

THINK ACT

BEYOND MAINSTREAM



SOCIALIZE YOUR BUSINESS

Ten things executives should know about digitalization
and social media

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THE BIG 3

 **25%**

of online time is spent on social networks.
p. 4

 **17%**

of all companies use social media in a truly strategic way.
p. 9

 **70%**

of employees believe that leveraging social media makes
the CEO a more effective leader.
p. 13



The pitfalls
of social media
communication
p. 11

Digitalization is a game changer: Social media as part of the fourth industrial revolution will give rise to radical innovations and disruptive business models. The digital company of the future will be better networked, more intelligent and more "social".

Few people have noticed that a structural change is taking place in manufacturing in nearly all industry sectors, and indeed throughout our lives: Digitalization has the power to fundamentally transform our economy and coexistence just like the first industrial revolution.

Every one of the radical technological changes of the last two centuries brought new working practices and production methods with it.

In the first industrial revolution, it was steam power that drove specialization and mechanization. The second industrial revolution dawned with the era of electricity, which enabled assembly lines and high-quality mass production. Finally, the use of computers allowed work processes in all industries to become more flexible and streamlined – stage three of the industrial revolution had arrived.

Now we're in the middle of phase four: digitalization. Data can be collated, saved and processed as never before. Digital information is the oil of the 21st century. Every two years, the global volume of data doubles in size. Big data is more than just a buzzword: Sensors, mobile internet and cloud computing are ubiquitous. And who would want to do without them, at home or at work?

Digitalization is unstoppable because it makes knowledge available anywhere, anytime. Just like the first three stages of the industrial revolution, it irreversibly breaks down the boundaries of existing production methods, gives rise to new business models and changes the way we collaborate. We are heading toward a "social" economy in which people, machines and systems are constantly linked up and communicate in real time. Our life is becoming a huge network in which the real and virtual worlds flow into each other, with lasting effects on our social relationships too.

Three topics are at the center of this momentous trend:

- > The digitalization of manufacturing and in particular production technology, as we analyze in our latest THINK ACT publication, [Industry 4.0](#)
- > The exponential growth in customer data, and leveraging it in the form of analytically derived customer insights, as described in the book [In Data We Trust](#) co-authored by Björn Bloching
- > The non-hierarchical networking of individuals who interact and collaborate on an equal footing via social media – at home and at work. That's the subject of this publication.

All three developments have one thing in common: they lead to new synapses, more intelligent solutions and a higher degree of autonomy on the part of the people taking action. And they enable pioneers who know how to use them to create radical innovations and disruptive business models centered on the idea of exchanging and sharing information with others anytime. Below we turn ten spotlights onto the opportunities that arise in particular from the success of social media in the business world and which allow digital companies to leave the structural and process-related limitations of the analog world behind.

1. Social media: Not hype but socioeconomic reality.

Today, social media is one of the biggest sources of business-related data and one of the key drivers of digitalization. But it is a fairly recent phenomenon even for the New Economy. As early as March 2, 2009, the digital evangelist Avinash Kaushik tweet-ed, "Social media is like teen sex. Everyone wants to do it. No one actually knows how. When finally done, there is surprise it's not better." Five years later, this "teenage angst" has been overcome. Facebook, Twitter, YouTube and the like have become a solid part of society as well as marketing and communications channels in the corporate world. Here are a few figures:

- ☀ > Users spend around one-fourth of their online time doing social networking.
- > Social media isn't just for youngsters – the over-45s are now the fastest growing segment of users.
- > Over 6% of customers, at least in Germany, already base their purchase decisions on information from social media.
- > Large corporations with at least 100,000 people now have an average of 50 full-time employees supporting social media.

It's clear that social media is here to stay. After the initial experimental phase, the industry is now entering a new stage characterized by the following typical developments of a maturing business sector:

MORE DIFFERENTIATION. Social media is becoming ever more diverse. Conversation Prism, a visual representation of the current range of Web 2.0 platforms, lists some 30 different areas of application that increasingly map the entire reality of users' lives – from communication, entertainment, sports and shopping to knowledge sharing, business networks and digital marketplaces.

SUBSTITUTION. More and more products and services from the analog world are facing their equivalent on the social web. Newspapers and magazines have become websites and apps – and now there are news blogs that users can help shape like the Huffington Post, or magazines people can make by themselves, using Flipboard for example. Every user is their own producer! More and more middlemen are disappearing because consumers are joining forces – and renting out their apartments (Airbnb) or providing insurance to each other (Friendsurance).

NEW PLAYERS. It started with YouTube. Now videos are shared on dozens of platforms and even a subsegment such as live streaming is split into numerous special services like game watching or life sharing. Thanks to an exponentially fast growing user community and global scales there is (still) enough room in each niche for several providers.

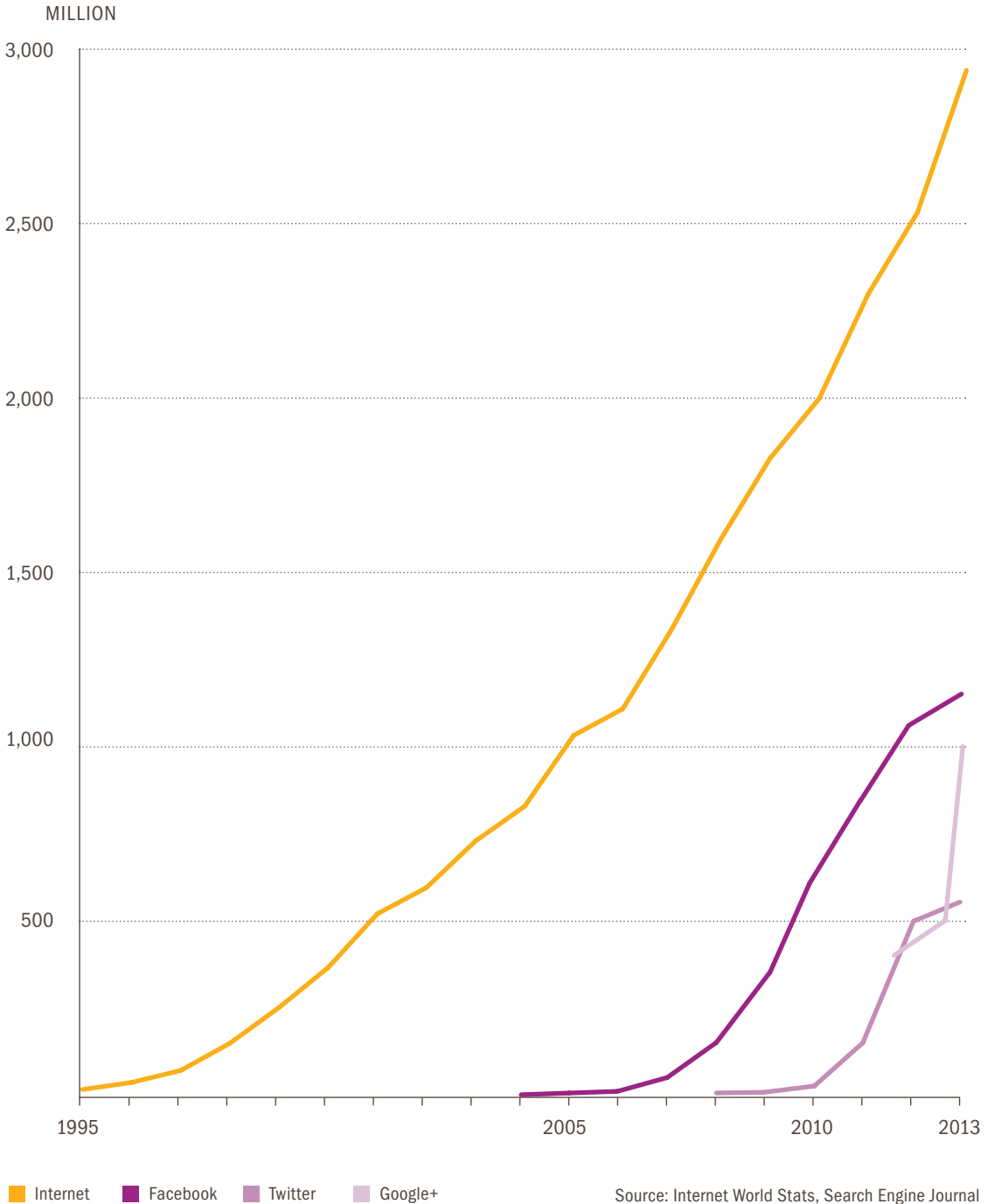
BEST PRACTICES. Success factors in companies' internal and external usage of social media are becoming clearly visible; this applies throughout the value chain, in other words to recruitment, knowledge management and product development as well as marketing, client communication and aftersales service. It is broadly acknowledged that social media only thrives in a culture of openness and trust. Nothing works without authenticity, participation and transparency. Use cases are essential for providing the user with immediate benefits. And of course defined KPIs are needed to convince skeptics of the business value.

