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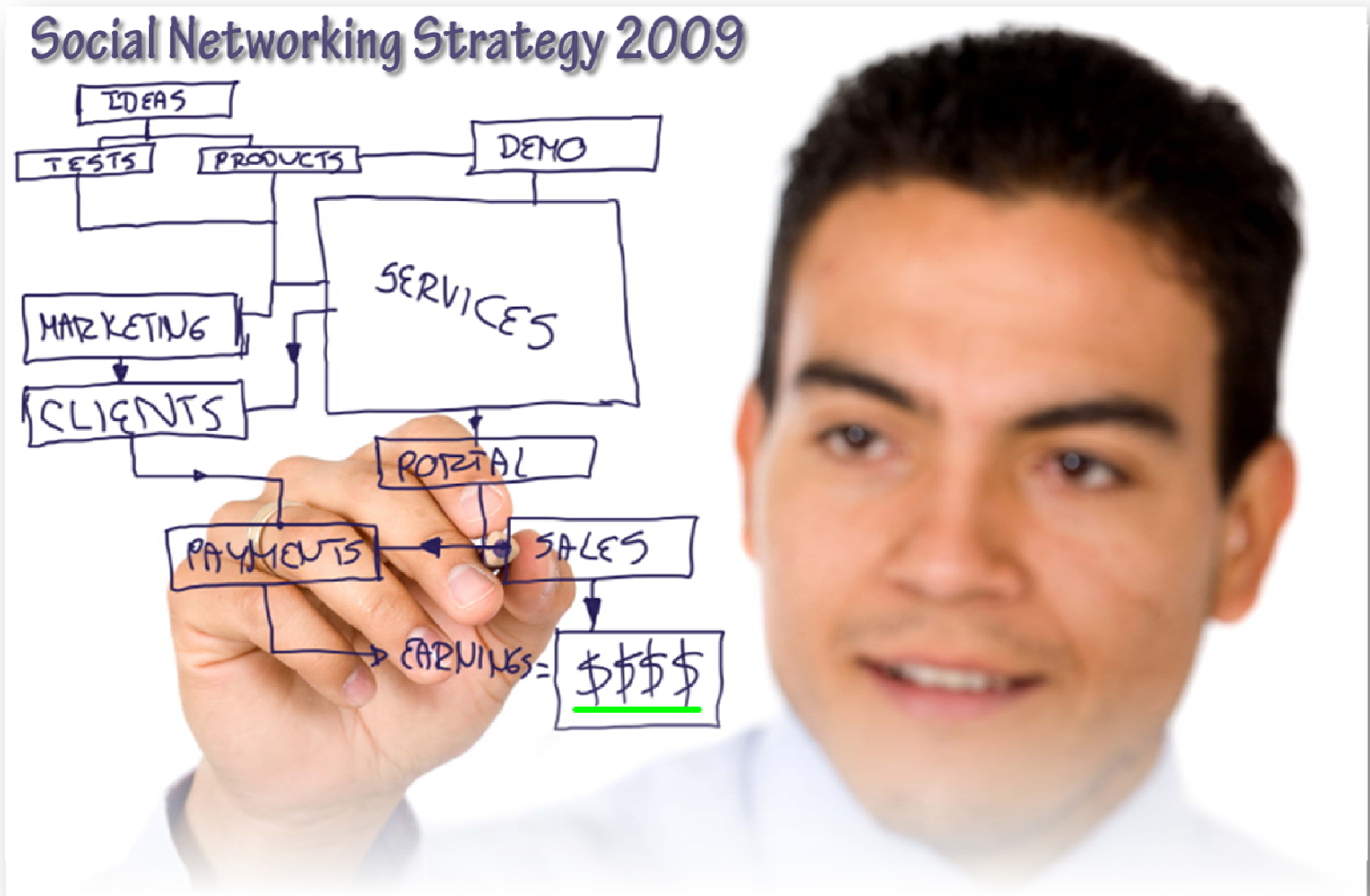
Social Networking: Changing the way we communicate and do business.

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ABSTRACT

This paper reviews the value of social networking and the impact it can have on small and large businesses. The paper also reviews the *Social Networking Business Plan* and the power of recommender networks. Examples are given of inbound and outbound marketing techniques. Social Networking is an integral part of inbound marketing. A synopsis of the evolving demographic of social networkers is presented to add clarity and show potential for social networking websites and tools.

