

IMPORTANCE OF SOCIAL NETWORKS FOR E-COMMERCE

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Abstract

The aim of the article is to describe the specific aspects of social media and their impact on e-commerce as a constantly evolving field of business. The article not only evaluates future direction of the issue, but also summarizes the theoretical basis of social media as such, the narrower concept of social networking, e-business, and e-commerce. Attention is paid to the results achieved in this field of business within the European region. Another objective of the article is to highlight the current state of the issue and point out to its shortcomings.

Key words Internet, Social media, Social networks, E-commerce

1. INTRODUCTION

The issue of e-commerce is not the youngest, but the lack of consumers' trust can be still observed, despite the efforts of business entities. The lack of personal contact between a buyer and a seller and usually one-off business transactions typical for the Internet environment places great emphasis on building a positive image of the organization in the eyes of consumers. It must be remembered that consumers' trust and opinions are created through interactions with the given organization. Social media represent the current trend in online communication with the target audience and they also build a positive image of a trustworthy business partner. Continuous development of social media is equally reflected in the business environment where the number of users affects the growth of this cost-effective marketing communication and sales channel.

2. BASIC THEORETICAL BASIS

According to Dorčák – Pollák, e-business means any information system or application which provides commercial transactions or other processes related to trade and management. E-commerce is a limited part of e-business focused on online transactions.

According to Kotler et al. (2007), e-commerce is a semantically narrower concept than e-business. Electronic business includes total electronic exchange of information in the company or between the company and customers. In contrast, e-commerce is the process of buying and selling through electronic means, especially through the Internet. It follows that e-commerce is a narrower concept, falling within e-business.

As Foret (2003) states, marketing communication via the Internet brings new opportunities to big as well as small businesses, reducing costs of sales and promotion. It accelerates and extends communication

possibilities and mainly leads to the creation of lasting relationships and links between sellers and customers, resulting in the satisfaction of individual wishes and needs.

For the definition of a narrower approach to e-commerce, Sedláček (2006, p. 96) states the following: *"Internet transaction is a sale or purchase of goods and services, whether between businesses, households, individual consumers, government, other public or private organizations, which is carried out via the Internet. Products and services are ordered via the Internet, but the actual delivery of the product or service can be made on-line or off-line."*

Electronic markets, within which e-commerce works, represent a virtual place where sellers offer their products and buyers, customers looking for information, define their needs and place orders using electronic payment transactions. (Hvizdová et al., 2007).

The basic forms of ecommerce include: (Hvizdová et al., 2007):

- **Business to Business (B2B)** – represents commercial transactions between business entities, which take place in the form of electronic transactions based on the formal, contractual relations.
- **Business to Consumer (B2C)** – the term refers to commercial transactions between businesses entities and end customers that are carried out in the form of electronic interactions.
- **Consumer to Consumer (C2C)** – these are advertising and auctions, where the Internet is an intermediary between a buyer and a seller.

This new form of business brings business entities several advantages over the traditional way of trading. We can consider the following as being the most significant (Suchanek, 2008):

- low costs of operation,
- minimum market entry costs,
- the possibility of interactive communication,
- unlimited time period (24 hours / 7 days a week),
- high speed and efficiency regarding business transactions
- possibility of extending the offer, but also demand
- positive effect on production, purchasing and consumer behavior
- an inexpensive entry into the world markets.

According to Jauch (2010) social media should be perceived primarily as online media which content is created and shared by the users. Social media are constantly changing as their content is changing and increasing and developing new possibilities of use.

The above definitions can be complemented by Stern (2011), who states that social media represent everything that allows anyone to communicate with anyone, in other words, it is a user-generated content distributed via easily accessible internet tools.

Authors Byron and Broback (2006) define the narrower concept of social networking as a web service. Consistently with Janouch (2010), they ascribe it functions of maintaining connections, contact, communication, sharing of information, multimedia content and photographs between users among which, according to Byron and Broback (2006), dominate students or graduates.

We agree with Štědroň (2011), who states that marketing potential of social networking, as a narrower concept of social media, results from easy reach of a large part of the Internet population. However, the specific nature of social networks is also of a great importance, which resonates very well with current efforts of companies to get closer to customers and create a close relationship with them.