Social media is spreading exponentially. **A** It has already changed the world as much as radio did in the last century – and it has turned the internet from a passively used medium to an interactive one. Today it

A

SOCIAL MEDIA SPREAD EXPONENTIALLY

GLOBAL USERS



B

CONSTANT COMPANION

Liking or sharing are among the basic communication needs of many people today. Keeping up to date with news from your best buddies is an established part of the digital lifestyle, not only among the younger generation.



71%

of smartphone and tablet users access social media using their mobile device.

permits the creation and sharing of user-generated content on the ideological and technological foundation of Web 2.0. Social media is part of day-to-day business, enabling networking and participation. It's a global success because it satisfies basic human needs: getting to know other people, communicating and sharing with them. And this anywhere and any-time, because 71% of smartphone and tablet users access social media using their mobile device. B

What makes social media so economically relevant and puts the commercial spotlight on its users? Nowadays it's not seen as a separate area, but instead as an extension of the real world. That means companies and brands can become friends, or even a kind of family member. And they thus fit neatly into the universe of interpersonal relationships.

Where people are online, who they're connected to, what they share or whom they like – all of this becomes part of their identity. The result is that today, belonging to and the frequency of interactions in social networks says more about consumer behavior than background or status. In fact, the identification can go so far as to spur consumers to voluntarily act on behalf of companies and their brands. This is due to a number of reasons: They see it as an expression of their personality, they experience self-efficacy, they are interacting with like-minded people, or they want to help others, e.g. in making a purchase decision. And in just a brief space of time, they can reach more people than ever before. This is potential that has to be tapped.

2. Social media is power – Inaction can be fatal.

Can companies afford to ignore this new socioeconomic reality? By no means. For one, because the risk of doing nothing is too great and, for another, because they will miss out on opportunities and fall behind "socially enabled enterprises".

The most frequent arguments given in favor of social media engagement are as follows: People are going to be tweeting and posting about your company anyway, so you may as well be part of the discussion and at least

help direct it. Proactiveness can aid in preventing the unforeseeable effects of collective public indignation ("backlash") and thereby keep the worst at bay.

In general, this risk of inactivity is overestimated. It's very rare that online buzz becomes a genuine threat; the real danger lurks elsewhere: By not doing anything – and this is the real catalyst for social media engagement – the balance of power between consumer and company could shift permanently and irrevocably.

Interconnectedness has supposedly made customers more vocal, more demanding and more confident – proof is offered in the examples of consumer forums with a broad reach or the showrooming phenomenon (customers look in the stores, then buy online). But are the control and power of companies in the age of social media truly waning? For example, are advertising experts losing their clout because campaigns are less guidable and customers are harder to persuade? Or is this development being counteracted by customers' data footprints, which provide companies with unprecedented insights into nearly all areas of life?

In brief: if you define power as the ability to control social relationships, then in Web 2.0 the power of consumers is truly on the rise. Multiple factors play a key role here simultaneously:

AGGREGATION OF DEMAND. In the social web, consumers can bundle their demand in order to get discounts, for example – and join forces across technical, geographical and cultural boundaries.

REDUCTION OF ASYMMETRIES. Consumers are becoming better informed, thanks to easily accessible performance data, product reviews, comparison portals and "eWord of mouth".

LEVERAGING OF NETWORK EFFECTS. Content can be spread and shared more quickly as well as enhanced and modified. The social web, therefore, doesn't serve to just accelerate and multiply communication, but also changes its very nature.

ACTIVATION OF PARTICIPANTS. Participation and networking yield new opportunities for bundling, mobilizing and structuring resources. The power of the many opens up new marketplaces – think of sharing

"Human beings are 'social animals'. This is why social media causes a paradigm shift affecting every company".

PROF. DR. CHARLES F. HOFACKER,
FLORIDA STATE UNIVERSITY

economy – and leads to business models grounded in the knowledge and participation of the customer ("crowd-based").

The internet is therefore democratizing power, but is also destabilizing it at the same time, since the sentiments of the users are not controllable and also hard to direct and guide. The environment that marketing is operating in today is like a pinball machine – no one knows where the ball will go.

The fact that customers are making themselves heard more than ever, or even initiating brand-related, image-influencing campaigns like United Breaks Guitars means that companies are losing control. In extreme cases, they risk being pushed into the role of moderators or even merely an audience without any real influence on the evolution of their brand story. But at the same time they can leverage new opportunities to communicate with customers or with employees too and thus gain a competitive edge over companies not sufficiently well versed in social media.

3. Social media is a key capability.

All in all, we think that social media is less of a threat to corporate sovereignty, autonomy of action and brand identity than an opportunity to improve a company's long-term performance in two ways.

CUSTOMER CENTRICITY. In traditional organizations, the most important person – the customer – is not often involved in key decisions. Social media creates new opportunities for interacting with customers (see proposition 4), indeed it offers the chance to transform one's own company into a customer-centric organization.

You first need to be aware of this in-depth transformation. It is worth turning the new power position of the well-informed customer, which is often regarded as threatening, into a positive thing and see social media as a way of entering into a dialog and understanding real needs. Every customer problem is a business opportunity! And what gives employees more satisfaction than to have solved a customer problem?

At the same time, companies are not powerless to the might of the crowd. On the contrary, they now know much more about their customers than ever before, which partly makes up for the loss of control. Also, they can influence the flow of news or even steer it in the right direction. If a company regularly offers interesting content, over time it establishes a community of loyal followers who act as a protective wall in critical situations without the company having to actually take action. This kind of community is worth its weight in gold.

First, committed customers or influential shoppers act as brand ambassadors well beyond the boundaries of their own network. Video bloggers like Bethany Mota or Sami Slimani achieve celebrity status with their widely viewed tutorials, to the advantage of both sides: while a company gains authentic and therefore credible advertising, the originators of user-generated content can do their own thing and boost their publicity.

Second, a community of loyal followers is also a highly sensitive early warning system: the well-connected digital evangelists are the first to find out what dangers are threatening a brand, what trends are on the advance or what new technologies will take root. Companies that opt for close, regular interaction with committed and/or influential customers via social media thus substantially improve their agility and adaptivity.

KNOWLEDGE MANAGEMENT. What's just as important as the benefits of greater customer orientation is the benefit companies get from combining participation and networking in knowledge management. Interdisciplinary and cross-functional collaboration in connection with new customer insights improves innovation management in particular. The opportunities presented by this are set out in more detail in proposition 7.

Social media is thus much more than just a marketing tool. It's an enabler of all people, processes and systems in a company that deal with customers or knowledge. In other words, for all value-adding capabilities.

"Social media is like the world's largest cocktail party (...)
Listen carefully, be transparent, be responsive, be authentic, tell great stories – and you will be the hotshot at the party."


DAVE KERPEN, CEO LIKEABLE MEDIA

But uncertainty still remains: in what circumstances is social media involvement by companies really worthwhile?

While we recognize that sensitizing employees and having an open mind are crucial to success in terms of customer orientation, use cases play a key role in knowledge management: if there are no specific practical benefits for day-to-day work, corresponding digital platforms such as a social intranet will not be accepted.

For both customer orientation and knowledge management, the third success factor is ultimately relevant: good governance of social media. The ground rules could be:

- > Platforms based on openness, self-regulation and implicit rules boost the commitment of those involved.
- > The perceived fairness of the governance system has an impact on the effectiveness and durability of a community.
- > Gamification, in other words rewarding contributions with badging, ranking or other non-monetary incentives, is essential.
- > Users must be able to supplement their contributions, e.g. by liking, commenting, tagging or adding pictures. Media enrichment should be encouraged and rewarded.
- > Collaborative commitment is the top level engagement. More than simply disseminating content, it's about jointly creating, completing or modifying it.

But what's most important both because of its objectives (greater customer centricity, better knowledge management) and its scope (the topic is affecting all areas of a company), social media is a strategic challenge. This is why the objectives of social media commitment must be derived directly from the corporate strategy. As trivial as this may sound, it is rarely the case in reality. Only 17% of all companies actually act strategically when it comes to social media, the State of Social Business Report 2013 compiled by Altimeter found. Deriving the strategic approach from the business objectives offers the greatest potential for effectively and efficiently using social technologies. 

Social media is also about a transformation that affects the entire organization down to its finest branches and demands new forms of communication and innovative ways of cooperation. Rush decisions and isolated solutions will not suffice. But an integrated, comprehensive and consistent approach to social media pays off. Whether jointly trying to come up with ideas, solving problems or creating content, Web 2.0-based models of collaboration have the edge over traditional patterns of organizing teamwork. Social media is the easiest way of leveraging the information processing capacity of networks, the efficiency of informal markets and the wisdom of the crowd. It creates an ideal communication and knowledge tool for a world in which intelligence is becoming ever more distributed and interconnected. This is true for the company and its employees, but also for its customers. To give an example: Many authors of user-generated content easily fulfill the Gladwell criterion of intensively dedicating 10,000 hours to a specific topic and can rightfully be considered acclaimed experts in their field. They are thus a power factor and innovation driver that companies cannot ignore.

