money upon fixed period, usually monthly based, to get some type of service. Delta Airlines can book the reservation from Facebook and pay Facebook some amount subscription fee. Thirdly, the advertisement fees model are most commonly used, in which social commerce company allows other

companies to place a banner on their sites like Google revenue. Facebook website has many banners actually charging the advertisers. Affiliate fees is the fourth model for social commerce, companies receive commissions for referring customers to others' Web sites. Last, but also most important, sales model, companies generate revenue from selling merchandise or service over their website. However, social commerce currently is not good at to sell goods from website, but other e-tailer can sell goods and service via social commerce platform. For example, asos.com can sell fashions on Facebook, Starbucks also can book the café online with its gift cards.

5. LIMITATIONS OF SOCIAL COMMERCE

As the marketing consulting firm Forrester analyzer Mulpuru^[12] pointed out that "The likelihood that Facebook will ever [become] a key sales-driving tool for retailers and creating a reliable revenue stream for Facebook, is unfortunately far-fetched". We have summarized the limitations of social commerce as follows.

- The market opportunity for selling on Facebook is tiny – even the most enthusiastic projections forecast a market size only 1/3 of that of mobile commerce, representing a maximum of 4% of digital commerce. Many online shoppers don't want to buy on Facebook. Social commerce found that 73% of online shoppers would not purchase goods on Facebook or through other social networking sites. Although Facebook has very strong internet word-of-mouth (IWOM) function, businesses find social networks to be a particularly ineffective new customer acquisition tool. Facebook has little effect on online shopping activity.
- The revenue models are not clear for retailers or businesses. Where's the money? No major brand, retailer or independent study has yet provided compelling evidence that selling with/on Facebook unequivocally drives ROI or CLV (customer lifetime value). Facebook Credits has potential, but payment systems are complex and many retailers have yet to even adopt PayPal, which is much more mature.
- F-commerce will not take off because Facebook has a reputation for apathy around privacy issues.

6. CONCLUSIONS AND FUTURE DIRECTIONS

In this paper, we have explored the concept of social commerce from practical perspective by example of F-commerce. In social network environment, many businesses observed the business opportunity on the social network. Some of SNSs such as Facebook initiates its business model and cooperates with other e-commerce or brick-mortar retailer on its platform. We have explored the business process, revenue model and limitation in social commerce. Although a little literature has been appeared in theoretical study, there is lack of deep theoretical support for academic study. We hope more scholars can concern on social commerce in literature. As well is known, empirical study is main method for information system research. Therefore, the technology adopting model maybe very useful tool for explore the motivation of consumers in social commerce. More recently, the neuroscience has been introduced in system research (see Dimaka^[11]). Using neuroscience to explore the social commerce behaviors in social network environment is future direction.

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