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Framework for Understanding the Business Model of Social Commerce

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Abstract

With the popularity and growth of social media, social commerce has been quickly emerged as a new phenomenon. It represents a shift in consumers' thinking from individual decisions to collaborative decision. However it has not yet been fully understood, especially about the business model of different types of social commerce. This paper offers a literature review on the definition and characteristics of social commerce, and it proposes four types of social commerce platform. They are e-commerce-oriented social commerce, interest-oriented social commerce, social network-oriented social commerce and group buying-oriented social commerce. Different type should have a different business model. Finally, we study a conceptual framework for understanding social commerce business model from the key components, which are value proposition, revenue source, capability and sustainability.

1. Introduction

The increasing popularity of social media application, such as blogs, forum and social networks, has created opportunities for developing new business models in electronic commerce[1]. Among these new models, social commerce allows customers to participate activity in the marketing and selling of products in online marketplace and communities[2], and it has changed the way customers and firms interact and collaborate with each other. More and more companies, such as Amazon.com, Taobao.com, start to take advantage of users' participation as a way of adding value to commercial services, hence contributing to the rapid proliferation of social commerce. In the United States, for instance, nearly 74% of business organizations have utilized social media applications, whilst about 88% of them are willing to increase their spending on integrating social media into their systems. Some social media like Facebook, Pinterest and the traditional e-commerce like Amazon are all looking for the new opportunities. We even see that social marketing and commercial budgets are growing. A report by Research and Markets has showed an obvious growth in social marketing and commercial budgets, altogether \$8.2 billion has been spent on social media advertising in 2014, an increase of 32.2 percent compared to that in 2013. More phenomena prove that marketers are recognizing the power of social commerce.

Although social commerce has the potential to revolutionize online business transactions, many argue that its power to transform e-commerce from a product-centered environment to a user-centered environment is still doubtful and whether the new business model can add new value has not reached consensus. In response to these challenges, a lot of scholars focused on this phenomenon [3-6]. Some studies explored the framework of social commerce as an interdisciplinary subject that simultaneously concerns business,

technology , people and information [7-8], and some other focused on social commerce from users’ perspective. For example, Huang and Benyoucef [9] studied user preference on two different social commences,Rad and Benyoucef [10] understood the social commerce model from user decision making, and S. Farivar and Yuan Y [11] studied the problem of social commerce adoption. Huang and Benyoucef [12] proposed the design features of social commerce from IT perspective. But there are still some questions, such as how are the social commerce companies adding value and what is the value proposition of social commerce? Meanwhile, which are social commerce websites among so many websites? And the diversity of social media makes it difficult to understand the new business model. Therefore, this paper attempts to bridge the gap in the existing literature. In this paper we will analyze the characteristics of social commerce to find the driving force behind the social commerce, and offer the taxonomy of different types of social commerce platforms. Based on this understanding, we develop a frame-work to analyze social commerce business models. Here the key components are the value proposition, the revenue source and the position in the value chain. The taxonomy provides the classification of major social commerce business models. We hope our framework can be used to help e-commerce and social commerce platforms in developing their social commerce strategy and turning hype into real profit.

2. The Driving Force Behind Social Commerce

2.1. The Definition of Social Commerce

Since the term was introduced by Yahoo in 2005 [13], social commerce has been largely driven by practice rather than by research. Customers can collaborate online, exchange information about products and services, and get advice from trusted individuals, which is characterized by many to many transactions, instead of the traditional one to one relationship between sellers and buyers. All these indicate the advent of social commerce. Yet there is not an uninformed definition about social commerce in the related research papers, and meanwhile, with the development of the social commerce practice, the form of social commerce has been changing constantly. The following is a list of the definition of social commerce. (See Table1)

Table 1. The definition list of social commerce.

