

STORES

Experts Explore The Business Value Of Social Networking Sites From September 2008

By Susan Reda, Executive Editor

If you accept the premise that retailing is a social business, then it would follow that Facebook should be a slam-dunk application for retail companies.

With comScore reporting that the social networking site has 49 million active users in North America and a worldwide audience that has more than quadrupled in the past year, common wisdom suggests that the opportunity to connect with customers on Facebook, share information — maybe even collaborate with shoppers who are passionate about your brand — is powerful.

Target is on Facebook. So are Nordstrom, Sephora and Crate & Barrel. Specialty chains that court younger shoppers — think American Eagle, Victoria's Secret's PINK and PacSun — are there, too.

Yet there's a whole slew of retailers who would be hard pressed to call themselves "fans" of Facebook — or MySpace or Twitter or any of the other emerging social networking sites.

What's holding them back?

Few quibble with the popularity of the site, yet they raise questions about the business value of Facebook. And though they don't always come right out and say it, some think of Facebook as the latest online flash in the pan, a social playground for the young — or both. Fear of less-than-flattering feedback is also an underlying factor.

The site's "fans" have an entirely different view. Being on Facebook — today, at least — is not about bolstering the bottom line; it's about developing a deeper relationship with customers. It's easy enough, they maintain, to see whether a potential customer has landed on their websites from Facebook, but it's really about being a part of the conversation — jumping in when they can offer a valuable suggestion, providing relevant information about promotions or events and building brand awareness.

Paula Rosenblum, managing partner of Miami-based RSR Research, admits she was initially reluctant to embrace Facebook. "Let's just say it took some persuasive arm-twisting to get me to set up a Facebook profile," she says. "I thought it was a kids' thing." It didn't take long for her to recognize the business value of networking with colleagues and contemporaries, however.

Would she recommend that a retailer establish a Facebook page? "If they're looking for a direct money maker, the answer is 'No.' If they're looking to do some brand-building, then it's 'Yes,'" Rosenblum says. "And if they want to do a sniff test to find out their customers' preferences, they should absolutely be on Facebook."

Sucharita Mulpuru, principal analyst/retail at Cambridge, Mass. based Forrester Research, is more skeptical. "As a brand builder, maybe there's some value, but retailers need to guard against the notion that everyone's doing it, so they should, too."

Choosing not to dip a toe into the social networking waters in this instance is one thing; turning

a deaf ear to the power of social networking is another. These tools can profoundly impact how shoppers interact with retailers — and it's the shoppers now approaching their prime spending years who are most likely to have been smitten by them.

Social networking sites are proliferating. Some of the best known include MySpace, Friendster, Hi5, LinkedIn and Disney's Club Penguin, but with about 90 million members, Facebook leads the pack. Founded by Mark Zuckerberg in 2004 when he was a Harvard sophomore, Facebook's origins are rooted in U.S. universities.

Its popularity quickly spread to high school students, and later the company opened the dorm room doors to an even broader audience (the fastest-growing user demographic is 25 and older).

In May 2007, Facebook announced an initiative called Facebook Platform. Essentially, it invited third-party software makers to create programs for Facebook and share in the profits. Hundreds of "social applications" have debuted, from games like Wordscraper to music and photo sharing tools. Last fall, Microsoft outbid Google to gain a \$240 million stake in Facebook.

Growth has continued at a steady pace, with numerous businesses exploring the value of Facebook. Still, as is often the case when it comes to emerging technologies, many retail companies choose to observe rather than engage.

In May, Princeton, N.J.-based interactive marketing agency Rosetta reported that only 30 percent of the top 100 online retailers they surveyed had launched a "fan" page. (For Facebook neophytes, a fan page is a free profile that a company can set up and maintain. Users can declare themselves a "fan" of the company.) In the interim, J.Crew, QVC, Home Depot, Kohl's and Best Buy have launched fan pages.

Adam Cohen, a partner in the consumer product and retail practice at Rosetta, believes that Facebook's low barrier to entry has helped jump-start interest. "Anyone can set up a page and create a free profile," he says. "Facebook is a gold mine for marketers: the platform has an average of 200 data points on each user. It's a great way to get to know your customers better and to gain a better understanding of what's important to them."

