

The social shopper

Harnessing the disruptive influence of social media

A report from the Economist Intelligence Unit
Sponsored by SAP





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Preface

The social shopper: Harnessing the disruptive influence of social media is an Economist Intelligence Unit research report, sponsored by SAP. Our thanks go to all survey respondents and interviewees for their time and insight. The author was Rob O'Regan and the editor was Gilda Stahl. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.

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Introduction: What's old is new again

In 1905, Richard Sears sent boxes of his company's mail-order catalogues to his best customers in Iowa and asked each one to distribute them among friends and neighbours. Mr Sears collected the names of those who received the catalogues and, if they purchased an item, rewarded the "influencers" with a gift, in the form of a stove, perhaps, or a sewing machine.

Sears has been honing its social media strategy ever since. The channels of communication are different, of course, in today's digital environment. But the objectives are basically the same, even a century later: by connecting with consumers where they congregate, retailers can attract customers, increase loyalty, improve customer service, enhance product innovation and, ultimately, drive new sales.

Retailers are just beginning to apply this age-old strategy to the brave new digital world of social media. It's a world dominated by Facebook, Twitter, YouTube and other Internet platforms that have changed the way consumers and businesses interact.

An Economist Intelligence Unit survey of 179 business executives from retailers across the globe, sponsored by SAP, shows just how much the consumer-retailer dynamic is changing—as well as how far retailers still have to go in capitalising on social media as a business tool. While 58% of the survey respondents use Facebook to communicate with customers, more than one in five (21%) say they are not using any digital channels to interact with their target audience. The percentage is even higher among hard-line retailers—e.g., appliances, electronics, or furniture (26%) and grocery stores (29%). In addition, 23% of the respondents monitor social media sites but don't actively participate on them.

Although a growing number of retailers are sold on the potential benefits of social media, it's clear that many remain wary about how much they should be leveraging them to connect with their customers. These reservations are fairly consistent among hard-line, soft-line (e.g., apparel) and grocery retailers. Regionally, North American retailers are ahead of the curve in social media adoption; for example, 68% of North American respondents are using Facebook to communicate with customers, compared with 56% in Asia-Pacific, 55% in Latin America and 53% in Western Europe.

Acknowledging the disruptive influence of social media, US retailer Sears Holdings recently appointed Mark Bonchek as the senior vice-president of communities and networks to help the company accelerate its transformation as an integrated retailer. "We're moving to a more dynamic, collaborative, real-time relationship with the consumer," says Mr Bonchek. "A lot of our attention is on changing the way we operate to take advantage of the new social technologies and consumer behaviours."

"We're moving to a more dynamic, collaborative, real-time relationship with the consumer"

Mark Bonchek, Senior vice-president of communities and networks, Sears



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There are challenges in how retailers must reorganise to capitalise effectively on social media

Social media offer promising opportunities for retailers, providing a platform for more direct interaction with consumers in a way that can strengthen relationships, increase brand loyalty, and even foster product innovation. But there are challenges in how retailers must reorganise to capitalise effectively on social media. And there are risks as well, particularly in the rapid way that negative chatter can spread virally, tarnishing a brand's reputation. For many retailers, the social media mantra is simple: Proceed, but with caution.

About the survey

A global survey of 179 senior executives, encompassing a range of functions, and evenly represented across North America, Asia-Pacific and Europe, with a

slightly lower representation from Latin America. Organisations of all sizes are represented: 50% of respondents work for firms with revenue over US\$500m. All respondents are from the retail industry. The survey was conducted in April 2011.



