

## Chapter 8

# Does Social Media Marketing Improve Business Performance?

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### **ABSTRACT**

*The recent growth of social media, or consumer-generated media, has given rise to bidirectional communication between consumers and marketers. There is some evidence that the dialogue appears to help the business performance of companies by influencing, for example, product sales, consumer attitudes, and consumer decision-making. This chapter examines the evidence, with a particular focus on on-line consumer product reviews. Also investigated is the role trust plays in how marketing works in the social media. Managerial implications and research directions are indicated.*

### **INTRODUCTION**

A recent survey of American businesses suggests that almost one-third of the organizations surveyed do not know how much of their revenue was influenced by or attributed to social media (Demand Metric Research Corporation, 2014). In the face of the growing marketing expenditure in the social media, this professed ignorance by businesses appears surprising and calls to mind a well-publicized quotation by an advertiser that he knows half of the money he spends on advertising is wasted, but he simply does not know which half (Lane, King, & Russell, 2008, p. 204). With the increasing sophistication of the tools and techniques for measuring marketing effectiveness and advertising effectiveness, businesses can now track with more precision the return on their marketing communication expenditures in traditional media. The uncertainty still surrounding social media may well dissipate in time again with increasing sophistication of measurement tools and techniques. This chapter argues that already there is mounting evidence that social media marketing does improve business performance, and in various ways. This chapter aims to review the literature on social media to indicate the ways in which social media marketing improves business performance.

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## ***Does Social Media Marketing Improve Business Performance***

The remainder of this chapter is organized as follows: First, we distinguish social media marketing from marketing in the traditional media, beginning with the definition and scope of social media. We then review the theoretical framework governing social media marketing, focusing particularly on the reasons why consumers participate in social media, electronic word-of-mouth communication, and the role of trust in social media marketing. Next comes a review of the evidence on the impact of social media marketing on business performance. Concluding remarks, including managerial and research implications, are found in the last section.

### **WHAT IS SOCIAL MEDIA?**

In this chapter we follow Kotler and Keller's (2012) definition of social media as "a means for consumers to share text, images, audio and video information with each other and with companies and vice versa" through the three main platforms of on-line communities and forums, bloggers, and social networks (such as Facebook, Twitter, and YouTube) (p. 568). Social media is the "umbrella term" for Web-based software and services that allow users to join one another on-line and "exchange, discuss, communicate, and participate in any form of social interaction" (Ryan & Jones, 2009, p. 152). A more technical definition is "a group of Internet-based applications that build on Web 2.0 technologies, employ web- and mobile-based technologies to support the creation and exchange of user-generated content" (Duan, 2013, p. 861). Kaplan and Haenlein (2010) suggest that the World Wide Web's growth increasingly into a social media platform can be seen as "an evolution back to the Internet's roots, since it re-transforms the World Wide Web to what it was initially created for; a platform to facilitate information exchange between users" (p. 60). Mobile devices such as certain types of cellular phones can also enable social networking through mobile components of Web sites and programs. Thus, mobile marketing which involves the delivery of direct marketing messages to mobile devices using wireless technologies (Fill, 2009, p. 739), may sometimes take on the features of social media marketing.

Many different types of social media exist, and these include forums and discussion sites, media sharing sites, reviews and ratings sites, social networking sites, social media submission sites, blogs, podcasts, micro-blogging, and "wikis" among others (Ryan & Jones, 2009, pp. 157-169). Some of these media such as "wikis", defined as Web sites that allow users to "add, remove, or otherwise edit and change content collectively" (Organisation for Economic Co-operation and Development, 2007, p. 33), are user-generated, but they do not allow for social interaction among different users.

Two types of on-line communities are distinguished by Porter and Donthu (2002, as cited in Katarivas, Bendit, & Rosenthal, 2014, p. 95): those founded by people with shared interests and those developed under the stimulus of a company. Important on-line communities include, besides social networking sites, entertainment communities, trading communities, education communities, scheduled events communities, advocacy communities, brand communities ("customer relationship management communities" on company Web sites that allow user posting), consumer communities, employee communities, and special topics communities (Strauss & Frost, 2009, p. 184).

Based on theories in the field of media research and social processes, Kaplan and Haenlein (2010) distinguish social media according to two dimensions: One dimension is composed of the characteristics of social presence and media richness, while the other dimension is composed again of two characteristics, self-presentation and self-disclosure. Based on their classification, virtual social worlds, for example, are high both on the dimension of social presence/media richness and on the dimension of self-presentation/

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