4. Social media enables new forms of interacting with customers.

Specifically because the role of customers (and knowledge holders) changes due to social media, interaction with them must radically change as well. Stop passively addressing the masses and lulling them with standardized content, and opt for exchange, dialog and co-creation. In other words: Customers shouldn't be bombarded and/or entertained with one-sided advertising messages, they should rather enter into a (preferably long-term and profitable) relationship with the company.

This also changes the role of marketing altogether. It is more than ever called upon to present specific value-added content that goes beyond mere product advertising. This is no longer about short-term sensationalism and pure selling logic, but much more about gaining a better understanding of what really makes the customer tick. And for starters, and above all, this

means: listen, listen, listen. One should make a point of giving one's best attention to critics, as they often provide the most valuable information on how to improve products or services and where business opportunities lie untapped.

As in other marketing channels, social media also abounds in conflicting objectives. If social media platforms are designed primarily with their attractiveness to customers in mind, their direct use for sales could suffer. If the selling intention is overly apparent, few customers will swallow the bait – unless the attractiveness of the new channel is boosted by launching costly rebate promotions. Last but not least – and this is a ground rule when building web-based platforms – it should be avoided that channels unnecessarily cannibalize each other. Social CRM thus requires an integrated management of interactions varying in frequency and intensity at all touch points and along the customer's entire lifecycle.

How can such a complex set of requirements be successfully met and what factors need to be taken into account? Two points are critical when formulating a sustainable CRM strategy for the social web:

DEGREE OF CUSTOMER ENGAGEMENT. What distinguishes social CRM from traditional CRM is that customers are no longer object but subject. They are no longer passive addressees of marketing activities but voluntarily engage with a product, a brand, an organization or a company, often without being asked to (the Facebook community of the German Armed Forces was built by a private individual and only two years and 200,000 likes later the social media force at Hardthöhe took over). By influencing others, making recommendations or altruistically contributing their knowledge for the use of all, these committed supporters increase their value for a company, with influence and impact going far beyond their behavior as customers.

This means that companies need to granularly differentiate their interaction – according to individual preferences, social environment and the customer's personal situation rather than just revenue or profit.

It is therefore particularly important to reward the different levels of engagement with a product, brand or

C

* THE DON'TS OF SOCIAL MEDIA COMMUNICATION

The most common mistakes

Don't flood customers with ads as this is a real turnoff.

**DON'T
SPAM!**

How to avoid them

Do trust in spontaneous word-of-mouth marketing – attractive, interesting content is (almost) always successful.

Don't be self-important or send impersonal messages because this will not have an in for communities.

**DON'T
BORE!**

Do be humble, put the customer first and incorporate the experiences and ideas of users.

Don't avoid unpleasant questions as this doesn't further the customer dialog.

**DON'T
CLAM UP!**

Do create transparency (without giving strategic information), admit to mistakes and solve problems quickly and unbureaucratically.

Don't prevent employees from contributing their own ideas to addressing business-critical processes.

**DON'T
DISCOURAGE!**

Do encourage employees to identify dissatisfied customers and notify internal care agents to support them.

Don't put a muzzle on employees and exclude them from public communication.

**DON'T
INTIMIDATE!**

Do allow suitable staff to maintain public contact and disseminate information through controlled leaks.

company. Just like each player's degree of networking or tie strength, this commitment must be reflected in the customer's overall value. An in-depth product review creates considerable value for a company even if it is initially recognized only by very few users. (Co-)creating or enriching content are to be rated higher than a weak and normally non-binding commitment in the form of likes and shares, and product know-how and recommendation behavior should be integrated into the evaluation algorithm along with customer history.

For companies engaging in social media activities, this means two things:

> They should go beyond simple advertising forms that raise awareness without creating interaction or even true loyalty for the company, as this only insufficiently taps customer value potential.

> And they should not be tempted to measure merely output (content volume) while neglecting outcome (content value). A single like doesn't create much value and shares are also systematically overrated.

In addition to the degree of customer engagement, the relationship status between customer and company must be taken into account in social CRM.

LIFECYCLES OF CUSTOMER RELATIONSHIPS.

Traditional CRM distinguishes between acquisition, retention and termination of a customer relationship. Structuring the customer history into these three phases no longer seems applicable for social CRM. To cite a simple example: If companies offer attractive terms for new customers in a promotion campaign but deny them to existing customers, the latter may threaten to terminate their contracts and/or spread negative word of mouth – the damage would be immense, especially if customers are highly engaged and have a strong network.

The classic distinction between acquisition and retention thus no longer applies to social CRM – these two phases in the lifecycle of a customer relationship will have to be addressed and managed jointly in future.

Phase three, terminating the business relationship, can be more clearly distinguished. This is where social media offers the greatest potential for influencing customer behavior. Network data shows clear indica-

tors for imminent contract terminations on the part of customers – along with the possibility to initiate targeted counteraction as soon as the first signs become visible and thus significantly reduce churn rates. If the company wishes to break up, it is well-advised to carefully consider the results. Despite low profitability, it may make good economic sense not to terminate the business relationship with influential and well-connected customers.

Along these two dimensions – the degree of customer engagement and the lifecycles of customer relationships – a social CRM can be defined that considerably increases customer lifetime value (CLV). And what's more: Not only the CLV can be optimized – social media also has a positive impact on other KPIs such as customer influence value (CIV). Leveraged by networking effects, they create value that goes way beyond the individual customer relationship – and thus become "a gift that keeps on giving".

This type of strategy also has its limits. Overly pushy personalized advertising or recommendation marketing is perceived as manipulative. At the same time, companies can create engaging content that creates value for the customer by offering a welcome change from the mass mailings that characterize traditional outbound strategies, hence avoiding their messages getting caught in the spam filter or even annoying customers to the point that they won't return.

Ideally, social media establishes a close personal link to the company by engaging in individual dialog with the customer, thus making every marketer's dream nearly come true: establishing a one-on-one relationship with the customer while almost completely eliminating any wastage. Two thirds of the start page at Amazon, for instance, already consist of customized content, and on Facebook no two newsfeeds look alike. Brick-and-mortar stores don't use these possibilities for individualization sufficiently yet.

But differentiated customer communication and intelligent customer relationship management are not everything. **C** For social CRM to function well in practice, additional prerequisites must be in place:

BIG DATA MANAGEMENT. Social media generates myriads of data. Companies who manage to identify true customer insights from this huge amount of mostly unstructured raw data are in a position to base their decisions on evidence instead of mere intuition. Those days of gut feeling are definitely over in marketing!

EMPOWERING CULTURE. Employees must live and breathe social media. Companies need analysts with the right skills to analyze data, interpret the findings and put them to good business use. And they need suitably qualified and authorized customer-facing staff who are in a position to use great decision-making scope within defined guidelines (code of conduct) when solving a customer's problem.

LEADERSHIP. Social media has to be present throughout the company. Every employee dealing with customers must be able to use social media. Ideally, the top management should act as a role model. Managers who actively participate in and use social media as a management tool have greater impact and are more effective leaders. A recent study found that 70% of addressed employees confirm this.



RESULTS MEASUREMENT. Some skeptics transfer the so-called productivity paradox in IT to Web 2.0: "We see social media everywhere except in ROI statistics." But such criticism is largely unfounded, as we will see later on (proposition 9). There are generally accepted key performance indicators for social media measurement.

Companies who follow these best practices need not worry about their social media marketing: The positive effects will soon be apparent in their balance sheets. They can even use crises to their advantage, e.g. for generating customer insights, improving products or discovering new business models. And for establishing close and lasting dialog with customers.

5. Social media influences purchasing behavior – directly and to a greater extent indirectly.

Just like Web 1.0, social media has undergone an accelerated maturing process, starting with a phase

"No matter how careful you are, it's not always possible to predict how people will interpret or react to a campaign or tweet. You need to realize, consider and accept this risk. And learn from any mistakes."