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Toe in the water

As the retail sector eyes a return to growth following more than two years of underperformance, social media are emerging as an important channel to help retailers reinforce existing relationships while attracting new customers to spur business dynamism. The growing influence of social media among consumers certainly cannot be ignored, from a sheer numbers standpoint:

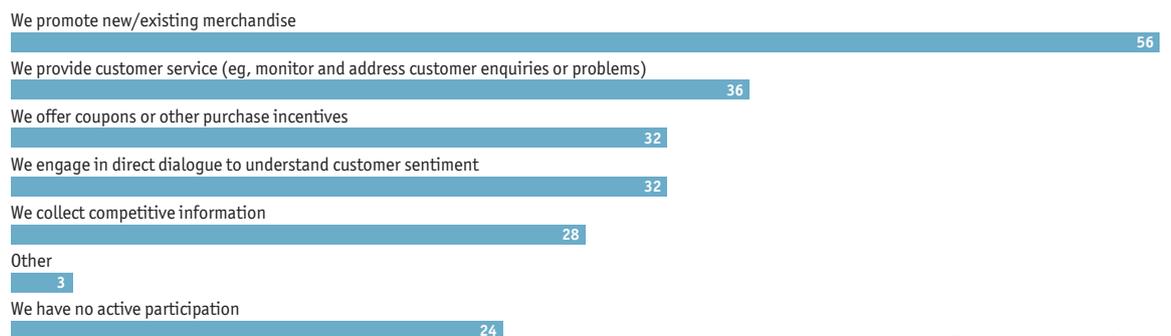
- Nine out of every ten US Internet users visit a social networking site at least once a month, spending more than four hours on average on these sites monthly. Nearly one out of every eight minutes online is spent on Facebook.
- Facebook has more than 650m users worldwide, including 155m in the US, 30m in the UK, 23.8m in India, 16.5m in Brazil, 10m in Australia and 3.7m in South Africa.
- China’s Renren social network, often referred to as the “Facebook of China”, has more than 30m active monthly users.
- Twitter has more than 200m registered accounts—more than 100m of which were created in 2010 alone. Twitter users post 1bn messages (or “tweets”) per week.

So where do retailers fit into this evolving social media fabric? As the Economist Intelligence Unit survey shows, platforms such as Facebook and Twitter have become test beds for retailers exploring new

Which of the following activities does your company engage in on social media sites?

Select all that apply.

(% respondents)



Source: Economist Intelligence Unit survey, April 2011.

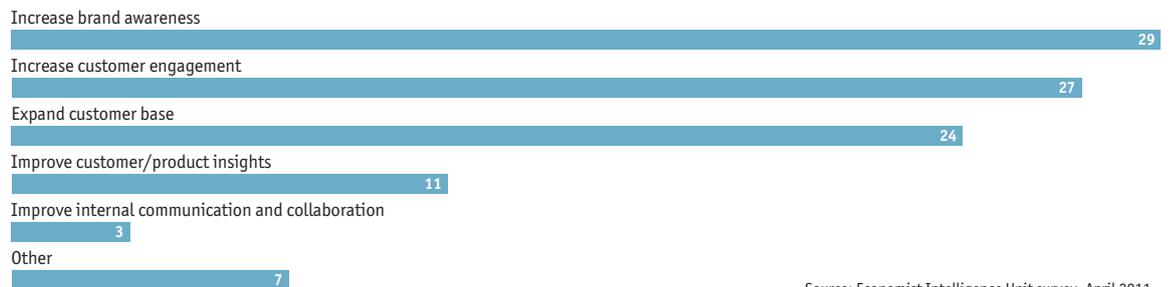


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What is the primary objective of your company's social media initiatives?

(% respondents)



Source: Economist Intelligence Unit survey, April 2011.

ways to engage with consumers. Among survey respondents, 56% use social media to promote new or existing merchandise and 32% offer coupons through their “fan” pages and other accounts.

Retailers’ objectives for their social media campaigns are varied: 29% of the respondents say they’re looking to increase brand awareness, 27% want to increase customer engagement, and 24% are looking to expand their customer base. It’s safe to say there’s a larger, shared goal in mind: to move the needle on sales.

Examples of social media campaigns that drive sales are increasing. In December 2009, for example, Sephora, a French beauty retailer, held a holiday sweepstakes campaign on Twitter called Sephora Claus, in which people tweeted what they wanted from Sephora for the holidays and the cosmetics company granted one “wish” per day. Consumers tweeted more than 50,000 “wishes”, and Sephora generated more than US\$1m in sales tied to the offer. It’s a clear case of how engaging users on social media can drive sales.