Date time	Author	Definition
2007[14]	Kim and Srivastava	Social commerce is about utilizing web-based social communities by e-commerce companies, focusing on the impact of social influence which shapes the interaction among consumers
2008[15]	Wigand et al	Social commerce is the application of social media to shape business and transforms a

Date time	Author	Definition
2009[16]	IBM Dennison	market for goods and services into a user-driven marketplace. Social commerce can be defined as word of mouth application to e-commerce, and it is the marriage of a retailer’s products and the interaction of shoppers with content.
2010[17]	Marsden	Social commerce is an emerging category of e-commerce, based on social media platform like social network services and services through the platforms. Social commerce generally refers to the delivery of e-commerce activities and transactions via the social commerce environment, and social commerce involves using social media technology to support online interactions and user contributions to assist the acquisition of products and services.
2012	Liang and Turban	Social commerce is a form of commerce mediated by social media involving the convergence between online and offline environments
2012	Wang and Zhang	Social commerce has combined social media and e-commerce, which refer to fill with social interaction and users in the online commerce community and share online product information and advice.
2012	S.J.Yu	Social commerce is not just a simple fusion between e-commerce and social networking technology, its integration with commerce activities, and its mechanisms for promoting social interaction and trust.
2013[18]	L Zhou	

2.2. The Driving Force of Social Commerce

2.2.1. The Challenge of Traditional E-Commerce

With the development of e-commerce platform, the traditional e-commerce can not satisfy the needs of customers. (1) There are a lot of products on e-commerce, among which there are many similar products. This phenomenon makes customers confused about their price and quality when they search the information of one kind of products. Meanwhile the people who have different power of consumption and different tastes have a variety of requirements, so the product-centered platform hardly meets the people’s personality needs. To the sellers, not all customer value is meant for all customers. That is, market and product scope are also important. (2) Lack of trust has become the bottleneck of e-commerce development perspectives, which is a major issue in e-commerce[19][20]. Although the word of mouth has positive influence on customers’ decision making and sellers’ market sales[21][22], the customer with greater Internet experience may find information less credible. As anyone can provide information online, the credibility of such information tends to vary definitely. Some reviews may not be the truth, so people don’t trust these reviews, which have a negative effect on the purchase activities [23]. Jones and Leonard[24]claimed that distrust is one of the main reasons

why online firms fail to form positive relationships between consumers and companies. (3) There are many retailers on the traditional e-commerce platform. Due to the fact that online shopping makes sales more transparent, the market is more competitive. These sellers are willing to find another marketing channel to reduce sale cost and attract more people.

2.2.2. The Business Needs of Social Networks

Social networks consist of large numbers of individuals who are potential content generators and a massive source of information. In order to make people's life more convenient and to make more profits, these social networks are willing to achieve commerce success.

2.3. The Characteristics of Social Commerce

From the table 1, the explosive growth of social media has given rise to new electronic commerce paradigm called s-commerce, which is a revolution of e-commerce. The increased interest in Web 2.0 technologies and their e-commerce applications have led to a new shopping trend where the customer leverage social networks to make more efficient and effective purchase. Liang and Turban propose the three attributes of social commerce: social media technology, community interaction and commerce activity. Here we give two characteristics of social commerce business model.

•The community communications are the foundation of social commerce. The web 2.0 technologies and user generated context have an impact on customers' decision making process. Social media makes individuals with online social ties create niche groups of customers with similar shopping behavior; we call this group interaction as community, so it is important for social commerce to understand the value of online communities in attracting new customers. Blanchard and Horan[25] divide the community into two categories: Interest-oriented community and Relationship-oriented community. The first type of community is dispersed with members' participating due to their shared interests in some topics, such as Mogujie and Douban in china; the second involves the traditional relationship which is the extension of real life relationship, such as Wechat and Facebook. Interest-oriented community brings together participants who interact extensively about specific topic of interest, which help to customer segments[26]. This kind of community has a capability to increase the stickiness of the websites by retaining customers, which can help in forming deep customer relationship thus leading to effective relationship marketing [27]. At the same time, communities have capabilities to build trust relationship and hence can be a good tool for e-commerce transactions[28][29]. Members engender trust through ongoing interactions in the community by social media. The last point is that the communities are tools for building loyalty among customers. According to Oliver[30], loyalty is a deeply

held commitment to re-buy or re-patronize a preferred product or service consistently.