MICHAEL WEINREICH, BOARD MEMBER AT ARVATO, BERTELSMANN GROUP

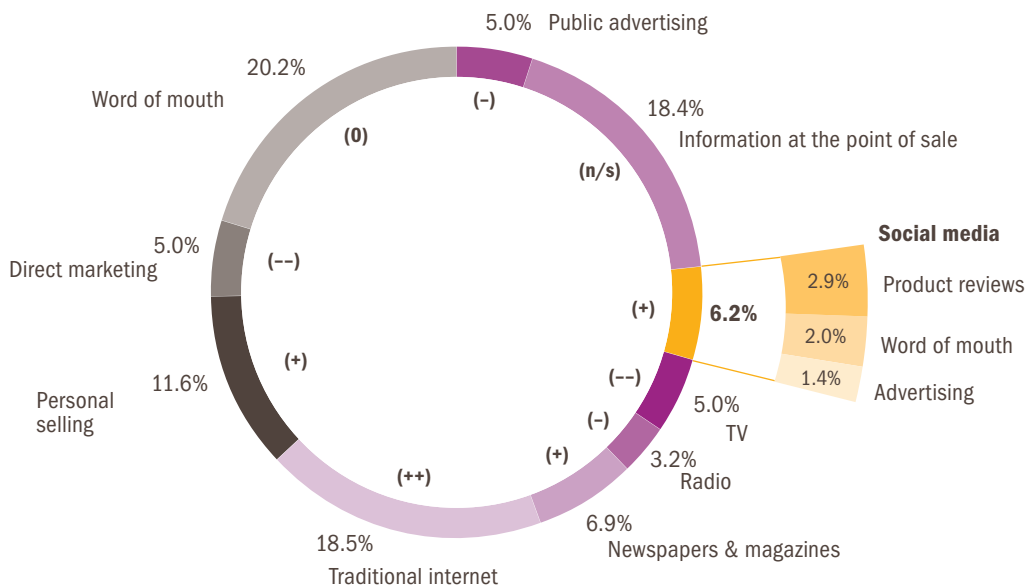
of experimentation characterized by a culture of giving and followed by a kind of gold rush with unrealistic expectations of commercialization. When these hopes were dashed, phase three ushered in a realistic assessment of the medium's opportunities. That's precisely where we are today.

Regarding how social media can be used to boost sales, marketers have undergone a reality check. Studies in the US show that the number of social media-triggered online sales on Black Friday did not exceed 1% and even Facebook's hopes of showing customized ads next to the newsfeed based on users' surfing habits outside its own domain have not been fulfilled. The "F-Commerce" initiative seems already to have failed, with many retailers like Nordstrom and GAP closing down their Facebook stores. This is partly because it turns out that e-mail marketing has a conversion rate three times higher than social media.

Much ado about nothing? Not quite. The indirect influence of social media on buying behavior is certainly significant. Social interaction can actually promote sales. And the fact that 90% of all purchase decisions are socially influenced in some way indicates untapped potential, at least looking not only at the final business transactions but at the whole customer journey. If you extend your perspective it becomes clear that today, over 6% of German customers already base their purchase decisions on information from social media. **D** Depending on the industry, this influence may even be almost 10%, e.g. for media products or restaurants.

By definition, social commerce is about "exchange-related activities that occur in, or are influenced by, an individual's social network in computer-mediated social environments". What does that mean? Are people more likely to buy things if a consumer has liked a brand on Facebook? Are there any long-term

D
HOW CONSUMERS ARE INFLUENCED BY SOCIAL MEDIA
Significance of various channels for the purchase decision



(++) = +10% (+) = +5% (0) = ± 2% (-) = -5% (--) -10% Change year-on-year

Source: German Social Media Consumer Report, representative survey of German internet users in December 2013 (previous study: July 2012)

effects beyond basic causality that are not reflected in studies? And what social medium is best suited for each different purpose?

The fact is that brand perception and purchase decisions can be influenced by social media and corresponding consumer influence metrics. Empirical studies support this correlation although the context seems to vary greatly by product and stage in the purchasing process. The key findings are:

- > Need recognition works well for image-forming products.
- > Influencing pre-purchase activities has an effect, especially on products with a high procurement risk.
- > Influence on the purchase decision seems most promising for products that are difficult to procure.
- > Influence on post-purchase activities is possible if there is strong identification with the products and if expectations are clearly met.

It's apparent that the purchase process is no longer linear, but split into many iterative loops. A customer journey **E** now consists of up to 30 stages, from initial consideration to purchase (or re-purchase). And at each of these stages, conversion may fail. But each of them also offers the opportunity to influence customers for one's own benefit.

NEED RECOGNITION. Social signals – what do other people buy, what are they talking about, what image does a product have – represent an increasingly bigger part of the purchase process, especially in the need recognition phase. This influence is significantly strong for products consumed in public or which have a considerable external impact, such as luxury goods and status symbols. And the opportunities for exerting influence are best in networks where loyalty among members is high.

INFORMATION AND SELECTION. Acquiring expensive goods involves high risks not only with regard to performance and quality. The psychological risk of making an "inappropriate" purchase or the financial risk of a mistaken investment is just as high. Especially at this moment, the potential buyer depends on independent information to minimize these risks. The biggest impact is likely to come from

independent reviews, ratings or recommendations, in particular those from close friends.

PURCHASE DECISION. When actually making a purchase, customers apply a simple cost-benefit analysis: How difficult is it to buy a product compared to the expected benefit? At this point, trustworthy and, ideally, personalized information is required to support a decision and reduce acquisition cost. The higher the cost and the more "social" a purchase is (e.g. in the case of gifts), the more important word of mouth is.

AFTERSALES. After completing a transaction, word of mouth remains important. Now is the time for the customer to express satisfaction or disappointment. A positive customer experience is shared and pride of ownership expressed, but anger and frustration may also be vented when the product or service does not meet expectations. Shared feelings of happiness or expressions of displeasure carry considerable weight when products have a high identity value. In other words, buyers talk about them to friends or even use these products to define their own lifestyle.

One example of what this gradual influence in social commerce of the future might look like is the social technology-based online fashion store About You, operated by German Otto Group. Fashionistas can pick from a large number of apps in "their" boutique (or create them themselves and invite friends) and then receive offers that suit their personal style perfectly, including outfit suggestions for special events or evenings out, based on preferences, shopping habits or recommendations.

Regardless of the purchase phase, the opportunities for influence are especially great when there is a strong social connection, i.e. major tie strength. Social media marketing on platforms for close friends thus seems more promising than commercial activities in professional networks. But the downside is that advertising on personal networks might be seen as encroaching on private territory.

One thing remains key to making a sale: winning customer trust and sustainably reinforcing it. This sets natural limits on all attempts to make social links into virtual shopping malls. Among the winners, however,

are companies that manage to use social media to strengthen the client relationship and not jeopardize it with aggressive hard selling.

6. Social media is driving a fundamental change in brand management.

A key change in social media marketing is that brand managers are no longer in command of the process – or at least not entirely. How a brand is perceived and how the brand story is developed is largely driven by the users. In some cases they create their own brand stories that are not in line with the original intention of the brand manager. Social media is triggering a gradual loss of control (a perception that is terrifying many traditionalists). The brand story no longer belongs (solely) to the company. Instead, fans and customers are a part of this, which means there is the threat of the (intended) brand identity and (actual) brand image drifting away from each other.

However, the drawbacks or at least the risks of social media marketing are more than compensated for by the advantages and opportunities. For instance, clever placement can make ads go viral in record time and reach an audience of millions. One example is the success of the "[Supergeil](#)" video by German supermarket chain Edeka. The zany electro beat clip featuring Berlin artist and musician Friedrich Liechtenstein got four million hits worldwide within a week and even received praise from US media. And the best thing is that such brand messages and/or product presentations are generally cheaper to market because expensive advertising media space is "above the line". What's more, these "below the line" campaigns can also be very effective because they often come across as more authentic, personable and credible than high-gloss advertising in a magazine or unrealistic, glorifying TV and cinema commercials.

But as we can see at Edeka, viral campaigns on the web run the risk that users like the advertising but not the advertised company as well. If the key question of every ad is whether it actually gets recipients to buy,

this is the proof of the pudding particularly in social media marketing – clicks are non-binding and thus not necessarily a good yardstick for measuring success.

At the end of the day, what makes social media marketing commercially successful? How is it possible to grab people's attention and then get them to buy your product and become loyal customers? And how can companies manage risks and avoid or minimize possible negative effects? We look at these questions in the following.

WHAT DOES A BRAND STORY INVOLVE? To work properly, every story needs three ingredients: a plot with an interesting cast of people, a storyline with a (preferably dramatic) turning point and an (ideally surprise) ending that draws users in and leaves a lasting impression. A narrative that meets these requirements can help make people aware of a brand story, ease their understanding of it and fill it with meaning.

WHO ARE THE KEY PLAYERS? While brand stories in the past used to be dreamt up by marketing strategists and highly paid creatives, now they arise in the context of social media in a co-creative process with many people involved, including individual consumers and customer groups or intermediaries. This type of brand story co-created by external people is extremely dynamic and can change dramatically over time. That's why companies need to devote a lot of time and attention to committed players.

WHAT MECHANISMS WORK? The rules by which brand stories in the social web operate are well known: the most effective communication strategies are those that deliberately polarize opinions ("us vs. them") and those that cultivate an underdog image for the brand ("small vs. big"). At the same time, emotionally charged and positive content spreads much faster and further than dry, matter-of-fact or negative critical statements. And last but not least: less is more. Blatantly over-managed or unilaterally constructed campaigns often don't achieve their purpose and may deter critical-minded recipients. On the other hand, stories with a good punchline even do the trick if they only trigger a brief but intense moment of joy.

"The ability to exactly define and address target groups makes advertising on social media platforms much more efficient than traditional advertising forms without comparable targeting."

**DR. LARS FINGER, DIRECTOR E-COMMERCE,
OTTO GROUP**

HOW CAN UNCERTAINTIES BE ADDRESSED?