Keywords: social networking, business, Facebook, The Social Network Business Plan, Social Networking Strategy, social networking demographics, inbound marketing, outbound marketing, advertising in the 21st century

Introduction

Social networking is a strange phenomenon that is changing the way people communicate and interact. It is like a religion; a user can be an Excited Evangelist, a Bedside Baptist, or simply a Non-Believer. Although some (Bedside Baptists and Non-Believers) believe that use of social networking Web sites is a one-sided value proposition (time waster or distraction), I will argue that social networking Web sites hold significant potential for businesses and consumers. The primary benefit for consumers is the ability to get connected and stay connected to friends, family, and colleagues. Some would add that social networking provides the ability to interact in an environment that lets users filter out the noise of unwanted/unrelated advertisements. For example, Facebook can be a valuable marketing tool for generating business leads and sales. It also provides advertisers the ability to target specific consumer segments. Leveraging social networking can be a rewarding experience but, as in most business opportunities, there is also a flip side to the benefit coin. In this position paper, I will provide evidence that Facebook can be useful in generating business leads and direct sales. To support this theory, I will explore the history of social networking, explain who social network users are, and, finally, explore how a business can use Facebook and other social networking tools to generate revenue.

Literature Review

The Social Network Business Plan: 18 Strategies That Will Create Great Wealth by David Silver contains a discussion of 18 strategies for creating a profitable social network. Silver is an angel investor from Chattanooga, Tennessee, who specializes in technology start-up ventures. His book provides analyses of carefully researched methods of generating revenue through establishing a social network, none of which includes traditional advertising. He suggests that the purpose of creating a value-added social network is to bring value to community members. Silver traces the establishment of social networks to

community roots established in the early 1940s and 1950s. At that time, things could be solved by front-porch and backyard communities. Neighbors were always willing to share information for the benefit of the entire community. Lawyers and doctors and plumbers and carpenters were all willing to give free advice in the hope of generating revenue from free advertising and recommendations of others.

Silver also argues that traditional marketing and sales departments will someday disappear and give way to online community marketing and sales. One interesting reflection he offers is on how modern sales and advertising processes are similar to those of the early days when a hunter would leave the home to kill something and bring it home to eat. This same process would be repeated the very next day. The business model of the find-an-animal, kill-the-animal, bring-it-back-to-the-family, and go-out-and-find-another-animal community was replaced by the wheat-growing community and its recurring, replicable business model, which was far less expensive and much less time consuming for the early hunters (Silver, 2009). The Egyptians used bread, which was made from wheat, as the currency of choice for thousands of years.

Silver believes that people feel a need to rate, review, and share experiences about products and services. Consumers typically do not trust advertisements and want to hear honest feedback from someone just like themselves. The find-a-customer, sell-a-customer model, referred to as the "antelope-hunt" model, is usually very ineffective and inefficient. However, a recommendation posted on a social network proves to be a powerful tool for generating leads and sales. The best advertisement in the world is a free advertisement. No ad or commercial can sell a product or service better than a word-of-mouth recommendation. The optimal perpetuating advertising vehicle is the community and recommender network. Unlike an unknown quantity (an unfamiliar product or service), a recommender gives a product or service instant credibility.

History of Social Networking

Social networking has been in existence since the creation of man. Human beings are by nature social creatures, and the evolution of knowledge and advancements in modern culture would not exist if not for some form of social networking. The transfer of knowledge from one person to another is the most basic form of social networking. When someone mentions social networking in the 21st century, however, one thinks of Facebook and MySpace as the creators of social networking. The cliché that it takes a village to raise a child is a prime example of a social network; the assumption is that there is a common cause and the willingness to share information for the betterment of the village and the child.

Scholars propose that social networking was not officially defined until the early 1800s. Emile Durkheim gave a non-individualistic explanation of social facts, arguing that social phenomena arise when interacting individuals constitute a reality that can no longer be accounted for in terms of the properties of individual actors. He distinguished between a traditional society – "mechanical solidarity" – which prevails if individual differences are minimized, and the modern society – "organic solidarity" – that develops out of cooperation between differentiated individuals with independent roles (Wikipedia, 2009).

Although most modern-day users would like to credit MySpace and Facebook for creating social networking, the truth is that social networking in a non-electronic form has existed since the Bible was written.

Social Networking 101

Modern academic definitions of social networking include terms like *epidemiology* and *diffusion of innovation*. In its most simplistic form, social networking allows a group of individuals with a common interest the opportunity to support the interest of the group through learning and sharing information.