• The commerce activity is the goal of community communication. These social interactions and UGC have changed the process of customer buying and have made the sellers benefit from a lower cost business channel and attract more customers for profits. Social networks have transformed customer-seller interaction from one to one to community-based communication. Hence, the newer business models have to rely on community-based communication. Online consumer communities are where consumers discuss products, services, and special interests with other consumers and company representatives [31][32]. Research has shown that such communities or opinion leaders can successfully influence consumer sentiment toward enhancing purchase intention and thereby increasing sales [33], so these social interactions include the customer-related activities and the firm-related activities. The customer activities refer to user contribution activities and user purchase decision making activities. In order to improve commerce activity, the firms have recognized that participation in consumer communities can also extend firms external representation efforts to increase brand awareness and loyalty [34][35]. Firms can thereby more effectively engage users as information disseminated in a timely, efficient and direct manner [36]. There are two major firm activities which influence customer decision making: (1) one is firm-hosted social media that focus specifically on one company's products and services; (2) The other is the participation in the community by contributing to ongoing conversations on various social media platforms such as online forum, Pinterest and twitters and so on [37].

3. The Categories of Social Commerce Platform

Until now many social commerce applications have been developed and implemented, and for example, there are many mature social commerce forms, such as Amazon, Epinions and Facebook in American, Douban and Dianping in China and so on, in which many people tend to participate. However, there is no well-developed taxonomy of business model in social commerce. Now, we have identified four basic categories of social commerce business model from a broad perspective:

- E-commerce-oriented social commerce.
- Interest-oriented social commerce.
- Social network-oriented social commerce
- Group buying-oriented social commerce

E-Commerce-oriented social commerce is social commerce based on e-commerce platform. Commerce-oriented social commerce websites are those direct sales websites such as Amazon form. Amazon is an example of BtoC blending internal socialization among consumers. It is not only an e-commerce platform but also a community in

which there are many active users and loyal customers. The e-commerce platform can improve service for existing customer by adding social components. (See Fig 1). Just like many BtoC platforms, Taobao wants to apply socialization to the Aitaobao platform, which is a new sharing consumption community. It still needs to cultivate active users and high quality user contributions.

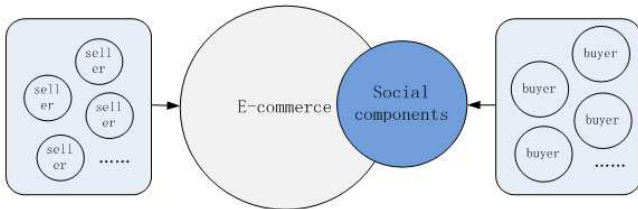


Fig. 1. E-commerce oriented social commerce.

- Interest-oriented social commerce are social commerce platforms based on the topic or interest community which have developed based on the third party communities that aggregate users centered on the common interests or themes, such as douban. On these websites, potential buyers can review others' recommendations and opinions to make better informed purchase decisions. They connect consumers with other e-commerce platforms or sellers, such as Epinions to EBAY in the United States, and Douban to Aitaobao in China. Merchants or suppliers, who act as business partners with social commerce firms, also gain benefits from the promotion to customers. These sellers or e-commerce platforms can benefit from a lower cost business channel and attract more customers. (See. Fig 2).

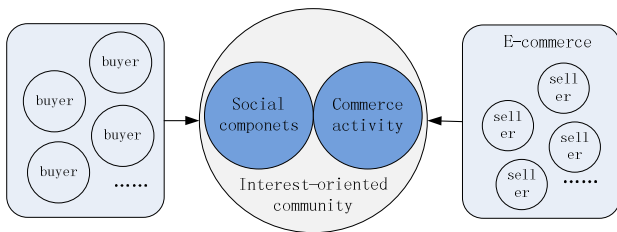


Fig. 2. Interest oriented Social commerce.

- Social network-oriented social commerce is social commerce platforms based on social network which have developed based on some social networks, such as Facebook and Twitter in America and Wechat in China. The interaction through these social networks are extending the real life friendship to the online. Users of social media are encouraged to share product information with their friends via online social ties. Consumers may also consult their social community to seek advice in their purchasing decision. To achieve such purpose, these web sites often provide functions for their users in order that they can easily share commercial information with their social networks. These social networks invite the sellers to participate in and use online social ties as marketing channel. (See. Fig 3)

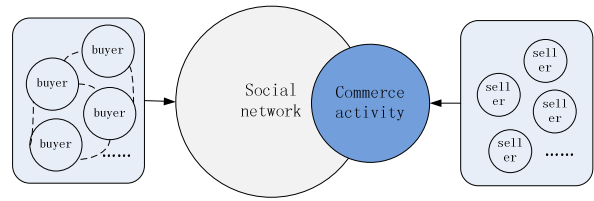


Fig. 3. Social networks oriented social commerce.