When dealing with dynamic events of all sorts and the response to negative brand stories in particular, best practices have emerged as well. If something is to be denied, an analytical form of presentation generally achieves the best results. If another perspective is to be conveyed, a narrative seems to be the more appropriate format. In any case, "highly empowered and resourceful operatives" (HEROes) are needed. It is the task of these especially gifted and trained employees to assess the incident in social media crises, acknowledge the issue, formulate an appropriate response (possibly offering compensation) and to operationally implement this decision. By responding quickly and unbureaucratically to a negative incident, companies often manage to even improve their profile. Three factors are particularly important:

- > Listen to customers and respond to their needs.
- > Develop an in-depth understanding of the cultural environment to trigger responses by the target group.
- > Create branded artifacts, social rituals and cultural icons to have customers act on behalf of the brand.

As regards dynamics, social media is very much like playing pinball, with companies shooting brand messages, but without being able to control the direction of the rebounds or even forecast how the game will evolve. Still, it pays off to understand some general principles, remain constantly on the alert and be prepared for possible responses.

It is a fact that social media is profoundly changing brand management. The strengths of networks – openness, ubiquity and reach – make mobilizing consumers much easier and cheaper for marketers. But these strengths can potentially work both ways: social media may generate buzz, but can also create flame wars. Companies that manage to portray their brands as approachable, human and authentic ("a brand like a friend") and who are willing to forego overly controlled image advertising in favor of opening up to content that is (co-)created and further distributed by users will come out on top. The future of the social web belongs to those who are willing to include others, collaborate and share.

E

THE CUSTOMER IN THE SOCIAL MEDIA AGE

EXAMPLE OF A DIGITALLY SUPPORTED
RETAIL CUSTOMER JOURNEY

AT HOME - BEFORE THE PURCHASE



SELECTING A PRODUCT IN THE STORE



12

12 Redeeming a discount coupon using a QR code

LEAVING THE STORE

13

13 Thank-you e-mail and statement of points earned

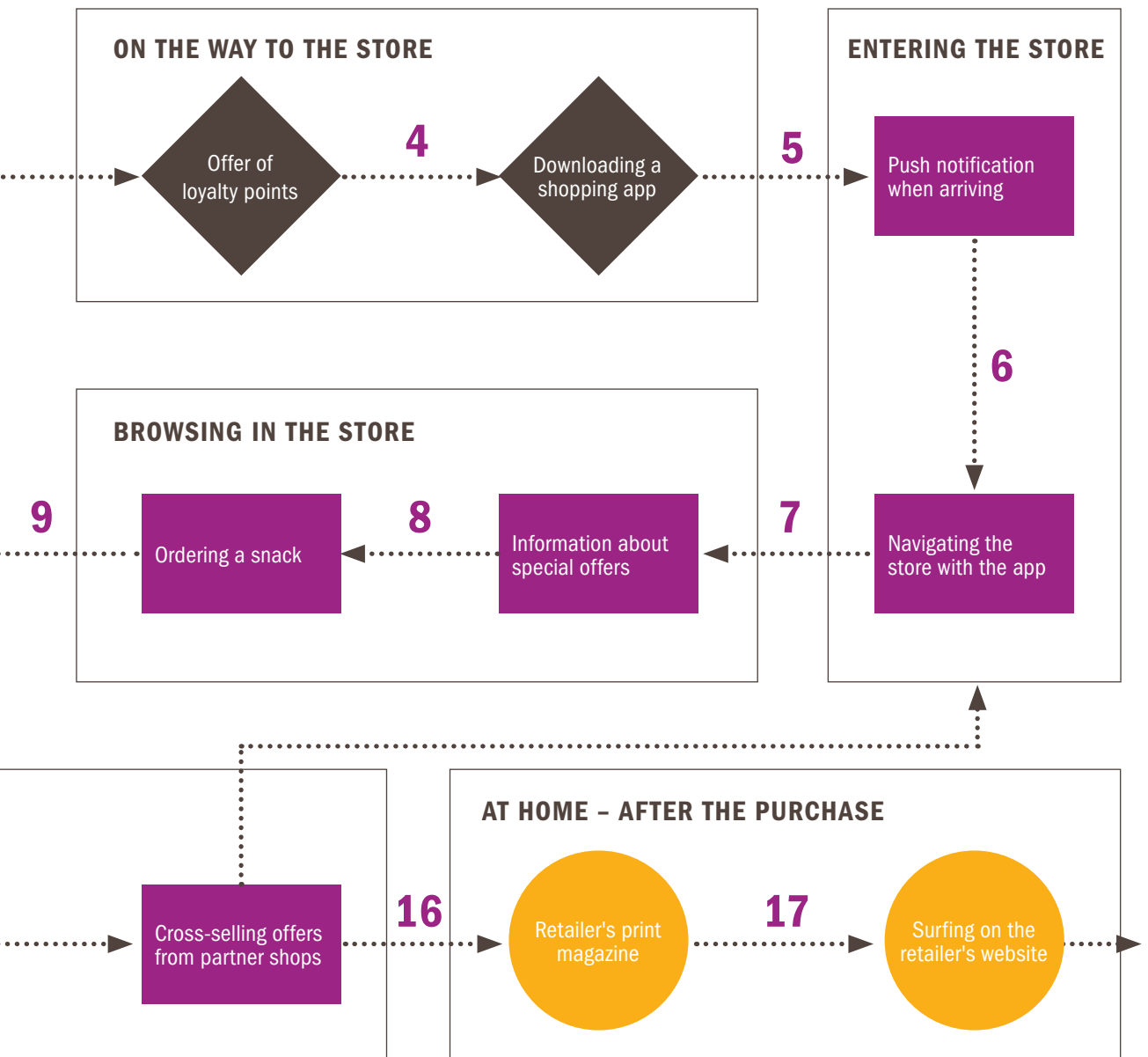
14

14 Digital coupon for the next purchase

15

A better way to shop

Digital media allows for new types of interaction between customers and companies, to the benefit of both. While the customers receive tailored offers, the provider gleans valuable details about the preferences and buying habits of their clientele. But to leverage this treasure trove of data, companies need an integrated management of all channels and touchpoints.



7. Social media revolutionizes collaboration in companies.

Both researchers and practitioners see the benefits and the applicability of social media primarily still in marketing. The opportunities social media may open up in the dimensions of customer interaction, customer value and brand management have been highlighted in the previous sections. But social media offers at least the same if not even higher value creation potential when used in company-wide collaboration, cross-functional knowledge sharing, interdisciplinary innovation management, pre-adaptive agility improvement as well as for activating change management.

To dispel a wide-spread misconception, this internal application of social media is by no means a "Facebook for business". Quite the contrary: the value of internal social media is neither in entertaining employees nor in promoting personal exchange as an end in itself. No, it is quite specifically about reducing transaction costs and improving innovation processes, creating new interfaces between knowledge holders and improving the firm's ability to adapt to a changing business environment. And what's more, social media mobilizes activation potential at the corporate level that may not entirely solve, but at least significantly mitigate the problems of alienation and lack of commitment – and even widespread hidden obstruction and mental resignation – among employees.

COMPANY-WIDE COLLABORATION. Social media has already revolutionized many business processes. Thanks to Web 2.0 technologies, employees can contact each other throughout the company, share and evaluate information, exchange and archive documents, expand and refresh their knowledge, informally support each other and jointly create content. Several studies have found that this increases the productivity of knowledge workers by up to 25%. **F** And they have the opportunity – almost without transaction costs and limiting factors such as having to observe hierarchies or official channels – to tap a continuously increasing and fully documented knowledge pool to which all entities and regions of a global company contribute.

CROSS-FUNCTIONAL KNOWLEDGE SHARING.

More important still than the potential to improve productivity seems the qualitative change that has taken place. Employees are working in mixed teams without functional barriers; they no longer get lost in too many details, but are able to see how everything connects. Social media can thus contribute to solving one of the biggest problems of organizational development: overcoming thinking in silos. People often focus too much on org charts and vested rights instead of keeping in mind what benefits the company as a whole. Because everyone thinks of themselves first, business and innovation opportunities go untapped. Social technology shows the big picture – and this not only intensifies knowledge sharing across departments, but also increases the chance that all parties involved set their group egoisms aside and pull together in one direction. The days of "not invented here" are definitely over – what counts now is actively contributing to joint success.

INTERDISCIPLINARY INNOVATION. Today, new things are created especially at interfaces. Where ideas and experts from different knowledge areas meet, where insights and experience are placed into an entirely new context, opportunities for trailblazing innovation arise. Book printing was derived from the principle of the wine press and in the end, the internet is nothing else but putting distributed computer intelligence to good use for human communication. The use of social technologies in knowledge management exponentially increases the probability of such transfer. They put more puzzle pieces on the table from which something new can be created, and every one of these pieces is important and may lead to a great idea – or a revolutionary thought – in another context. In the protected space of a community that trusts one another, these ideas (and their authors) also have the chance of developing much like in an innovation incubator instead of immediately being obstructed by the top dogs.