Using social media, you can find out how the customers perceive the product. This fact is both important to users themselves, who are looking for the right product or service, and also for companies that offer their products and services on the market. Marketing on social media means for business entities understanding and learning, observation of the market, experimentation, guiding the audience, assessment and evaluation. (McPhee, 2011)

As reported by Scott (2010), the evidence on how people actually carry out their research and search for products clearly shows that the company must be available at the time and spread its offer when potential customers are looking for answers on the Internet. Here, we turn our attention to the Internet as a medium with a high potential for the presentation of own company with low costs, but with comparatively higher revenues.

3. CURRENT STATUS OF THE ISSUE

Based on the data obtained from the national associations for electronic commerce (E-commerce-Europe, 2013), the number of B2C e-commerce in Europe was estimated at 550,000 at the end of 2012, which represents a year on year growth in the range 15 - 20%. Growth of electronic commerce can be also seen on GDP value (Gross Domestic Product - GDP) of European countries. Share of electronic commerce in the total GDP of European countries for the period of 2012 is estimated at 3.50%. The total turnover of this segment amounted in Europe in 2012 to € 311.6 billion, which represents an increase of 18.80% within year-to-year comparison. In the case of EU states, year-to-year increase was 18.10% to € 276.50 billion, representing 88.70% of the total turnover of the monitored region (Table 1). In the case of e-commerce's impact on the employment (Ecommerce-Europe, 2013), it is estimated that this segment employs 2 million people within the European market, and with the expected growth of Internet users in the next period, growth of employment in this segment is also expected.

European Region	2009	2010	Growth	2011	Growth	2012	Growth
West	99,0	118,1	19.4%	138,8	17.5%	160,8	15.8%
Central	44,2	53,3	20.7%	63,4	18.8%	76,3	20.5%
South	16,4	20,0	21.9%	25,1	25.2%	32,4	29.3%
North	19,2	22,0	14.2%	24,9	13.3%	28,7	15.1%
East	5,7	7,5	31.3%	10,1	34.9%	13,4	32.6%
Total Europe (47)	184,5	220,9	19.7%	262,3	18.7%	311,6	18.8%
Total EU (28)	166,7	198,6	19.1%	234,1	17.9%	276,5	18.1%

Table 1: Turnover in e-commerce sector in millions of EUR

Source: Ecommerce-europe, 2013

As shown in Table 1, turnover growth within the e-commerce segment for EU 28 in 2012 was 18.10%, compared to 18.80% of all European countries, where the largest annual turnover growth of 32.6% (€ 13.4 billion) was achieved by Eastern European states. The lowest turnover growth was recorded in Nordic countries with the growth of 15.10% (€ 28.7 billion). On the other hand, the highest turnover was achieved by developed countries of Western Europe, amounting to 15.80% (€ 160.8 billion). It should be noted that the share of Western European countries on the total turnover of the monitored segment represents 51.60%, led by Great Britain and France (Ecommerce-Europe, 2013).

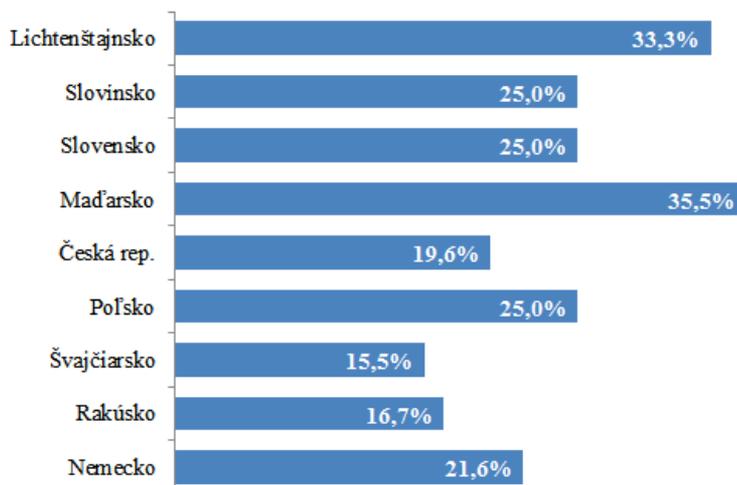


Figure 2: The share of purchases across product groups on the EU 28 Internet population using online shopping

Source: Own calculations according to *Ecommerce-europe, 2013*

The closer look at our home region of Central Europe (Ecommerce-Europe, 2013), with regard to the electronic commerce in 2012, revealed the growth of 20.50% amounting to € 76.30 billion, which have ranked this region into the third position according to the annual turnover growth of monitored regions. The largest annual increase in turnover was recorded by Hungary 35.5% (€ 675 million) and Liechtenstein 33,3% (€ 40 million). When regarding the achieved turnover, it should be noted that Germany had in 2012 a turnover of € 50 billion with an annual growth rate of 21.6% which represents a 65.79% share in the total turnover made by Central European region.

