



# Do your social media lead you to make social deal purchases? Consumer-generated social referrals for sales via social commerce

Namil Kim, Wonjoon Kim\*

School of Business and Technology Management, College of Business, 291, Daehak-ro, Yusoeng-gu, Daejeon 305-701, Republic of Korea

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## ABSTRACT

The advent of social commerce has resulted in a new business model for e-commerce. Although studies on this business model have increased over time, they have paid less attention to its core business model: consumer-generated social influence on sales on a social commerce site. Therefore, in this paper, we examine the effect on sales of social sharing, such as Facebook “likes” and Twitter tweets, which generate social influence, using data from major social commerce companies. We find that consumer-generated social referrals regarding deals significantly boost sales in social commerce. When we examine deals involved in national sales, this finding holds only for Facebook but not for tweets. These findings have the implication for managers that not all social referrals are meaningful in increasing sales for their business.

## 1. Introduction

Social commerce, from deals on Groupon.com to buyable pins on Pinterest, has grown to a value of several billion dollars (Dholakia, 2011a) and continues to grow at a significant rate (Anderson, Sims, Price, & Brusa, 2011). For example, in 2012, Groupon.com reported annual revenue of approximately \$2.3 billion<sup>1</sup> and tens of millions of registered users (Byers, Mitzenmacher, Potamias, & Zervas, 2011), serving more than 500 markets in over 48 countries. In 2015, Pinterest launched “buyable pins” to allow customers to shop on its social media platform. The rapid growth of social commerce has been driven by synergy between e-commerce and social media, which has enabled existing e-commerce business models to successfully utilize and adapt to the changes that resulted from the rise of social media.<sup>2</sup> To amplify the use of social media in e-commerce business models, social commerce firms such as Groupon.com employ a strategy of offering deep discounts as a decoy (Mason, 2013) and focus more on products or services from local merchants.

Using this attractive business model during the early period of social commerce, social commerce firms acted as online distributors of deals offering significant discounts, and they aggressively increased their business by seeking to operate in multiple locations (Liu & Sutanto, 2012). However, they have begun to depart from that initial business

model, retaining the use of social influence but discarding the use of the tipping point<sup>3</sup> and focusing less on local merchants to introduce goods and services for sale nationwide.

Social commerce is a new phenomenon, prompting studies to examine it. On the empirical side, a recent study examines the effects of other customers on sales in social commerce, focusing on word-of-mouth (WOM) (Amblee & Bui, 2011; Ullah, Amblee, Kim, & Lee, 2016; Ullah, Zeb, & Kim, 2015). Other studies also consider social influence from online WOM (Okazaki, 2009) and suggest that it changes customers’ attitudes about a product, which in turn affects sales. However, the focus of WOM is mostly online product reviews, which rarely spread through social networks. Furthermore, reading online reviews at the online store implies that an individual already has an intention to purchase a product. A recent report shows that the main traffic to content articles is driven via social referrals, rather than Google searches (DeMers, 2015), and some e-commerce firms receive high amount of referrals from social media (Shields, 2015; Yang, Kim, Amblee, & Jeong, 2012). So it is questionable whether this widely employed business model utilizing social referral actually plays a significant role in sales.

From a behavioral perspective, previous studies investigate the relationship between social media and social commerce based on users’ trust and the intention to use social commerce. Specifically, they

\* Corresponding author.

E-mail address: [wonjoon.kim@kaist.edu](mailto:wonjoon.kim@kaist.edu) (W. Kim).

<sup>1</sup> Retrieved from financial information available at <http://investor.groupon.com/financials.cfm>

<sup>2</sup> There is no single accepted definition of social commerce (Busalim, 2016). However, we follow the generally accepted definition of social commerce, which is social media mediated e-commerce (Busalim, 2016; Liang, Ho, Li, & Turban, 2011; Zhou, Zhang, & Zimmermann, 2013).

<sup>3</sup> Retrieved from financial information available at <http://www.grouponworks.com/merchant-resources/FAQs/>

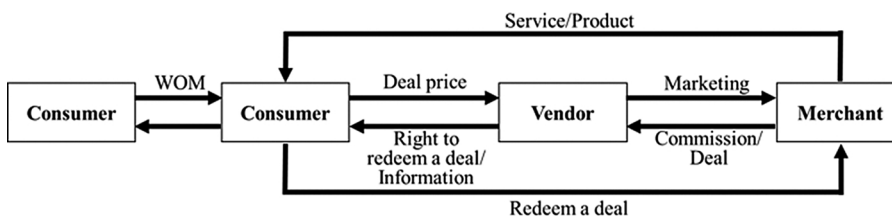


Fig. 1. Social Coupon Promotion Business Model.

consider the perspective of social support and social presence. Social support is based on reciprocity among social network users and the perception that how others care about a user affects the intention. Previous studies show that social support is positively associated with the intention to engage in social commerce (Hajli & Sims, 2015; Liang et al., 2011). In addition, studies from the social presence perspective propose that the presence of a vendor on social media increases the trust of sellers, which in turn changes the purchase intention in that social commerce (Lu, Fan, & Zhou, 2016). To put it differently, this behavioral research does not examine the direct relationship between social media and sales in social commerce; rather, they focus on perceptions about interpersonal communications and relationships among users in social networks. Social referrals generated on social networking sites (SNS), such as Facebook likes and Twitter tweets have not been a primary focus in previous studies. Furthermore, they also do not pay attention to sales patterns in different sales types, such as those for products from local versus national merchants.