But there’s more to social media than simply increasing revenue. Retailers are finding more subtle ways to manage—and deepen—customer relationships, address customer-service issues, inform product decisions, and even track their competitors. Thirty-six percent of survey respondents, for example, say they are using social media as a customer service channel, monitoring Facebook posts, forum comments and “tweets” for customer complaints—and, importantly, taking steps to address those that are legitimate.

“Twitter for us is like an 800 number,” says Gary Wheelhouse, head of social media for Australian retailer Harvey Norman. During the 2010 holiday season, Harvey Norman avoided a potential public-relations disaster after a customer complained on Twitter about an offensive radio advertisement (featuring an unfortunate combination of Santa Claus and lap dancing). Mr Wheelhouse saw the tweet—and the growing calls for a boycott of Harvey Norman’s stores—and responded quickly to the customer. Less than four hours after the initial complaint, the radio ad was pulled.

These types of positive examples are tempered by the horror stories that highlight the inherent risks of social media for retailers and other consumer-oriented companies that aren’t as attentive as Harvey Norman. Take the case of “Dell Hell”. A series of posts from a media consultant, Jeff Jarvis, complaining about poor customer service from Dell, a computer maker, went viral, deflating Dell’s stock price and forcing the company to invest millions in customer service improvements, including social media monitoring. (There was a happy ending, however: In 2009, Dell attributed US\$6.5m in revenue to its Twitter promotions.)

“Twitter for us is like an 800 number”

Gary Wheelhouse, head of social media, Harvey Norman



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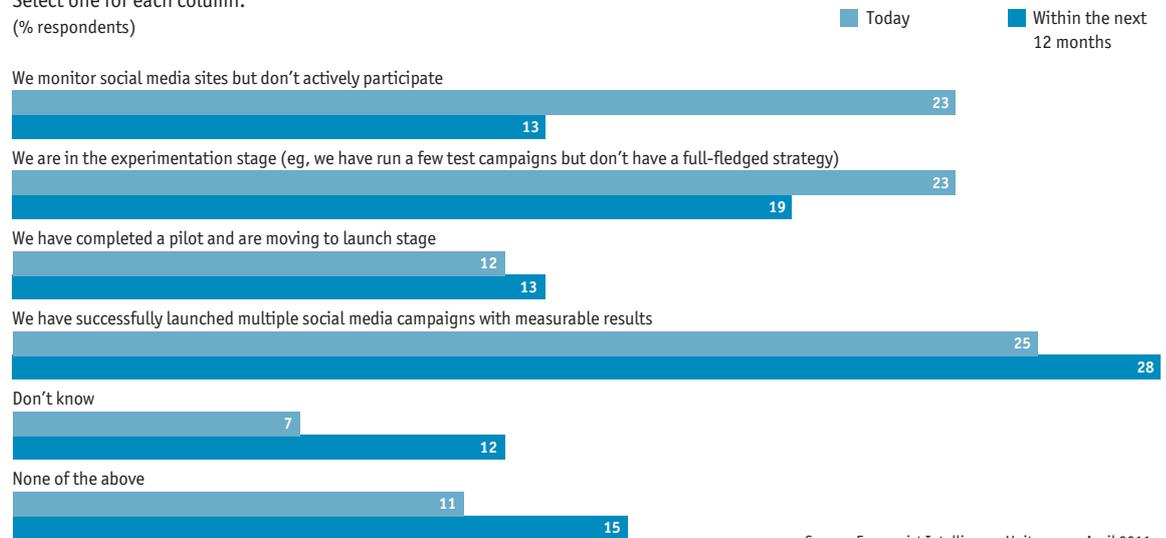
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How do retailers find the proper risk/reward balance with their social media initiatives? It's clear from the survey that retailers aren't ready to bet their business on social media. Many are still tinkering with the right mix of activities: 35% of respondents, for example, say they have completed pilots or are still experimenting, and an additional 19% say they'll be experimenting within the next year.

How would you describe your company's current level of participation on social media sites today? And what will be the level of participation within the next 12 months?

Select one for each column.