Cohen cautions against what he calls forced messaging, however. "Your brand is being talked about so it makes sense to monitor the conversation and to engage in it when it's appropriate. But this is about social networking, not shopping, and retailers need to respect that."

Several retailers use their pages to invite fans to opt in to receive information or updates. "If they sign up, it's a marketer's dream," Cohen says. "They're allowing you to contact them."

Reporting, the new marketing

Simon Graj, co-founder of Graj + Gustavsen, a New York-based firm that specializes in brand imaging and positioning, says Facebook is a vehicle that retailers can use to bring their brands to life. "There's no such thing as business as usual today, and that implies that retailers be open to unique ways of connecting with their customers," he says. "It's important that retailers be where their customers are and it's even more important that they communicate about their brand in an authentic way."

Graj says that "reporting is the new marketing" — meaning that retailers should use social networking sites to communicate who they are and what they stand for. "You can't monetize the value of impressions, but there's no question that there's value in creating relationships

with shoppers," he says.

Graj may be right, but there is a growing number of applications intended to help retailers "cash in" on the power of social networking.

Denver-based bSocial Networks has developed Market Lodge, which allows social networkers to build personalized online stores within their profiles in less than five minutes. The tool claims to turn social networks into online bazaars where members recommend, buy and sell products.

Wishlist, an application from U.K.-based Affiliate Window, allows retailers to add a Facebook link to each of the products offered on their websites. When a consumer clicks on the link, the product is added to their Facebook wishlist without their having to leave the retailer's website.

The retailers that have been on Facebook the longest and have derived the greatest value from this avenue of social networking are those that cater to the extended college crowd — encompassing those who have yet to enroll to the recently graduated.

Laura Evans, an executive studio director at Resource Interactive, a Columbus, Ohio-based digital marketing agency with expertise in the Gen X and millennial demographic segments, says, "These are niche groups of communal customers and there is value in tapping into the viral value of those groups. The more the brand works the social network, the more the social network will work for the brand."

One retailer that has developed real traction, she says, is Victoria's Secret's PINK. "By deploying various tools and widgets that their audience can launch and make their own, the PINK fan page has become contagious among the brand's groupies," she says. "They've chosen to be part of the conversation."

Based on the tomes of research Resource Interactive has conducted with millennials, Evans stresses this group's desire "to be heard. They feel strongly that their opinions matter and they want to be part of a dialog about the brands they love."

Plenty of skeptics

Whether that dialog will ultimately make cash registers hum is open to debate. Among the undecided is Giff Constable, vice president of products and strategy at The Electric Sheep Company, which creates web-enabled social and virtual world experiences.

"Just having a place on Facebook and a few applications for fans to play with doesn't mean people will use them or that it will translate into sales revenue," Constable says. "Right now, it's hard to stand out amongst the noise. In all of these social media applications, there are some early adopters who make waves and get great PR with relatively light experimentation, but as soon as the playing field gets a little more crowded, it gets Darwinian rather quickly and businesses have to be smart — and sometimes lucky — in order not to be lost in the shuffle."

While businesses may not be able to draw a straight line between Facebook and traditional measures of ROI, Constable believes opportunities exist to tell consumers something about the brand they may not know. "Shoppers go to your website to purchase product; they go to your Facebook [page] to learn more about what your brand is all about.

"This is the chance to tell users that you support the ethical treatment of animals, for example, or that you donate a percentage of sales to a charity." Some retailers use their fan pages with an eye toward recruitment — sharing why their company is a great place to work.

Still, Michael Unger, director of the consumer products and retail practice at Archstone Consulting in Stamford, Conn., says every day a retailer is not on Facebook chips away at its market share.

"Today's shopper gives a business credit for being current — as long as it makes sense and it's genuine," he says. "If they're a fan of your brand and seek you out on Facebook and you're not there, it subconsciously tells them something about your brand."

Dana Telsey, CEO and chief research officer of Telsey Advisory Group, concurs with Unger.

"This is not revolutionary, it's evolutionary," she says, "but if they don't find a way to take part in the conversation today, there's a chance they won't be part of the conversation tomorrow."