

# How Social Media Gives You Competitive Advantage

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## Abstract

The world over, it is being recognized that the Gen-Y of the workforce is different from the earlier generation of workers. The younger employees are more technology savvy and carry over their expectations of the social media world to their work places. However, the best way to organize and benefit from this trend is still evolving and we are learning as we go along. On the one hand, there are a lot of expectations and on the other hand, there are many examples of failed social media initiatives. There is a lack of structured frameworks and vast majority of executives have no idea of how to analyze social media. In this article, we will explore how to systematically analyze social media in the context of Competitive Advantage as proposed by Porter in his 1985 work<sup>6</sup>. This will provide a basis to develop a framework with which to analyze and implement social media.

**Keywords:** Competitive Advantage, Digital Marketing, Social Media, Social Media Marketing, Social Media Strategy, Social Media Technology

## 1. Introduction

On hearing the phrase “social media” most people think of rather trivial activities such as sharing family photos on Facebook or uploading baby videos on YouTube. But social media has graduated from just being a personal, consumer oriented paradigm to something that has huge impact on businesses. Organizations of all sizes from small firms to large multi-national corporations are now using social media for improving their businesses. The market for social media tools, software and services is expected to reach \$4.6 billion by 2014 (Karr, 2011). According to a Jive Social Business Index study<sup>5</sup> of over 900 US based executives:

- 53% of those surveyed believed they should adopt social business as there’s a risk of falling behind otherwise;
- 83% of executives use at least one social network at office;
- 62% of executives believe they can achieve “better customer loyalty and service levels” by having a social media strategy;

- 57% expect increase in revenues and sales after implementing a Social Business strategy; (data source: (Jive)<sup>5</sup>)

The trends within India are not too different from global trends. India has more number of Internet users and social media users than cable and satellite households. According to comScore<sup>3</sup>, about 59 million people access the popular social networking site Facebook every month from their PCs. If you include people who access Facebook from mobile phones, this figure would cross 100 million. In fact, Economic Times<sup>9</sup> corroborates this figure citing Facebook directly. And this growth is not limited to Facebook. Online video sharing site, YouTube is witnessing a huge growth too. According to comScore<sup>3</sup>, about 31 million people watch video on YouTube.

While there are huge perceived benefits of social media, many are cautioning against excessive hype. According to research firm Gartner, “Through 2015, 80% of social business efforts will not achieve intended benefits”<sup>8</sup>. Writing for the well regarded McKinsey Quarterly point out that vast majority of executives have no idea of how to take advantage of the power of social media. They further say

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that ‘social media is an enigma, wrapped in a riddle for many executives’.

In their article titled Building the social enterprise<sup>2</sup>, the authors say few executives “have figured out how to use them in ways that could have a large-scale, replicable, and measurable impact at an enterprise level”. The key reason according to the authors is that many executives treat social technologies as just another tool and not something that enables organizational transformation.

The core of our argument is that while there is a lot of potential in social media, its benefits are not being realized because of a lack of any structured mechanism to analyze it. In this article then, we will propose how enterprises can systematically analyze social media using well-established management principles. In particular, we will analyze social media in the context of Competitive Advantage and look at how social media’s impact can be analyzed with respect to:

1. Porter’s Value Chain analysis;
2. Five Competitive Forces; and
3. Competitive Advantage

## 2. Review of Michael Porter’s Value Chain Analysis

One way to evaluate usefulness of any social media initiative within an organization is to find out if by using social media, an organization is able to get competitive advantage vis-à-vis its competitors. For the purpose of this paper, we will use the concept of competitive advantage as proposed by Porter in his 1985 work<sup>6</sup>.