PRE-ADAPTIVE AGILITY IMPROVEMENT.

Companies that use social technologies have a unique early warning system. In many traditional companies, weak signals that often indicate structural breaks are lost in hierarchies or silos. The wisdom of the crowd

offers the opportunity to spot trends or risks early on and prepare for them. One of the key features of weak signals is that they are commonly overlooked in day-to-day business, but when discussed several times on a broad basis create a response rather quickly. They are recognized only at a second glance. Social media offers the best possible guarantee that relevant information is vetted and used. Like prediction markets it reliably maps which future topics are currently en vogue or most ardently discussed. This expanded radar screen is the basis for the increased adaptivity and agility of a "socially enabled enterprise": Changes are identified earlier and more attention is paid to them.

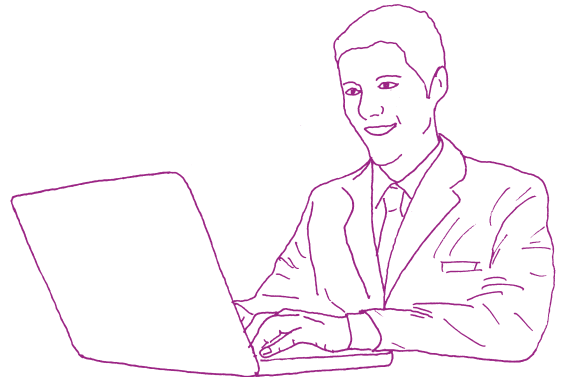
ACTIVATING CHANGE MANAGEMENT. At the same time, social media creates enormous activation potential for addressing these changes. Organizations tend to establish too many routines and structures. They become rigid over time and then suffer from inertia and even resistance to change. Knowledge-intensive processes characterized by a high degree of division of labor often result in employees becoming stuck in their ways or, even worse, turning into recluses and thus disappearing as a productive force for the company. Social media combats this trend, as it offers an opportunity to work on one's own ideas but still feel as part of a community. The condition is, however, that the projects which employees work on in Web 2.0 match their personal interests and skills. "Socially enabled enterprises" are well-advised to grant ample leeway within a clearly defined framework. Individuals who are able to develop in line with their personal preferences will identify more strongly with their environment and feel that they are much more a part of the big picture than simply a cog in the machinery. And, ideally, the employees will even become the driving force of a change they themselves have helped initiate.

For companies to leverage this untapped potential, a variety of technical and organizational conditions have to be created. If this doesn't happen, social media will likely suffer the same fate as the majority of all collaboration and knowledge management projects. Change is preached and hoped for, but doesn't occur in 90% of all cases. At least not by itself.

F

BOUNDLESS

Internal social media applications create a joint knowledge and innovation platform for employees from all regions, functions, disciplines and hierarchical levels.



25%

higher productivity – that's the potential to be tapped by knowledge workers using communication and collaboration tools based on social technologies.

"Companies must be ready to learn from their clientele and incorporate customer experiences into internal decisions."

DR. SONJA GENSLER,
INSTITUTE FOR VALUE-BASED MARKETING,
UNIVERSITY OF MÜNSTER

8. Social media by no means guarantees sure-fire success.

In proposition 6 we showed how Web 2.0 brand messages can be conveyed and marketing campaigns developed. To make the introduction of social technologies successful within companies, a good reason to apply them is needed as well as a solid, scalable and universal technical platform and intangible and possibly also tangible incentive systems. And finally, clear goals, rules and role models for honest and trusting collaboration.

BENEFITS OF USAGE. Social technologies should not appeal solely to employees' altruistic streak; instead, they must bring about a direct benefit in day-to-day business. One advantage for an employee might be to use a personalized newsfeed not only just for chatting and blogging but to read daily, tailored information from trusted people on topics of individual interest – ideally backed up with links to documents or related topics that would otherwise have to be laboriously researched.

HIGH SCALABILITY. Social technologies must grow in line with the company. For example, after mergers or restructuring they can contribute to a more close-knit relationship between the units within an organization across all geographical and cultural boundaries. In practice, it makes sense to start with clear, often experimental applications within a small group and rapidly extend them once successful – as far as to the emergence of global, self-organizing communities. Whether in communication, knowledge management, marketing, customer service or HR, the processes of nearly all corporate functions can be mapped step by step on the social web.

STRONG INCENTIVES. Social media meets many basic human needs: inquisitiveness, sharing, communication – not to forget visibility and recognition. One of the strongest reasons for getting involved in a community is the chance to boost one's own social status. This urge can be triggered by awards (badges) or other playful elements (gamification). In knowledge-intensive fields, it may make sense to

reflect the contribution focus in employee appraisal systems. That way, sharing knowledge then becomes an objectively measurable career factor. Not least because you can immediately see who is creating a buzz, and with what, in the social web.

COMMON GROUND. Every community is defined via a shared purpose. All members need to have a common understanding of how the individual interacts and communicates in his or her own community. And how everyone contributes jointly to success. It's about finding a balance between one's own interests and altruism. Nobody should be put at a disadvantage by sharing knowledge; and nobody should compromise the values of a community for apparent (short-term) success. True collaboration only works if the talents of every individual member are interlinked with the strengths and resources of the community. That's why trust is the basis for an ethic of contribution.

RULES AND ROLE MODELS. To ensure a successful balance between individuals and community, self-fulfillment and contribution focus, there need to be clear rules of play. Everyone should be able to contribute and develop their strengths and abilities and not just a few communicative high-flyers or talented writers. The magic word is participative centralization – social media becomes a universal communications platform and ideas forum that makes valuable contributions visible across the company regardless of the person's standing. Posts are neither selected nor censored, unless there is a good reason such as major infringements of the rules. This meritocratic principle starts with the CEO who, thanks to social media, becomes first among equals and has to face a dialog with employees – but also the opportunity to gain true followers due to personal authority and not position. This will work if the CEO manages to achieve relevance, create resonance and moderate opinions. And to do so with genuine contributions and not with slick sound bites.

SCOPE FOR PERSONAL RESPONSIBILITY. When designing an internal social media platform it is important to break up hierarchies and silos and motivate employees to take part, especially those who would

not contribute their skills, knowledge and commitment offline for the commons – the hidden champions. After all, the best digital evangelist in a company may well be an employee who previously kept a low profile.

But how can you achieve honest, confidence-based collaboration, even beyond your personal network of trusted colleagues? How can you pave the way for authenticity and creativity? Ideally, based on self-regulation within the governance outlined above. A high degree of autonomy and short decision-making processes with clear responsibilities are the ingredients of a properly working social network. Communities are best formed by themselves – and once trust has been achieved, they multiply rapidly. And of course you mustn't forget the fun side of things. After all, social media is about people and their needs. That's why it's helpful if companies' internal platforms also support the sharing of personal information and pursuit of individual interests. Finally, a climate of openness and trust is the best basis for opening your mind to new things.

9. Social media follows its own rules.

Set up a company that is customer-centric and knowledge-oriented across all functions – This is what the strategic deployment of social technologies at a company promises. However, to make it a top priority of management, the success of such activities must be measurable based on defined KPIs. But this is a tall order, because social media consists of dynamic, egalitarian and interactive organisms that make measuring success difficult. A functional metric should answer the following questions:

- > What are the motives of the players involved? What intellectual, social and cultural value does social media generate?
- > How vivid, interactive, informative, entertaining or emotional are the contents?
- > What are the tie strengths? How large, connected and branched is the network?
- > What roles do the players play? What kind of social interaction is there: sharing, gaming, expressing, networking?

Companies need to decide case-by-case on the weighting of each of these individual elements and what KPIs should be included in a social media dashboard. There's no silver-bullet kind of metric that works universally. To select the right parameters it's also key to consider the company's goals and what channels are to be used. Nevertheless, there are still some generally accepted principles that should be observed when monitoring social media.

INFLUENCE INSTEAD OF CONTROL. In contrast to traditional channels, you can't buy social media reach, but only earn it together with other, equal players. The dynamics and interactivity of such multi-channel communication means loss of control over the brand message. Social media is not a one-way street. Therefore, sending a consistent message to a defined target group is not enough. Instead, it's equally critical to be able to listen to the addressees (who, in turn, are also senders) and respond to their interaction. And the ability to do so must be mapped in the KPIs.

PROCESSES INSTEAD OF STATES. Because social media communication takes place in such a dynamic environment, there's little point in trying to use status reports to measure social media's performance. Instead it's much more important to make processes and distribution transparent. For instance, a network that has surpassed its zenith can, despite a (still) very high number of participants, lose its relevance in a flash. What does this mean for companies? It means it takes time to set up a truly dedicated fan base. Many followers who are interested in individual marketing activities but not in the company itself, move on to the next party from one day to another. Suitable metrics (comparable with Facebook's EdgeRank) map these dynamics in real time.