(% respondents)



Source: Economist Intelligence Unit survey, April 2011.



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The 4 Cs of social media success

The dynamic nature of social media—Twitter has only just celebrated its fifth birthday—makes it difficult to pin down a “right” and a “wrong” way for retailers to approach these channels. But we have learned enough from several pioneers in this space to offer four principles that retailers can follow as they develop a social media strategy.

1. Consistency. Retailers need policies in place to ensure that their brand promise remains consistent across all media channels, including social media—even if the interactions on Twitter, Facebook and the like are less formal than traditional media. Some brands have learned this lesson the hard way. Fashion designer Kenneth Cole, for example, had to apologise to his company’s 12,000-plus Twitter followers following an insensitive post linking the Egyptian uprising to the company’s new spring collection. Also this year, Chrysler, a US automaker, faced a backlash from customers after an employee with the company’s social media agency posted a profanity-laced criticism of drivers in Detroit—using Chrysler’s Twitter account.

These missteps underscore why a retailer’s social media interactions must remain consistent with its overall brand message. “Our heritage is how we meet the needs of consumers,” says Mr Bonchek. “That’s where we start with social media: Where are we going with our brand proposition for the customer?”

While the brand proposition must remain consistent, retailers must also recognise that different communities have different social dynamics. Similarly, retailers are finding that different social media platforms serve different objectives. Grupo Pão de Açúcar, a Brazilian retailer, uses Facebook for brand awareness, consumer dialogue and collaboration, while Twitter is utilised for customer service, increasing sales and quick messages promoting the company’s brands and values. YouTube drives brand awareness through original content (such as video recipes).

Another important element of social media consistency lies in the frequency and timing of a company’s interactions with its customers. In other words, a retailer has to be ready to respond quickly to a consumer’s query—whenever it occurs. “We effectively monitor these channels 24 hours a day, 7 days a week,” says Mr Wheelhouse of Harvey Norman. “If you’re just manning it during business hours, you’ll miss a lot. After dinner, for example, we tend to get incredible responses from people. If that’s what it takes, then that’s what it takes.”

“We effectively monitor these channels 24 hours a day, 7 days a week. If you’re just manning it during business hours, you’ll miss a lot”

Gary Wheelhouse, Harvey Norman



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“It’s all about resource allocation. If you believe in it, you need to dedicate people to it—people who will live and breathe it and understand the importance of it”

Julie Bornstein, Senior vice-president, Sephora Direct

2. Community. Key to success is an understanding that social media are not purely a communications channel—in which the retailer controls the message—but are more a community of individuals who share an interest in a brand, or a product, or a category of products. Some brands that understand this have created their own social media communities instead of relying solely on third-party platforms such as Facebook and Twitter.

Sears, for example, has launched several communities to engage various segments of consumers. Some are online gathering spots, such as Kmart’s StyleSip for teens, Kmart Gamer for video gamers and Sears’ FitStudio for fitness-oriented consumers. But the company also is experimenting with new types of communities that blend face-to-face, digital and social components. The Craftsman Experience, for example, is a Chicago-based studio that produces web-based programming for home-repair enthusiasts. The shows feature a studio audience that can try out different Craftsman tools. Consumers can also submit their own project ideas.

“We have a very loyal core, and a lot of our focus is on serving that core,” says Mr Bonchek. “These communities help us to reward our core customers and create unique value.”

Similarly, Sephora launched its own community, called BeautyTalk, as a way to “go deeper with a highly engaged group of people who want to talk about beauty”, says Julie Bornstein, senior vice-president of Sephora Direct. A dedicated team runs the site and monitors the discussions taking place there. Since the site’s launch in October 2010, members have created or participated in more than 200,000 discussions, generating more than 4m page views. The goal of the community site—along with the rest of Sephora’s social media presence—is to deepen the relationship with its customers.

“Effective engagement means we’re building trust, learning, teaching, and inspiring,” says Ms Bornstein. “All of our social media activities have elements of that.”

3. Collaboration. Social media channels deliver the most value when they move beyond the customer service objective and when insights are effectively shared between different departments.