Sales growth within electronic commerce is also reflected, and one could conclude that it is conditional to the growth of Internet users. Our statement is supported by Eurostat (2013), which in October 2013 published the results of a survey that aimed to highlight the buying behavior of EU 28 internet population. The survey results point to the fact that within the EU28 countries, the proportion of Internet users aged from 16 to 74 who have used this media to shop represents 59%. Survey results showed that the highest proportion of online shoppers in the total active Internet population countries is to be found in the United Kingdom (82%), Denmark and Sweden (both 79%) and Germany (77%). The lowest positions are occupied by Romania (11%), Bulgaria (17%), Estonia and Italy (both 29%). To clarify your idea, the internet penetration into the households of EU28 in the period of 2012 amounted to 76%, which is an increase of 26.7% compared to 2008 (Eurostat, 2013).

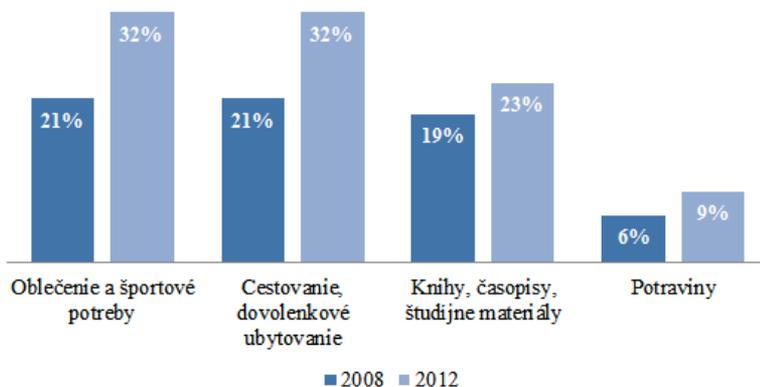


Figure 2: The share of purchases across product groups on the EU 28 Internet population using online shopping

Source: Eurostat, 2013

In the light of the above Eurostat survey results (2013), the survey aims to determine the proportion of online purchases in a given group of goods and services in the B2C business model to a group of users who at least once conducted an online purchase in the last 12 months. As Figure 2 indicates, monitored categories such as Clothing and sport equipment; Travel, holiday accommodation consistently recorded an increase of 52% to 32% share in 2008. The lowest growth was recorded in the group Books, magazines and educational materials, that has increased by 21.05% to 23% in 2008. Overall, the lowest share under the two categories of goods and services was recorded by Food with a share of 9%, but on the other hand with a 50% increase against 2008.