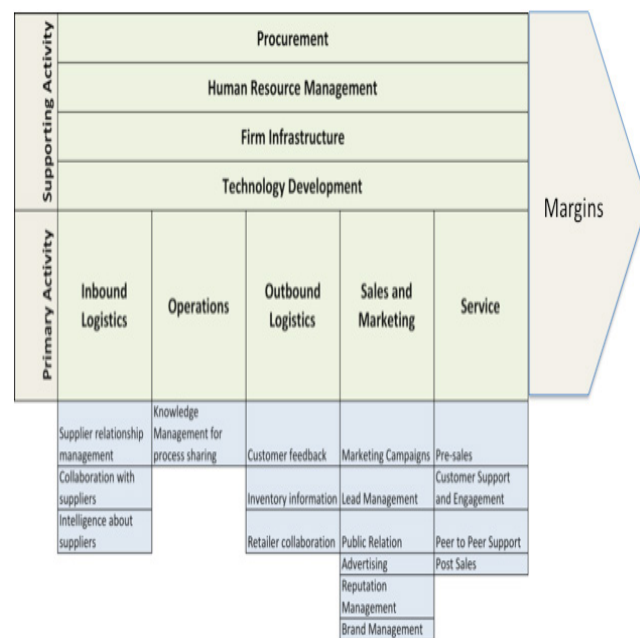
Michael Porter has described how firms can create sustainable competitive advantage in his 1985 publication “Competitive Advantage”<sup>6</sup>. Porter describes three different ways that companies can use for competitive advantage such as Cost leadership, Differentiation and Focus.

Further, according to Porter, an organization’s Value Chain consists of all the activities that are required for the production of organization’s goods and/or services. These activities can be primary activities that add value directly to end product (goods or services) and support or secondary activities that add indirect value to end product.

An analysis of organization’s value chain can be used to find out how an organization can gain competitive advantage. The analysis identifies all the activities – both primary and support of the organization and then identifies activities that can either be a source of Cost

Leadership, Differentiation Advantage or Focus. Based on this analysis, the identified activities can be targeted for improving competitive advantage or removing competitive disadvantage.

We extend the same logic to social media. In order to use social media to gain competitive advantage, activities in an organization’s value chain that can impacted by the use social media are identified. The impact of using social media can then be measured. This can be analyzed for cost, focus as well as differentiation advantage. Figure 1 shows a sample list of social media activities for each of the primary activities in the value chain. A similar list should be evolved for supporting activities as well.



**Figure 1.** Usage of social media in Porter's generic value chain.

Social media strategies can be employed in all the activities – both primary and support activities of Porter’s generic value chain. As an example of social media’s usage for one of the primary activities mentioned above, consider Sales and Marketing (S&M).

Amongst all the generic value chain activities, S&M makes maximum use of social media. Fashion retailers like Myntra.com and food sites like Foodpanda.in regularly use social media channels to run marketing campaigns and offer discounts. In fact marketing campaigns are not just limited to offering discounts. Many companies segment their users and target them on social media with various offerings as well as to gauge

their feedback. Users who interact with these brands or show an interest in their offerings can often become influencers and customers. In that way, social media acts as a lead acquisition channel to get more leads that are then managed in a Customer Relationship Management (CRM) system.

Another key strategy, within S&M, is to use social media for Public Relations (PR). The new age PR firms are increasingly using social media channels for distributing press releases and spreading information about new product launches, breaking news, press releases and other similar content. In fact, social media has become an important channel in overall mix consisting of physical and digital media. Some companies have gone a step ahead and are using social media not just for information about new launches but also for interacting with users. Clothing giant GAP recently handled a major public outcry caused by its “purported” racist ads into a successful campaign by smart use of social media<sup>4</sup>. The ad, about diversity, featured a Sikh guy but some miscreants added racist remarks on ads that were placed on billboards. GAP found out about this on micro-blogging platform Twitter and then took steps by not only taking the ad down but by taking additional steps on social media that showed they actually cared about diversity.

Mobile handset companies like Nokia and Micromax regularly use social media to announce new handset launches. Telecom providers like Airtel and Vodafone launch new plans regularly and often announce them on social media. As a result, people don't have to wait for the newspapers next morning.