“We are using chatting with consumers, listening to their opinions and gauging in real-time the success of our campaigns and other activities,” says Andrea Dietrich, digital marketing manager for Grupo Pão de Açúcar. “It’s not one-way talk, but a real conversation.” Pão de Açúcar has used this type of collaboration to improve its customer service as well as its product offerings (see “Extending social media’s influence”).

Collaboration is an important concept to apply internally as well. Many social media projects are launched by small groups, usually within marketing. It’s important to share the results of these projects across the entire organisation—in part to ensure brand consistency but also to share insights about what’s working (and what’s not).

At Sears, “there are lessons from the Fashion team that can be applied to Lawn and Garden,” says Mr Bonchek. “Each category is doing interesting things—our job is to make sure the lessons are being spread across the company.”



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Extending social media's influence

Marketing is still the primary driver—and beneficiary—of social media activities at retail companies. Nearly seven in ten survey respondents say marketing benefits the most from social media information, far ahead of merchandising (12%), store operations (8%) and the supply chain (3%).

These numbers are expected to shift, however: 37% of respondents say they are currently exploring ways to incorporate social media insights into product and merchandising operations and 15% say they have launched at least one new product based on social

media insights.

Social media channels present new opportunities for retailers to “listen in”—often in real time—on customer conversations about their brand, their stores, their customer service and their products. The next step is leveraging these insights to deliver products, store layouts or experiences that resonate with customers.

Some have already brought this knowledge to bear. Grupo Pão de Açúcar, a Brazilian retailer, launched a new cereal bar in collaboration with customers who made suggestions on flavours via Facebook. The company also responded to a disabled woman's complaints about wheelchair accessibility at a local store by changing the store layout.

Building a business case for social media is heavily dependent on having the right metrics in place to measure them.

4. Commitment. For many retailers, the biggest challenge with social media is getting people throughout the organisation—from senior management to front-line personnel—to buy into the benefits. Only 27% of survey respondents have budgets dedicated to social media marketing and only 12% have added one or more full-time positions to support social media.

Sephora is one retailer that has successfully made the case for more resources. The company has built a six-person team responsible for social and mobile media, along with four members of the call centre who are dedicated to answering questions and responding to clients through Twitter, Facebook and other social media channels. “It’s all about resource allocation,” says Ms Bornstein. “If you believe in it, you need to dedicate people to it—people who will live and breathe it and understand the importance of it.”

Building a business case for social media is heavily dependent on having the right metrics in place to measure them. Tracking the number of followers or “fans” is useful, but only if it gives a company some insight into customer loyalty, customer value, or its brand promise. There’s still much uncertainty about which social media metrics are most useful, and many retailers admit that their ability to measure social media activities is still lacking. A whopping 84% of survey respondents rate their effectiveness at social media measurement as average or poor. Only 4% say they have advanced metrics in place that can tie social media campaigns directly to retail sales.



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Conclusion

If there is one key lesson to be learned from retailers' early exploration of the social media universe, it would be this: start small, test a lot and adjust quickly. "The only way to do this is to test and learn," says Mr Bonchek. "You won't win with every investment—it's the value of the portfolio that matters, along with the metrics to evaluate it. You have to know what to kill, what to repurpose and what to double down on."

When evaluating social media investments, retail executives should ask the following questions:

Are we organised to support social media? Retailers will likely need to leverage a mix of internal and external resources to get their social media efforts off the ground. At Sears, part of Mr Bonchek's role is looking across the entire business to see where social media efforts can align. He already has a strong commitment from the company's CEO, Louis D'Ambrosio, who recognises that social media is much more than a channel: It is a way of thinking about one's business in a social context.

While Mr Bonchek comes to Sears as a digital-savvy outsider, Harvey Norman's Mr Wheelhouse is gaining support for social media by leveraging his 20 years of experience with the company. "I understand the culture of the business, so when I speak internally about the results we're getting, people believe me because I'm an insider," he says. "In a business like ours, that's really important. If you understand the business, you have a head start in promoting social media."