Michael Volpe, vice president of marketing for HubSpot, relates social networking and media to a cocktail party. At a normal cocktail party, there would be a reception room full of people, all discussing different subjects but all in a single geographic space. The party-goers would all have something in common, which ultimately was the reason for them to attend the party. The large room would have several conversations happening at the same time, and as the evening progressed, the people would feel more and more comfortable expressing themselves.

The major difference between a MySpace or Facebook social network and the typical cocktail party is that the interaction takes place in the online world; there are no restraints on time, place, or space. The cocktail party is for a specific purpose and held at a specific time and location. The purpose is to meet people—to engage in conversations in hope of sharing advice and adding value to the conversation or someone else's life. Volpe also mentions that advice on how to behave at a cocktail party might include: meet people, ask questions, and if someone asks a question and you can offer some advice, by all means do so. The cocktail party example provides a simple correlation and a real-world example of social networking.

Today, social networks are creating consumer-driven direct marketing; many of a company's most loyal and engaged customers will be the first to adopt and participate in a social network. In short, social networks provide marketers with an additional online channel without allowing them to create another marketing silo. If a company can create a better customer experience by integrating online, offline, and branding efforts across the organization, it will have a sustainable competitive advantage (McNamara, 2008).

What's the Buzz About Facebook?

Facebook was started in 2003 by a Harvard college sophomore (Mark Zuckerberg) attempting to get over a girl who had just dumped him. The buzz about Facebook is centered on two extraordinary phenomena, growth and diversity. The growth of Facebook is a fairytale story not seen in other social networking Web sites. What started out as a tool created by one college student for one particular college (Harvard) to allow its students and alumni to connect and communicate has grown into the largest social networking Web site in the world. The average Facebook user spends 5.7 hours a month using the site and has 130 friends, and the Web site has been translated into 65 languages. Facebook has also been voted by Trustee as one of the top 10 most trusted companies. It has more than 300 million users worldwide (Zuckerberg, 2009), of which over 50% log in every single day. The even more interesting phenomenon that moves Facebook out of the realm of fly-by-night Internet businesses is that it is now cash flow positive. Facebook generates enough revenue to support its operation and development, and it boasts more than 65 million mobile users worldwide (Moissinac, 2009). Specific attention should be paid to the worldwide statistics. Of the 300 million worldwide users, more than 70% are outside the United States. Facebook user growth has been meteoric over the past 5 years. In its initial launch in 2004, Facebook boasted more than 1 million active users. The following year, the number had grown to 5.5 million users. In 2006, 12 million was achieved, followed by 50 million and, finally, 100 million by 2008. In mid-2009, Facebook reached 300 million users, more than doubling the size of its closest competitor MySpace (130 million), which was launched the same year as Facebook (Communications, 2009). While other social networking companies are laying off or restructuring, Facebook has grown by 200% in one year and is hiring staff to support its operation. With a team of 300 engineers, the customer-to-engineer ratio is 1 million customers for every engineer.

Facebook and Social Networking Users

What Does a Social Networker Look Like?

As the years pass, certain stereotypes are redefined. Times are changing, and today people are more aware of their surroundings and have more access to more information than in years gone by.

A Pew Internet and American Life Study of online Internet users found that a large portion of Internet users (46%) are 45 and older. This is interesting in that the majority of the wealth held in the U.S. is overwhelmingly held by the over-45 demographic. Even though the young and the older boomers make up a large portion of Internet users, members of Generations Y and X are more likely to have a social networking profile than the others. The study broadly dissected users into younger and older and found that the younger group uses the Internet for gaming and online entertainment versus the older groups who use it for banking and online research (Fox, 2009).

All social networkers are not iPod-toting, backpack-loving, multi-colored-hair teenagers, as some would think. Amazingly enough, over 35% of adult Internet users have a profile on a social network site. The study showed that this is a fourfold increase over 2006; however, this is still much lower than the 65% of online American teens who have a social network profile (Lenhart, 2009). The truth is that the social networking playing field is becoming more and more level. This sets up the possibility for an interesting scenario concerning when the two audiences converge on social networking sites. Most teenagers do not want their parents to have a Facebook profile; however, they think it is cool for their grandparents to have one.