Online Reputation Management (ORM) is emerging as an important area within sales and marketing that organizations are investing in. These days, reputations are built and spoilt within no time owing to the viral nature of social media. As a result, many consumer focused organizations – such as Airtel and Vodafone are actively using social media for reputation management.

According to Businessworld<sup>1</sup>, smart use of social media channels can improve organizations' perception immensely.

*'... making the right moves online can send reputations soaring sky high. Trigger-happy tweeters, bloggers, YouTube visitors, Facebookers and reviewers have forced companies to invest in a whole new important activity - online reputation management, or ORM, as it is called.'*

There are numerous examples of social media usage in activities other than Sales and Marketing as well. Figure 2 provides more examples of Social Media usage for different activities in Porter's generic value chain. For each activity in the value chain, the table shows examples of how Social Media can contribute to that activity and resulting impact on cost and differentiation. Note that this figure only shows the summary of a sample analysis. In practice, an organization will typically use a detailed methodology to assess the cost and differentiation impact of each of the activities and outcome will vary from one organization to another. A similar analysis can also be carried out for Impact on Focus

Once such an analysis is done, an organization can find out what are the most important activities in terms of their impact on different sources of Competitive Advantage. Based on organization's own strategy and vision, appropriate activities can then be chosen as a use case for Social Media implementation

It is important to remember here that not all activities will have a similar impact on sources of competitive advantage and so an organization should start only with a few set of activities that have a bigger impact.

Another point to remember here is that the relative importance of impact on cost, differentiation and focus will vary between organizations. For one organization, differentiation might be more important than containing costs or vice-versa. So it is important that an organization uses this in conjunction with other management tools to prioritize their strategy.

For example, in the Figure 2, it is easy to find note that the maximum cost impact, denoted by full shaded ball, is for activities in Sales and Marketing as well as for those in Inbound Logistics. In terms of differentiation, the most impactful would be activities in Sales and Marketing. So this organization could combine the two and decide it makes most sense to use social media for sales and marketing initially.

Similar to the example in this Figure 2, an organization can identify specific social media use cases for each activity in the value chain and then find out what are the relevant social media technologies that can be used to implement those use cases. Note that this table maps social media use cases to Porter's generic value chain. In a real life scenario, an organization will typically have its own value chain activities and specific social media use cases.

Value Chain Activity	Social Media Use Case	Social Media Technologies	Impact on Cost	Impact on Differentiation
Inbound Logistics	Supplier relationship management	Social Networks	●	○
	Collaboration with suppliers	Wiki, Blog, KM, YouTube	●	○
Operations	Intelligence about suppliers	Social Media Analytics, Twitter, LinkedIn, Blogs	●	●
Outbound Logistics	Knowledge Management for process sharing	Wiki, Blog, Forums, Document Sharing	●	○
	Customer feedback	Twitter, Facebook, Blogs	○	○
	Inventory information	Twitter	○	○
Sales and Marketing	Retailer collaboration	Wiki, Blog, KM, YouTube	●	●
	Marketing Campaigns	Social Media Marketing	●	●
	Lead Management	Twitter, Facebook, Blogs	●	●
	Public Relation	Twitter, Facebook, Blogs	●	●
	Advertising	Twitter, Facebook, Blogs	●	●
	Reputation Management	Social Media Analytics, Twitter, LinkedIn, Blogs	●	●
Service	Brand Management	Twitter, Facebook, Blogs	●	●
	Pre-sales	Wiki, Document Sharing, KM	○	●
	Customer Support and Engagement	Social Media Marketing, Monitoring and Analytics	○	●
	Peer to Peer Support	Wiki, Forums	○	●
Procurement	Post Sales	Wiki, Forums	○	●
	Hiring (information gathering about potential candidates)	Blog, LinkedIn, Social Media Analytics	○	○
Human Resource Management	Product comparison including costing	Social Media Analytics, Blogs	○	○
	Organization policy sharing	Knowledge and Document Management	○	○
	Recruitment	Blogs, Twitter	○	○
Infrastructure	Employee recognition	Intranet	○	○
	Document Management for contracts and other documents	Social Content Management, Ratings, Feedback	●	●
Technology	Innovation Management	Collaboration	○	●
	General collaboration	Collaboration	●	●

Figure 2. Social Media Usage and its impact on different sources of competitive advantage.