Do we have the right policies and safeguards in place? As noted earlier, it's critical that policies are established to address how (and which) employees interact on social media platforms. Guidelines should cover the tone (authentic), style (informal) and nature of the information being shared. Some companies encourage all employees to participate on social media networks; others limit participation to specific executives or marketing personnel. If you're using outside service providers to manage pieces of social media campaigns, make sure they also understand and support your policies.

How are social media insights being shared across our merchandising, customer service, and store personnel? Social media insights are not useful unless they are actionable. Make sure you have methods in place to route information to the parts of your organisation that are best equipped to act on it. Harvey Norman, for example, has trained its 700 franchise stores to respond to social media or website queries from customers in their locale.



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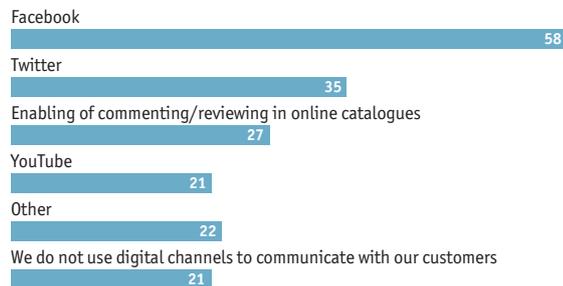
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What social media metrics are most appropriate for our business objectives? Part of the “test and learn” approach lies in determining which metrics are worth tracking. You can start with engagement metrics such as fans, followers and click-throughs, but at some point you will have to measure how engagement translates into financial value. If Marketing “owns” the social media strategy, it should be working closely with Finance to develop metrics that align with business key performance indicators (KPIs).

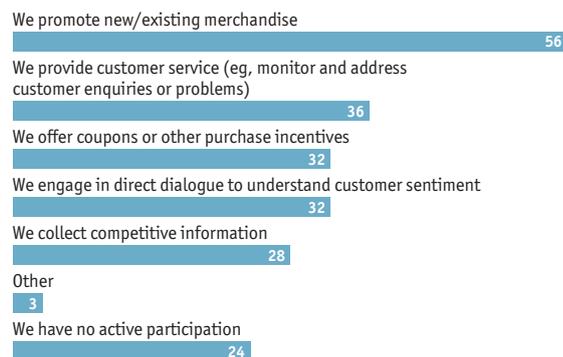
Appendix: Survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

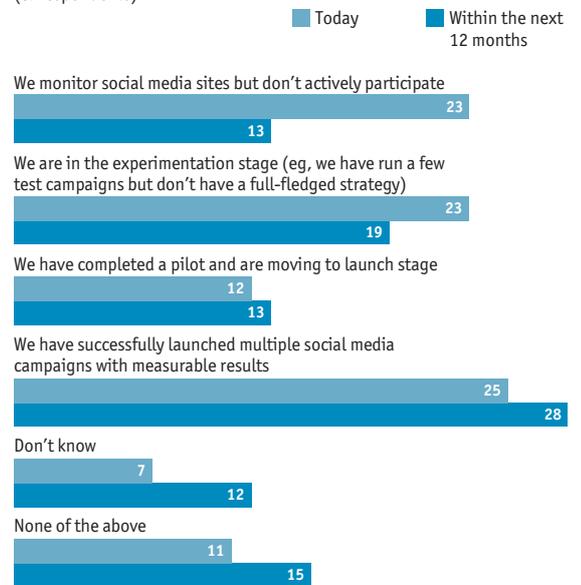
Which of the following digital channels do you use to communicate with customers? Select all that apply.
(% respondents)



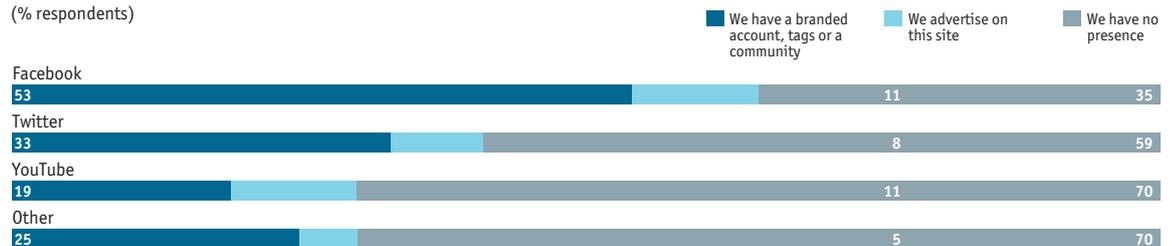
Which of the following activities does your company engage in on social media sites? Select all that apply.
(% respondents)