Facebook is not just a teenager's network; in fact, the professional segment is its fastest growing user group (Cuyker, 2009). This holds true for most social networking Web sites, but is exaggerated for

Facebook. According to a ComScore.com press release, the largest increase in Facebook users is in the 25- to 34-year age group, with a 181% increase over last year, and the age 35 and older group grew by 98% (Lipsman, 2007). As time passes, it is believed that Facebook demographics will resemble those of the total Internet population.

Use of social networking sites is not limited to just teenagers; on the contrary, use can be traced to a mix of both younger and older people. The greatest value of Facebook for marketers is that younger people will associate themselves with different communities than older people and business professionals. The beauty of Facebook is that a specific age group or category can be targeted for advertising.

Social Networking for Business

The most important aspect of thrusting a business onto the social networking stage is to have a strategy. Simple or complex, a business must understand both what it has to offer and its potential clients. Understanding this criterion allows a business to launch an immediately effective campaign because, according to the Duluth area Chamber of Commerce, "maintaining a presence on [social networking] …sites is important for businesses… if you want to be relevant in eight months" (Lawler, 2009).

Advertising in the 21st Century (Inbound and Outbound Marketing)

The 20th century models of advertising were based on the capabilities of television, radio, print, telephone, billboards, and even tradeshows. They worked well and were very successful, all things being equal. After the dawn of the electronic age, however, people began to become immune to traditional advertising and other forms of disruptive media. Disruptive media practices have been called *outbound marketing* techniques. However, people were so inundated with this type of advertising that

they demanded that technology vendors develop methods to help them block advertisements. Television owners can now simply TIVO (record to an internal hard drive) their favorite television programs and fast-forward through the commercials. This ability limits the target audiences' exposure to advertisements, and the likelihood of advertisements being seen is projected to decrease substantially going forward. In fact, HBO and other premium channels even base their value proposition on the fact that no advertisements are broadcast during their premium content. In addition, the owners of XM satellite radio collect a premium for commercial-free channels of audio content, and consumers have responded well to the practice. The problem with traditional forms of advertisement is that they are disruptive and invasive, and humans have learned how to block them. Today's consumers have several options—everything from using call blocker on telephone lines to requesting the post office not to deliver bulk mail.

Marketing on social media networks is considered inbound marketing. The difference that makes advertising on social media networks like Facebook stand out is that the target audience—a specific community or channel—has a common interest. This common interest defines in greater detail the needs and wants of a specific consumer base. Twentieth century forms of advertising were similar to hunting with a shotgun on a vast stretch of land. When you pull the trigger, you are likely to hit something. That something may or may not be what you originally aimed at. A different approach to hunting (and advertising) would be to adjust your aim in the correct direction using a less expensive bullet and creating less disruption to the environment (that is, target your audience). Inbound marketing is less costly and less intrusive than outbound marketing.

Social Networking Value Chain

According to Silver (2009), the antelope-hunt methodology is the most inefficient method of generating business leads and sales. Most marketers tend to side with Silver, placing more and more stock in the

Internet as an important advertising medium. One can easily argue that the Internet will become one of the top media for advertising. This type of thinking helps one understand why social networking is so important and why Facebook, the social networking equivalent of Walmart, is so important in this emerging field. In theory, the ability to generate leads and business 24/7 is a much more efficient method of doing business than operating a 9-to-5 enterprise.

Value proposition, just like synergy, is an ambiguous term that is used today in MBA and consultant speak. As a business owner, I am not interested in value proposition or creating synergy. My ultimate goal is to create leads that yield deals that generate revenue. A business cannot grow or sustain itself on synergy and value alone. It is what a business does with value and synergy that sustains it.

Build It and They Will Socialize

Build it and they will socialize is as far from reality as possible. A formal strategy must be created to make social networking work for any business. In the sections that follow, I will showcase real-world examples of business-generating leads that resulted in revenue-generating business. Some examples are quantifiable and others are not. The development of a social networking business value model is needed to help marketers understand membership numbers versus actions and responses as they relate to dollars or revenue generated.

Marlon Barabain example.

As I gathered data for my position paper on social networking, I noticed an interesting exchange unfold via my Facebook wall. A classmate from high school, Marlon Barbabain, is the owner of a small construction company in Houston, Texas. Marlon posted 122 photos of various projects his construction company completed over several months. Knowingly or unknowingly, Marlon marketed his business to

everyone on his 813-member friend list, not including any other groups or associations he belonged to. The response was almost instantaneous. This is a very rare opportunity. A small construction company leveraged Facebook to make a sales pitch (knowingly or unknowingly) to more than 800 people who all familiar with the individual making the pitch. Marlon was able to make a soft sell by simply posting some project images. Marlon's first response to his posting was from someone looking for rehabilitation work. This may seem like a small job but, if you weigh the cost of posting the pictures versus traditional forms of marketing, the advertising was a very inexpensive way to generate business. This is an example of a small business leveraging a loose network to secure new business. If Marlon were to invest in launching a formal Web site, creating marketing collateral, getting postcards or flyers made, or even worse cold calling, the cost for customer acquisition would be 5 times more than the cost of customer acquisition using social networking.