### 3. Impact of Social Media on Competitive Forces

Another way to analyze social media is in context of Competitive Forces. According to Porter and Millar<sup>7</sup>, the “information revolution” changes the structure of the industry and consequently changes the rules of competition. Porter and Millar also suggest that availability of information results in competitive advantage and can also spawn new businesses.

Social media is inherently information oriented and so much of what Porter and Millar suggest applies to social media as well.

Usage of social media raises barriers to entry and consequently makes it difficult for new entrants to compete.

Successful social media initiatives require investments in new infrastructure such as big data, cloud and mobile technologies. There is also a requirement to invest in sophisticated analytics software. All of this requires huge investments in terms of hardware, software and human resources and is not trivial to replicate.

Social media impacts power of buyers as well as sellers. Buyers can now compare more sellers without even stepping out of their homes with the help of consumer generated content, feedback on various review sites and so forth. As a result, buyers have better capabilities of comparison and evaluation between different sellers.

By getting feedback quickly and in real time via social media channels, companies can make changes to their processes and methodologies, thus resulting in new prod-

uct offers. They can create innovative bundles and carry out dynamic pricing based on this feedback. Retailers like Flipkart often suggest product bundles based on what you are viewing. For example, if you are viewing a USB keyboard, you will be shown a bundle consisting of keyboard and mouse at a discounted price.

Because of easy availability of information on social media channels, there is increased rivalry between companies within the same industry. As a result, companies often need to innovate in terms of their offerings (e.g., a bigger catalog), special offers (e.g., discounts) or other benefits all of which in turn increase buyer power.

Social media also results in many new businesses – both Greenfield as well as by existing companies. Many PR and Digital Agencies can now offer social media consulting as well as social media monitoring as a service to companies.

As is evident from above discussion and Figure 3, social media has an impact on all of the five forces as defined by Porter.

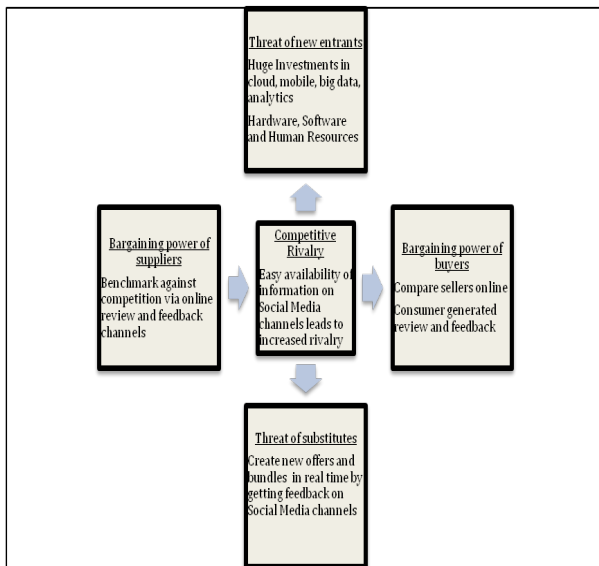


Figure 3. Impact of social media on Porter's Five Forces.

## 4. Proposed Research Framework

Figure 4 describes the research model that has been proposed based on analysis described in earlier sections. This model proposes that the three categories, along with 14 dimensions together describe the factors required by any organization to be able to implement social media. These factors together ensure successful usage of social media

within the organizations and in turn provide sustained competitive advantage to organizations.