How would you describe your company's current level of participation on social media sites today? And what will be the level of participation within the next 12 months? Select one for each column.
(% respondents)



How would you describe your company's presence on social media sites such as Twitter or Facebook? Select one choice for each row.
(% respondents)



What is the primary objective of your company's social media initiatives?

(% respondents)



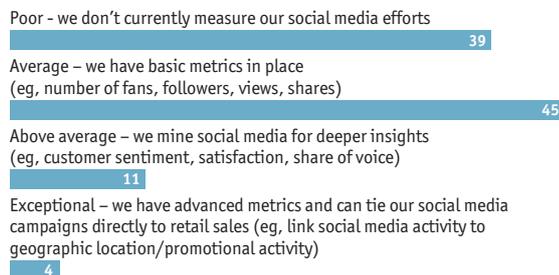
What impact has social media had on your company's marketing budget/resources?

(% respondents)



How would you rate your effectiveness at measuring social media initiatives?

(% respondents)



How do the results of your social media marketing campaigns compare with other forms of marketing (eg, direct marketing, online/print/broadcast advertising)?

(% respondents)



How have insights garnered from social media channels influenced product development or merchandising decisions?

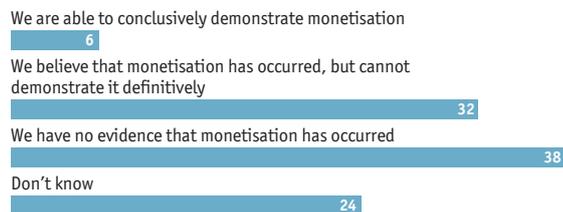
Select all that apply.

(% respondents)



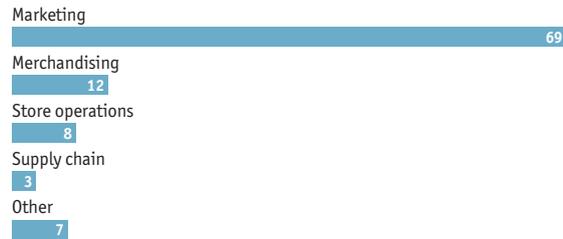
In general, to what extent have you been able to monetise investments in social media (eg, build measurable outputs such as more customers, more sales per customer, less customer attrition, etc)?

(% respondents)



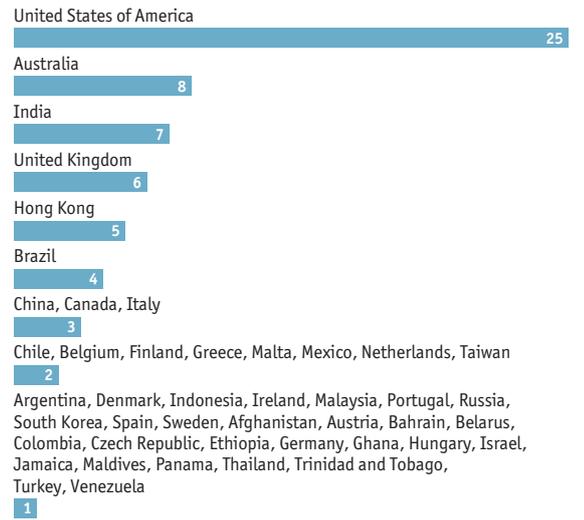
Which line of business within your company benefits the most from social media information?