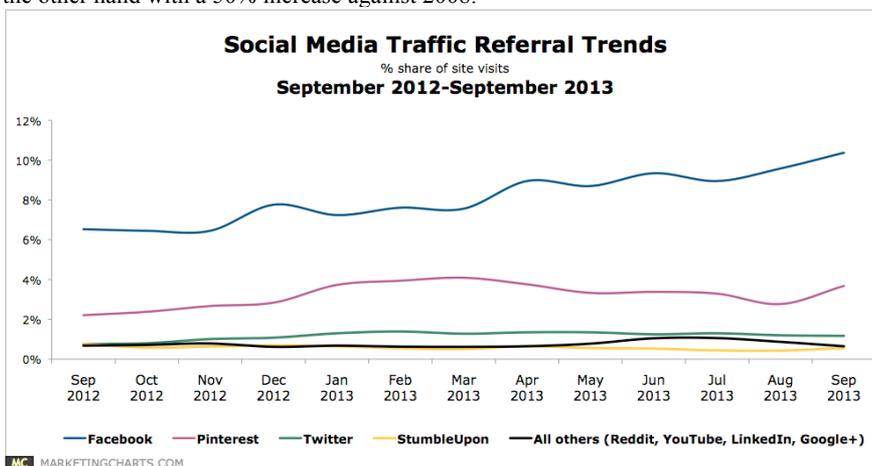


Figure 3 Social media traffic referral trends

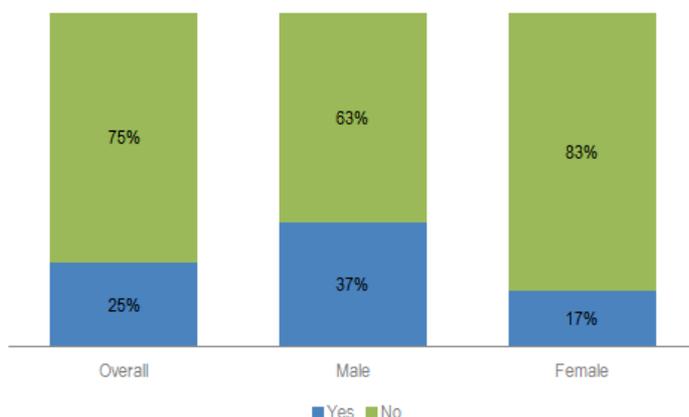
Source: Shareaholic, 2013

Social network Facebook also dominates as a source of referral traffic, which was confirmed by the results of Shareaholic analysis (2013), that in the period between September 2012 and September 2013

collected data from more than 200,000 websites. The total sample of monthly unique visits of these websites reached more than 250 million. Published results of the analysis indicate that Facebook's referral traffic to the monitored website amounted to more than 10% in September 2013 (see Chart 3), which inter-annually increased by 58.80% from the value 6.53%. It is also necessary to point out that the social network Pinterest represents 3.68% of all referral traffic, which is more than a cumulative value of social networking sites Twitter, LinkedIn or Google+ together.

The importance of social networks in the e-commerce was also revealed in the results of the analysis which shows the impact of the social network Pinterest on purchasing decisions of its users. The analysis was conducted by Emily Carr University of Art + Design in March 2012 on a sample of 500 users of the social network. The most significant fact arising from the published results is that Pinning is more frequently linked with shopping in a store than with shopping online. The analysis showed that up to 16% of users marked the product (Pinning) they subsequently purchased in a store, and only 12% of users marked the product (Pinning) which they purchased online. The analysis also showed that one in five users of the social network buys products that are marked (Pinning). (McNeill, 2012)

Have you ever purchased a product/service after discovering it on a Pinterest?



Graf 6 The impact of Pinterest on buying decisions
Source: Caine, .J (2012) Available on-line: Compete.com

The results of a survey conducted by Compete in 2012 focused on the knowledge of online shoppers. The survey which involved a sample of 484 respondents revealed that 37% of men have bought a product / service after it appeared on the social network Pinterest. For women, the proportion was 17% of respondents (Caine, 2012). The results point to a significant fact that up to 39% of respondents stated that social network Pinterest has changed their online behavior, as well as the fact that 25% of respondents do not expect to spend so much time on other social networks as on Pinterest.

4. CONCLUSION

Our present time is characterized by breakthroughs in technology that aim to minimize costs and there is an obvious global effort to spread Internet connections to the remotest corners of the world. With the

increasing number of households with internet connection, we observe the growing volume of customers who have started to trust online sellers - electronic commerce entities. As reported by Eurostat (2013), in 2012 59% of active internet users in EU28 purchased a product or service online at least once within the last 12 months. Also, a significant 18.10% year on year revenue growth of EU28's B2C entities amounting to more than € 276 billion is a strong evidence of growth. Looking to the past, we can talk about the growth of this segment. The possibilities offered by online Internet environment to electronic commerce entities such as relatively low operating costs compared to brick and mortar, technical capabilities and functional conveniences of e-commerce, the possibility of a global reach and effective marketing tools create an ideal platform to implement their business plans.

The current importance of social networks for e-commerce is undeniable. Either retailers or brands themselves can present their products through social networks and positively affect perceptions of users as potential customers. It is important to highlight the fact that the issue of social networking for the purpose of e-commerce is a new and poorly understood area, which now occupies minds and is part of the marketing plans of many marketers.

Research purpose, the project

This article is one of the partial outputs of the current scientific-research grant VEGA n.1/1338/12 entitled "The impact of virtual social networks on potential customers and the improvement of the competitiveness of Slovak SMEs."

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