Along the same lines, Marlon was able to direct another person to a location to purchase discounted flooring material. Community Construction's advertising technique is a prime example of the benefits of social networking for businesses and consumers. As stated earlier, social networking is two-way communication. It is similar to a cocktail party, but the time and space are ubiquitous. Not only was Marlon able to secure a potential client for a nominal cost, but he was also able to add value for another person participating in the social network. The more Marlon is able to answer questions from his social networking friends, the more he moves toward becoming an expert in the rehabilitation business. The benefit to Community Construction is that the effect of the recommender community on the perpetual generation of income and business leads is remarkable and almost infinite.

The breakfast klub example.

A highly popular restaurant in Houston, Texas, uses Facebook as a marketing and information system. The breakfast klub is frequented by popular artists, political icons, and movie stars. It has two

restaurants and focuses on delivering high-quality ethnic food with exceptional service. The tagline for the breakfast klub is "the coffee shop that happens to serve great food." With more than 5,000 fans, the breakfast klub uses Facebook to keep clients informed of promotions, specials, and famous guests eating in the restaurant.

One promotion in particular was ingenious and received an overwhelming response from patrons. A restaurant posting asked patrons to take a picture of their plates of food that day and post it to the breakfast klub Facebook page. Some might think this was a simple method to get people to participate in promoting the restaurant; however, the intent behind the post was twofold. One purpose was to show patrons enjoying themselves in the restaurant and to create a peer review of the environment. The second and most effective business reason for the post was to tease those who were hungry and on Facebook during lunch. The first pictures were posted just before the lunch hour. The pictures that were posted were of high quality and the food presentation was first class because the restaurant maintained the quality and presentation of the photos.

Although it is hard to quantify the dollar value of this promotion, one cannot deny that the fundamentals of marketing are being achieved in a peer environment. A recommender community beats a one-off advertising campaign any day.

The previous example proves that "the recommender community business model is eloquent and efficient, whereas the antelope hunt business model is clunky, costly, has too many moving parts, is less profitable, and ineluctably forces clients to pay more for the product or service" (Silver, 2009).

American Express example.

David Silver discusses three healthcare Web sites devoted to different causes, but all offering some form of medical expertise. Sermo.com, Hystersisters.com, and PatientsLikeMe.com are all blog/community Web sites with more than 40,000 hits per day. The Web site focus ranges from doctors discussing treatments and solutions online to members with chronic pain discussing alternative treatments and medications. All of these communities have full-time staff and are generating revenue via a mix of channels. PatientsLikeMe.com collects users with serious diseases, including ALS, multiple sclerosis, OCD, and Parkinson's. Sermo.com is a collection of physicians who discuss cases and seek support for hiring and firing office staff. Each doctor's credentials are verified before he or she is allowed to participate in the dialogue. Hystersisters.com discusses the pain of women who have had hysterectomies. Even when they find the pain solver they are looking for, members still do not leave. They make friends and share photos and stories with other friends in their network. Most of these sites leverage Google advertising and offline fund-raising and partnerships. Although it is dangerous to base your entire revenue model on advertising, it is still a viable source of generating revenue in an online world.

When American Express introduced the Pink American Express card and donated a portion of the service fees collected to help cure breast cancer, the company had an opportunity to reach a specific consumer base as well as those sensitive to the cause. The Web sites and communities can also be used to get feedback and comments on a potential campaign. The feedback is invaluable and takes the place of an expensive focus group. If American Express were to leverage the communities to promote the card, it might spend only $200,000 for a yearlong campaign and save the cost of a 60-second advertisement that constitutes a shot-in-the-dark attempt to reach target customers. With the right focus and

strategy, revenue can be generated using social networks. The potential for consumers to recommend the card to others with the same interest is invaluable.

BlackHairMedia.com example.