(% respondents)



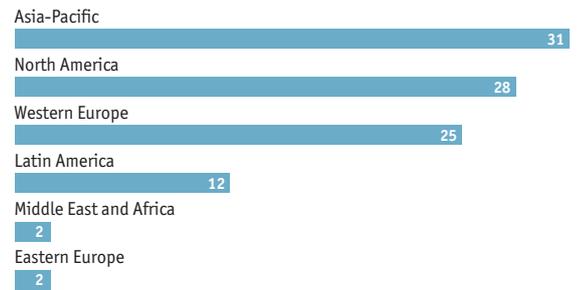
In which country are you personally based?

(% respondents)



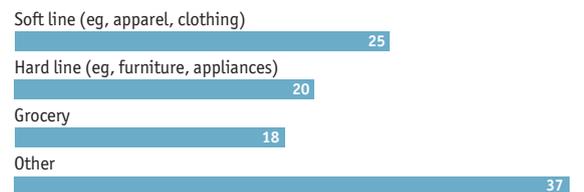
In which region are you personally based?

(% respondents)

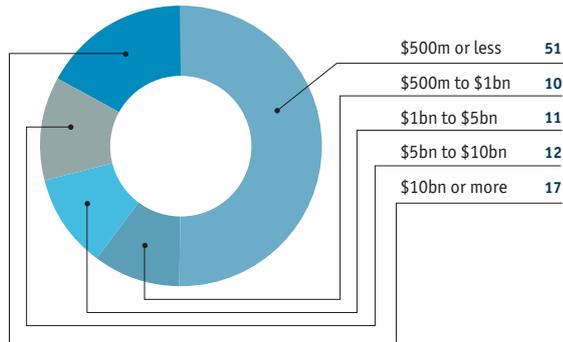


What is your industry subsector?

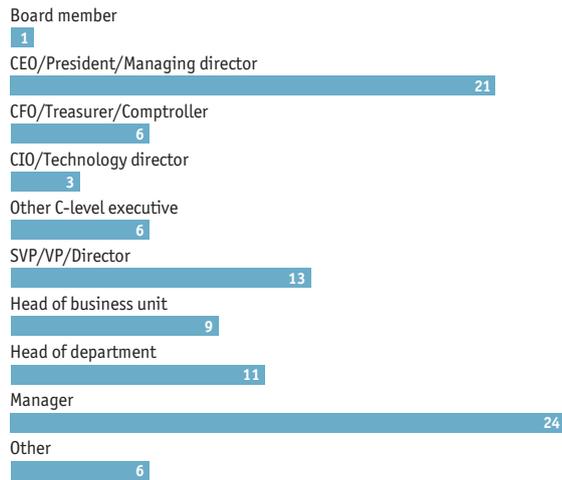
(% respondents)



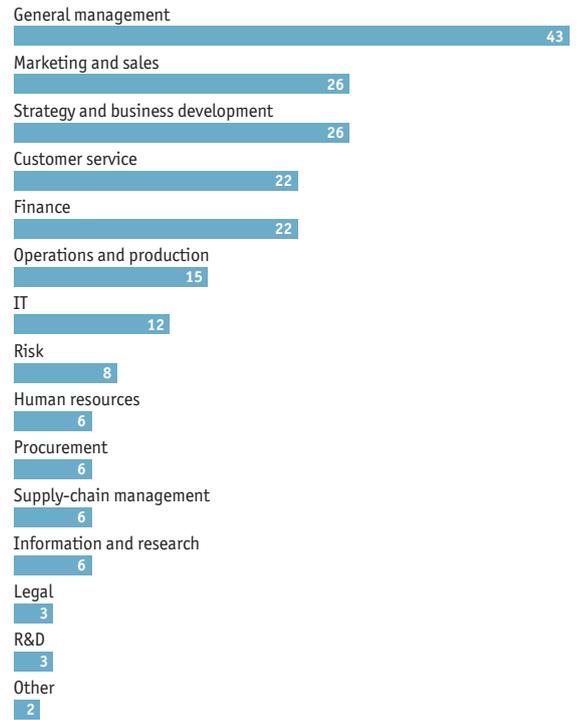
What are your company's annual global revenues in US dollars?
(% respondents)



Which of the following best describes your title?
(% respondents)



What are your main functional roles? Select up to three.
(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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