DIVERGENCE INSTEAD OF CONVERGENCE. The success of a social media campaign does not necessarily depend on raising the brand's appeal among the entire population. On the contrary, differentiation can be a key success factor. There are even brands, such as Abercrombie & Fitch, that focus precisely on exclusionary advertisement because it strengthens the awareness of its followers that they are different. A comprehensive

metric should therefore measure not only (positive) sentiment, but also negative feedback in order to obtain information about the level of differentiation.

QUALITY NOT QUANTITY. Likes are an unstable currency. One day you can be everybody's darling and the next day you're the culprit. However, sharing or commenting on something indicates more engagement and a more stable fan base. But such long-term participation and commitment cannot be bought; instead, users need to be constantly fed relevant content to turn them into loyal followers who can act as advocates should a flame war erupt. This is why it's important to have a metric that measures (also) value and not only volume.

THE LAW OF FEEDBACK. It's both a blessing and a curse: The success (or failure) of a social media campaign cannot be concealed. Each interaction on Facebook, Twitter or YouTube is traceable – for both senders and recipients. This leads to distortions because participants feel they are being watched and have to behave according to how they think others expect them to. Besides behavior that conforms to these roles, also play instincts can trigger (often very desirable) feedback effects. Users start to play with scores such as links or likes and try to boost them. This is a bias that a metric should also consider.

THE BALANCING CHALLENGE. Taking everything that's been said so far into account, it becomes clear that social media must strike the right balance between various aspects. It needs to connect both quantitative and qualitative parameters, it needs to consider strong and weak ties and must separate the wheat from the chaff by recognizing fakes or lurkers and adjust for typical variations in times or special effects. For instance, it's well known that early adopters tend to use new technology especially often and intensely. What this means is that as a platform grows, both interaction frequency and intensity generally drop over time.

PAYING ATTENTION TO SPECIFICS. Each social media platform has its own characteristics. For instance, people like to use Twitter, an asymmetrical channel, to voice complaints and thereby provoke a

"Internal social media application requires a structure and environment that makes employees feel secure and allows for critical feedback without worrying about any negative consequences."

MICHAEL BUCK, MANAGING DIRECTOR & FOUNDER, CONVIDERA; FORMER HEAD OF GLOBAL ONLINE MARKETING, DELL

quick reaction from a company. On the other hand, Facebook, a symmetrical medium, is more suited for bragging to friends about your latest achievement. There are also different types of interaction within a medium, which range from simple likes all the way up to co-creation. A meaningful metric should make these various levels transparent.

COMFORT ZONE NOT MICROMANAGEMENT.

If the nature of social media lies in direct contact and in spontaneous interaction between the users, then it follows that individual deviations from typical behavior patterns are the norm rather than the exception. Therefore, companies must resist the temptation and reflex to react to each deviation by intervening. A good metric defines a comfort zone where variations are tolerated and leaves it up to the target group to move freely within this range.

Because social media is a platform where individuals share, off-the-rack KPIs such as those offered by many commercial providers are of little use. KPIs for engagement level, referral traffic or share of voice, which are very common today along with simple reach measurement, are each valid individually. However, they can serve as a valuable tool for top management only after they have been consolidated in a dashboard and interpreted by data scientists.

10. Social media is a comprehensive organizational principle.

The importance of social media has long surpassed its mere use as a marketing channel. It's clear that it enables co-creation, conveys authenticity and establishes trust – dimensions all of which have room for improvement in traditional marketing. However, its full potential can be unleashed only if social media is embedded in a corporate strategy and understood as a comprehensive organizational principle.

Companies can profit from a culture of sharing in four ways:

DIVERSITY. According to Ashby's Law, the existence of a system is threatened when its complexity is no longer sufficient to provide enough

variety to deal with environmental changes. This principle represents a challenge for monolithic organizations because they either can't create the necessary variety or they get bogged down in chaos as a result of the numerous interfaces. Social media makes it possible to map external complexity (e.g. the diversity of customer requests) from within an organization without losing any power. It combines the benefits of a fluid network structure with those of central management.

DYNAMICS. "Socially enabled enterprises" have a decisive evolutionary edge: Weak signals are identified earlier and addressed faster. The rigidity of lines and silos are overcome by the flexibility of a collaborative self-organization where everyone contributes their ideas and – at least for a time – works on topics of their own. Innovator dilemmas (self-satisfaction through

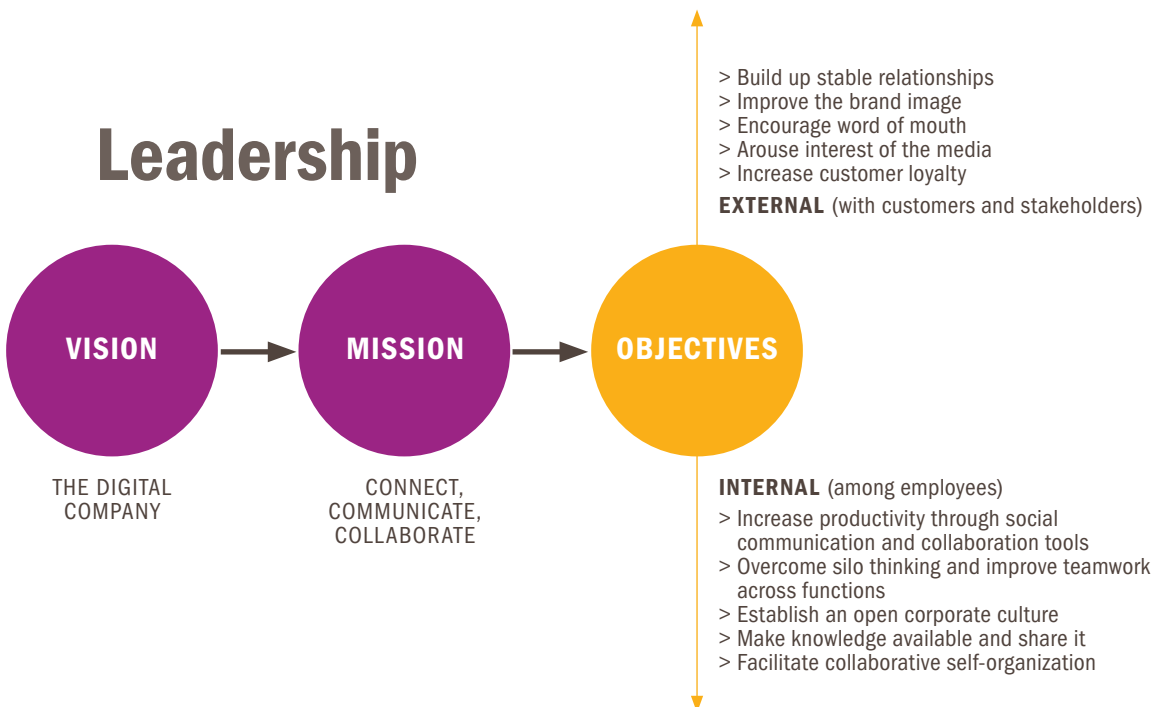
success), competency gaps (more of the same) or organizational inertia (routine as an end in itself) can be tackled by market intimacy, information processing capacity and resource flexibility. In short: companies become more dynamic and agile.

LEADERSHIP. Trust, reciprocity and a voluntary nature, the basic values of every "socially enabled enterprise", are by no means irreconcilable with strong leadership. Quite the contrary: social media shows the way forward to a future in which relevance and resonance are more important than the position in the company's hierarchy. Whoever adheres to this meritocratic principle can build upon a greater number of followers – regardless of what the org chart looks like. And those that can listen to customers' requests and moderate them will be perceived as opinion and innovation leaders even by the outside world.

H


A DIGITAL TRANSFORMATION HAS TO BE INITIATED AND LED BY THE CEO

Implementation of a integrated corporate strategy



IDENTITY. Social media is based on autonomous decisions, encourages personal responsibility and makes it possible to experience self-efficacy. This provides an ideal basis for avoiding identity crises and disengagement problems that are regularly experienced by hierarchic organizations. The separation between private and professional interests disappears and all employees can feel like co-entrepreneurs because their ideas are heard and receive positive feedback – if they're good.

However, many questions remain unanswered: How do you get a handle on the phenomenon of social stratification that is also evident in online networks? How can you activate the lurkers of a community? How can you circumvent the over-personalization of news-feeds that end up triggering exactly those filter bubbles that social media is supposed to avoid? How can you establish governance that ideally creates the same conditions for all participants? And how can the stated mechanisms possibly be used also outside of expert organizations?

Not all of these questions can be answered. However, companies ultimately have the opportunity to reach the next level of value creation where apparently conflicting goals can be achieved: reconciliation of cooperation and competition, autonomy and leadership, stability and dynamism without (or minimum) target conflicts. Social media might be the key to the organization of the future. 

Digitalization and social media are changing the way we communicate, consume and create. Those that get a handle on the network economy early on can tap new value-creation potential.