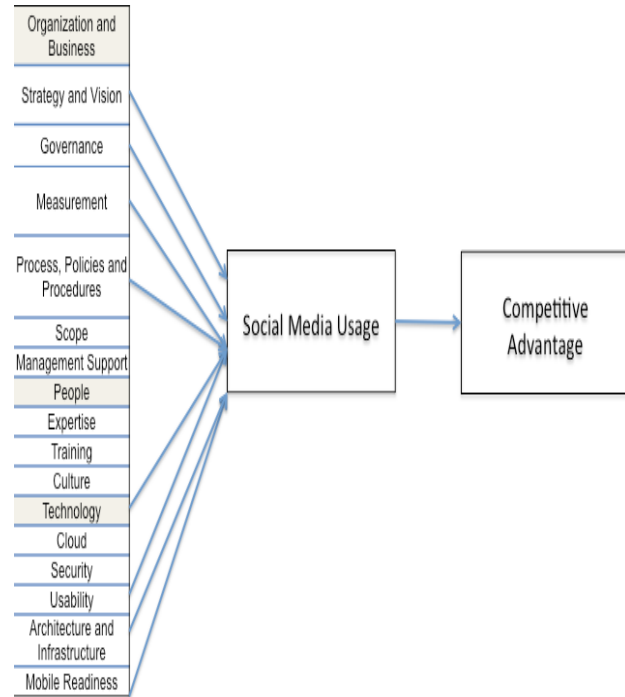


Figure 4. Proposed research model.

A social media initiative often requires an organization to not just implement a tool but also address larger challenges related to organization, processes, people and technology. Hence, the above model consists of capabilities across a wide range of aspects. We will further develop this model in next part of this article.

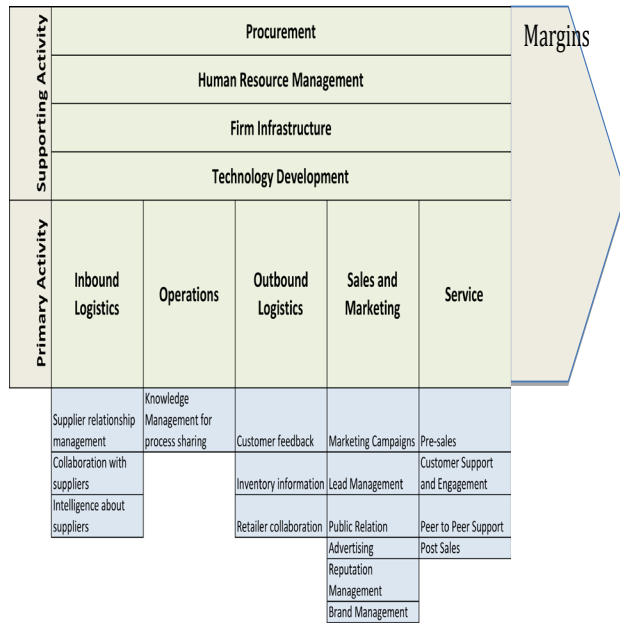
Since Competitive Advantage was the key variable we wanted to analyze, it is a dependent variable. A set of capabilities, that make up for an organizations “readiness” are the independent variables. We have grouped those independent variables in three categories: Organization and Business, People, and Technology. There are 14 variables within those three categories. Those variables have an impact on social media usage (intervening variable), which in turn impacts Competitive Advantage.

## 5. Conclusion

Social media is not just about leaving trivial comments or liking pictures on Facebook. It has huge implications for organizations for their internal use such as knowledge management as well as for external uses such as sales and

marketing. In fact, social media can be used in most of the activities in an organization's value chain.

In order to use social media to gain competitive advantage, this article provided a base framework to evaluate usage of social media by mapping social media usage to different activities in the value chain as shown in Figure 5:



**Figure 5.** Mapping social media usage to different activities in a value chain.

In part 2 of the article, this analysis will be extended and the framework will be evolved to provide a more sophisticated way to create a roadmap.

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