As a technology entrepreneur, I am exposed to the magical world of advertising and can point to two colleagues who generate six-figure incomes from Web site advertising. BlackHairMedia.com is a Web community of women of color who discuss, among other things, how to care for their hair. Russell Epps took over the management of the company from his wife, who started the Web site as a hobby. Epps found that the site was generating 10,000 hits per day without management or updates. After adding a simple forum software module that allowed members to join the site and post comments, the Web site is now generating positive cash flow every month in Google advertising revenue. This is small when you compare it to a multibillion dollar company; however, generating positive cash flow every month and nominal expenses is an example of a profitable business model. Blackhairmedia.com has now hired part-time employees and marketing professionals. It is also venturing into Facebook and Twitter.

Big business and Facebook.

An organization, group, or famous person can create a Page on Facebook. The Facebook Page allows other Facebook members to register as a fan of the Page. When the Page administrator sends out a message, it goes to everyone who is a fan of the Page. This seems simple enough, and not very exciting, until you consider that Best Buy has more than 890,000 members as of August 2009 and Vitamin Water has more than 850,000 members as of August 2009 on its fan page. The phenomenon surrounding Best Buy is its growth; in July 2009 it had 38,600 members whereas Vitamin Water had 330,000 members. Imagine sending a message or promotional offer to 890,000 people who want to hear what you have to say and may be interested in commercials and other widgets that help promote your brand. The power

of fan group members is that they signed up to be a member of the Page. They want to hear what you have to say. Starbucks has more than 4 million fans; the Frappuccino drink alone has more than 1.3 million fans.

Fan pages can offer a personal experience for fans. For example, Starbucks CEO Howard Schultz updates the Starbucks Page personally when he visits sustainable farms in Africa. He receives thousands of responses to his posts. Sprinkles, a small cupcake company, uses Facebook to drive customers directly to its brick-and-mortar stores. Sprinkles posts a secret word on its Facebook Page; if customers use that word, they get a free cupcake when they make an in-store purchase. Through Facebook, Sprinkles consumers can also request a free sample. This is an example of inbound interactive marketing at its best, with real-time metrics and measurements. Facebook now has a relationship with Nielsen and can track who sees an ad, what they think about a brand, and whether they intend to purchase a product in the future. This process provides the needed statistical data and information, with the ability to pinpoint demographics and locations.

Michael Volpe of Hubspot (http://www.hubspot.com) makes a compelling argument for social networking. HubSpot is an industry expert in social network and search engine optimization consulting. Volpe argues that today, with the proliferation of Web sites and the simplicity of creating them, most small business Web sites are like a billboard in a dessert; they provide a small insignificant message that very few will see. Business Web sites are used for lead generation. Lead generation for small businesses is important; however, a disconnect often comes when turning those leads into actual business. Leveraging social networking to generate leads then turning those leads into revenue-generating business is the final step in implementing a social networking strategy.

Conclusion

Based on my research and personal involvement in social networking, specifically Facebook, I believe that social networking Web sites present a unique opportunity for small, medium-size, and large business to generate leads and convert leads into business and revenue. Any business choosing to leverage social networking must do so by developing a strategy. The strategy may or may not change along the way, and it is imperative to learn from those who have ventured into the uncharted waters of social networking and learn from their successes and failures. Ultimately, a business must have a presence in some form of social media to be relevant in the near future (Lawler, 2009).

In reviewing the history of social networking, one can see that the modern-day version is just an electronic version of what has been in existence since creation. Social networking is a part of human society and weaves the fabric of the learning process. Today's advancements and global village would not exist if it were not for the original social networks.

As I explored the demographics of the ever evolving social networker, I found that networkers are more likely to be young, but an overwhelming and growing majority of networkers are adults. Adults and the older generations are using social networking for different reasons but, nonetheless, they are participating in the phenomenon.

As the breakfast klub and Community Construction examples demonstrate, social networking can be profitable. It is viable and should be an integral part of any business marketing strategy. The Community Construction example showed us that creating a community and sharing information is valuable for both a business and the community. The recommender community is not an intrusive form of media advertisement and is more likely to generate credible business leads. Although traditional forms of advertising are not going away anytime soon, organizations should dedicate time and resources to social networking. Outbound forms of marketing are intrusive and consumers and technology providers have mechanisms to block them. In contrast, with a recommender network, someone is

asking for specific information and a loose network/social network can provide that information. The breakfast klub example proves that using social networking to provide inbound marketing is effective in reaching a broad audience because it provides information to people who share interests. Sharing of the common focus helps build and maintain strong relationships with clients.

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