Therefore, concerns have arisen as to whether the pattern of growth seen up to now will be sustainable in the long run (De la Merced, 2011; Raice, 2011). Namely, the role and the effect of the key parameter of the business model—consumer referrals over social networks—have not been closely examined or confirmed with regard to sales performance over time and how this business model works beyond local merchants. Unlike the tipping point, the utilization of consumer-generated referrals on SNS is a major factor not only in social commerce but also in other industries. For example, many e-commerce companies, such as Amazon.com and eBay.com, utilize similar consumer-generated social referrals in their business operations.

For this reason, in this study we examine the effect of social referrals on deal sales in social commerce. Because social commerce is an early adopter of the use of consumer-generated social influence to share product information, social commerce firms are suitable for examining the effect of social referrals on sales. In order to investigate the relationship between a change in sales and consumer sharing of deals through social networks, we analyze data from deal-level observations and their shared number of Facebook likes and Twitter tweets. Using the data, we found that consumer-generated social referrals, such as through Facebook likes and Twitter tweets, increase sales in social commerce, and we explain this mechanism from the perspective of social influence. There might be a concern over possible endogeneity issues. To address these issues, we adopt the instrument-free method (Park & Gupta, 2012), which suggests a way to obtain consistent parameters for endogenous regressors without any instrument variables by modeling correlation between the error term and endogenous regressors via copulas. Even after endogeneity is accounted for, the effect of Facebook likes and Twitter tweets on deal sales is statistically significant. Therefore, we contribute to an understanding of issues regarding social commerce, with a focus on analyzing the effect of social influence on sales performance.

The following sections outline the nature of social commerce and the methodology we adopt in this study in order to obtain and analyze data on them. First, we begin by briefly explaining a traditional form of typical social commerce transactions and review previous research on this industry. Second, we develop hypotheses regarding social influence on sales on a social commerce platform. Third, we present our empirical analysis of consumers' social referrals on sales on a social commerce

platform. Afterward, we discuss our findings and provide the implications of our results. Finally, we conclude the paper, discuss the limitations of the study, and offer suggestions for future research to address these limitations.

## 2. Overview of social commerce

This paper deals with a traditional form of social commerce, meaning a form of e-commerce that uses social networks to influence sales (Liang et al., 2011; Zhou et al., 2013), or Groupon-like social commerce. Because social commerce borrows business models from e-commerce, three important entities are retained: customers, merchants, and vendors. Fig. 1 shows the relationship among these entities. Vendors, such as Groupon.com, are platform providers whose main role is to connect bargain-seeking customers with merchants offering goods and services. Merchants feature their own goods, either tangible or intangible, together with discounted prices, in exchange for an advertising effect or price discrimination effect (Edelman, Jaffe, & Kominers, 2016).

Each offer from a merchant at the early stage of social commerce is called a “deal” or a “coupon.” Although the term “deal” is used more frequently in this business, we use “deal” and “coupon” interchangeably in this study. Information regarding the deal is delivered to customers via various channels in both traditional media and social media, such as e-mail, vendors' websites, and SNS. After the vendor distributes the deal, consumers spread word-of-mouth (WOM) about it over their networks.

This kind of business model is initially differentiated from the traditional e-commerce and coupon-based discount model in three ways: the types of products, the duration of discount periods, and the use of social media. First, e-commerce is traditionally based on the sale of tangible goods from national, or even international, merchants. However, social commerce sites such as Groupon.com, at least at the initial stage of their business, target local businesses, including restaurants and service providers, such as dry cleaners and auto repair shops. This offers local businesses an opportunity to advertise and reach a larger audience than they could using traditional marketing.<sup>4</sup> As they gain popularity beyond the local level or at the national level, they extend the market to non-local business, such as physical goods sold nationwide.

To differentiate itself from traditional price discount promotions, this business model adopts an up-front payment system. Traditionally, coupon-based discounts allow consumers to pay less when they purchase a good or service. However, the social commerce business model sells the *right* to consume a good or service, which assures local merchants of the expected sale from the promotion. This kind of right is similar to purchasing an open-ended airline ticket. The open-ended airline ticket lacks a specific return date; rather, it gives a customer the right to use the ticket within a time period. Similarly, social coupons also give customers a time limit within which to avail themselves of the right to have the services rendered. This implies that the sale of the service occurs at the time of the purchase, not when it is rendered. For this reason, we consider the sale of the social coupon the real sale of the service.

<sup>4</sup> <http://www.tuck.dartmouth.edu/newsroom/articles/the-pros-and-cons-of-groupon/>.

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