"Connect, communicate, collaborate" is the harmonic triad of the "social" network economy of tomorrow, which will be shaped by the availability of knowledge anywhere, anytime. Industry 4.0, big data and social media all point in the same direction: more autonomy, more connectivity, more collaborative self-organization. However, at the same time (and this is not a contradiction in terms), also more leadership. **H**

The winner of the global economy's new digital architecture will be those who know how to leverage it. Today, technology and the related strategic options are already considered a company's most important external success factor. The substitution of products as is found in book retail, publishing and the music industry or the virtualization of sales channels such as retailers, financial services providers or carmakers are experiencing is only the beginning.

Digitalization is creating new potential for innovation and value creation in all industries – just think of self-driving cars, intermodal traffic or connected production robots, so-called cyber-physical systems (CPS). Information speed and depth will enable new dimensions of agility and customer centricity.

However, to seize these opportunities companies need a different way of communicating, capable peo-

ple, innovative processes and systems and new organizational structures.

But how does digital transformation work in practice? How can a company embed the structural principles of digitalization (information, connectivity, autonomy) in its existing organization? In this vein a new blueprint is emerging: In the market-oriented digital company of the future, all functions will be grouped like satellites around the strategic core, comprising brand, customer and value management.

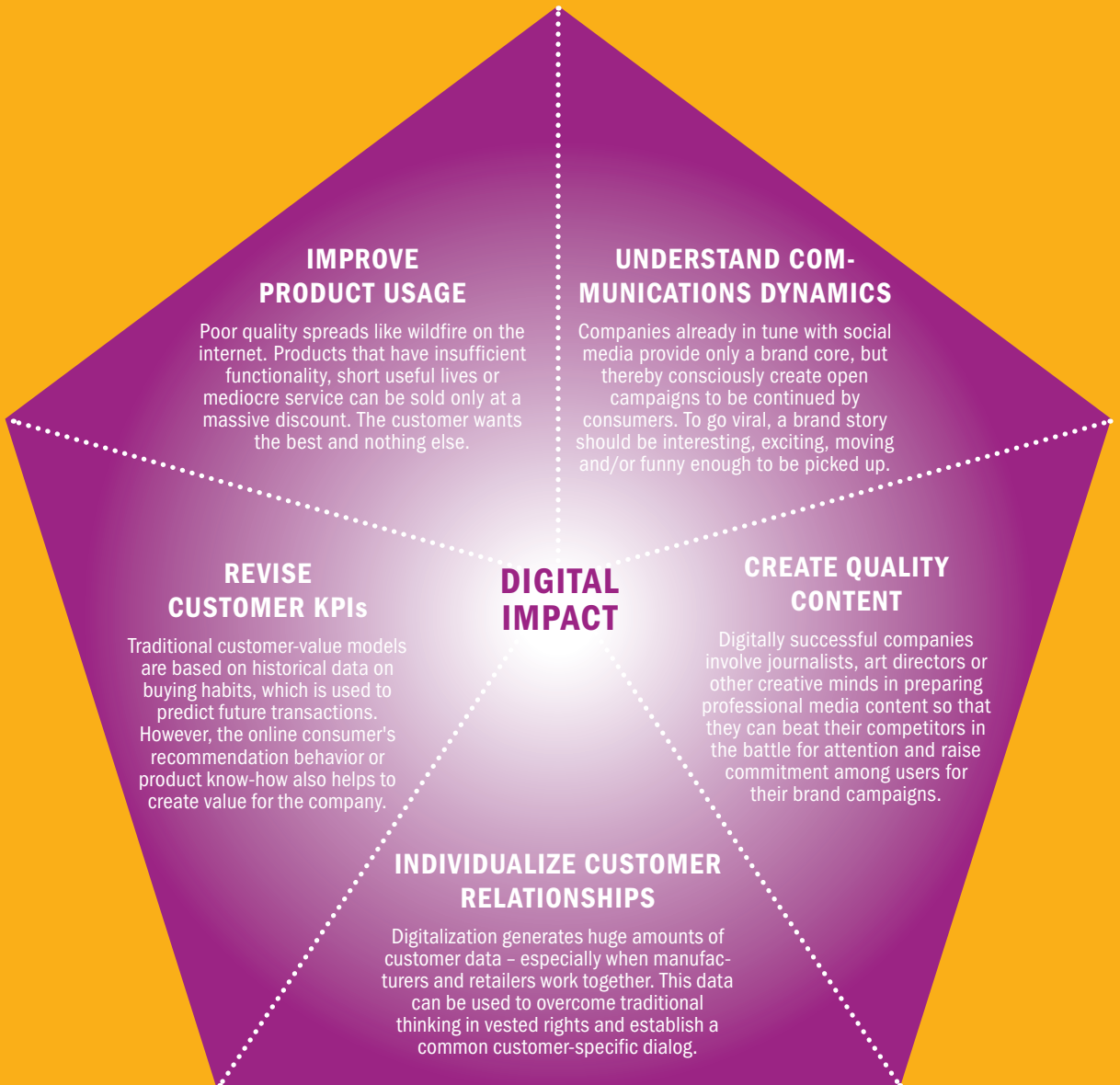
Information will be consolidated in this core, which will trigger and coordinate all value-adding activities. Employees can contribute at any time to increasing the knowledge and will be included in key decisions. The digital company will communicate with the outside world (besides consumers, also retailers and partner companies) using a diversity of channels.

In the future, companies will act less like closed systems and more like transparent entities. Stringent structures will blur and silo-thinking will fade, new contacts will be made and existing connections strengthened. The digitalization age has begun with social media's success as its vanguard. **◆**

G

THE SOCIAL MEDIA PENTAGRAM

WHAT COMPANIES NEED TO DO NOW TO PREPARE
FOR THE DIGITAL FUTURE



Acknowledgement and thanks

In the summer of 2012, Roland Berger Strategy Consultants and the Marketing Center Münster founded the Digitalization Think:Lab (initially: Social Media Think:Lab) with the goal of processing the knowledge currently available in the area of digitalization and social media, focusing on economic implications, and refining this in close cooperation with leading experts from research and business.

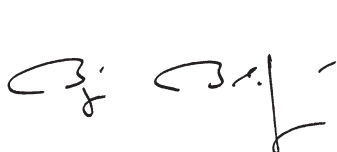
This initiative was kicked off in September 2012 at the Social Media Thought Leaders Summit in Munich. At the event, some 100 representatives from the worlds of business and academia from three continents discussed "Strategies for Successfully Managing Businesses in a Social Media Environment." The summit's findings appeared in November 2013 in a special edition of Journal of Interactive Marketing (JoIM). The following authors were involved:

Lauren I. Labrecque, Jonas vor dem Esche, Charla Mathwick, Thomas P. Novak, Charles F. Hofacker, Edward C. Malthouse, Michael Haenlein, Bernd Skiera, Michael Zhang, Manjit S. Yadav, Kristine de Valck, Donna L. Hoffman, Martin Spann, Sonja Gensler, Franziska Völckner, Yuping Liu-Thompkins, Caroline Wiertz, Bruce D. Weinberg, Ko de Ruyter, Chrysanthos Dellarocas, Michael Buck, Debbie Isobel Keeling, Kay Peters, Yubo Chen, Andreas M. Kaplan, Björn Ognibeni, Koen Pauwels, Christoph Brenner, Holger Dietrich.

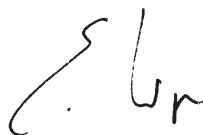
This publication is based mainly on research conducted by the aforementioned authors and incorporates the findings of their work (by no means exhaustive and without referring to the authors in each individual case) for social media practitioners. The organizers wish to express their gratitude to all the authors for kindly sharing their thoughts and insights. Special thanks go out to Professor Charles F. Hofacker from Florida State University who, as editor of JoIM, initiated and implemented this ambitious publication effort. Thanks also to Vera Gottwald, Ralf Kiene and Jonas vor dem Esche as the pioneers and pacemakers of our think tank.

On behalf of Roland Berger and the Marketing Center Münster, we would like to thank everyone from business and academia who participated. We are very grateful that you contributed to this unique project.

Best regards,



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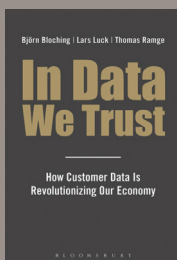
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Further reading



IN DATA WE TRUST: How Customer Data is Revolutionising Our Economy

Big data will change our world as fundamentally as electricity and the internet did. Companies must quickly learn to intelligently leverage the exponentially increasing data sets. Those who can filter out relevant information from them and productively apply superior customer knowledge will be among the winners of data-assisted marketing.



INDUSTRY 4.0: How Europe will succeed

The declining competitiveness of manufacturing companies in Europe, especially because of new market players from Asia, is jeopardizing the European model. The digitalization of the industry now offers the opportunity to regain lost ground.



GERMAN DIGITALIZATION CONSUMER REPORT 2014

This annual report analyzes the impact of digitalization on communications and spending in the German consumer market. A key finding: more than 40% of all information used to make purchase decisions is currently based on digital sources.

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