- The fourth are group buying websites just as Groupon, Meituan and so on, which help people organize different group activities within only a few days. Many social commerce providers started their business by combining group buying with selling discount coupons offered from their partners on the internet. The group buying commerce retailer operates by offering one group coupon product daily in each of the metropolitan marketplace it serves. Each successful deal has a minimum number of buyers that must be reached for the deal to be closed, and sellers may also set a maximum threshold to constrain the number of coupons sold. The mechanism of time-limited purchase increases customers' sense of urgency and generates panic buying. Groupon initiated this business model in 2009. It requires a certain number of customers to buy the coupons for future delivery of goods or services. Social commerce services also involve daily deals and flash deals, and these service offerings are usually valid for a short period of time. Thanks to the social network technology, customers have been exposed to more deals, discounts and new information around their local areas. Customers can enjoy a discounted group price if they are willing and able to achieve a required group size and coordinate their transaction time. The signed-up group members play an active role in disseminating product information and persuading others to join buying group.

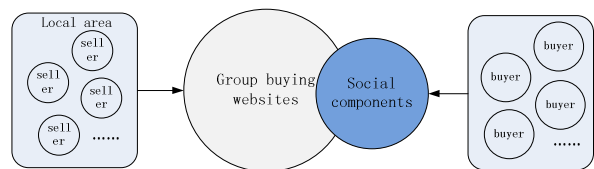


Fig. 4. Group buying oriented social commerce.

4. A Framework of S-Commerce Business Model

A business model defines how a company creates and delivers value to customers, and then converts payments received to profits is the method by which a firm builds and uses its resources to offer its customers better value than its competitors, and makes money [38]. Based on the characteristics of s-commerce and the categories of social commerce websites, we propose a framework of business models on the taxonomy of social commerce from the key components. Here, the key components include value proposition, revenue source, capability and sustainability. The key components summarized in table 2, are discussed.

Table 2. The key components of s-commerce business model.

	Example	Value propositions	Revenue source
E-commerce-oriented	Amazon.com	•Improving service for existing customers.	
Social commerce	Ai.taobao.com	•Increasing the interaction between sellers and buyers.	
Interest community	Mogujie.com	•Sharing shopping experience and pleasure	•Commission model
Social commerce	Douban.com	•Products or service recommended by interest groups	•Subscription model
	Pinterest.com	•Commerce activities based on the interest communities	•Advertisement fees model
	Facebook.com		•Affiliate recommendation fee
Social network oriented	Twitter.com	•Products or service recommended by online friend ties	•Splitting the revenues with business partners
social commerce	WeChat	•Commerce activities based on the real life friendship	
	Groupon.com	•Providing living services in local area	•Brand cooperation
Group buying oriented	Meituan.com	•Group purchase at a low price	
social commerce	Dianping.com	•Product bundling	

4.1. Value Proposition

Value proposition means that the value created for the users by the offering based on the new technology. Contrary to traditional e-commerce, there are four value propositions in social commerce.

(1) Adding social components to traditional e-commerce improves service for existing customers and take advantage of the community interaction to retain and influence a customer. A real time participation which empowers customer controls and reduces the distance between customers and companies. Amazon is an e-commerce pioneer, which proves that it is important to understand the value of online communities in attracting new customers and retaining them.

(2) Interest oriented social commerce promotes the commercial activities by the interest communities. With the integration of commercial features into social media platforms, users' primary aim revolves around sharing shopping experience and pleasure, while businesses seek to establish communities around their products and brands to build product and brand loyalty. Meanwhile, these interest groups recommend products with lower costs in value capture for business model innovation.

(3) Social network oriented social commerce recommends products by online friend ties, which helps buyers make decisions and solve the trust issues in the process of shopping. Sharing information quicker promotes produces.

(4) The business model of group buying commerce is a three-win situation. For local traders, the effects of publicity and advertising can directly increase their revenue and boost consumption through heavily discounted price. For the group buying platform, the least effort possible is expended to get the biggest discount possible from traders to attract more and more customers to the platform. The platform sells the coupons to the end customers at a slightly higher price than it gets from the traders. For the end customers, a large discount can be obtained without the effort of bargaining. Many group buying websites provide the local living service. For instance, customers can get the coupon online by Meituan and use it offline. In addition, group buying commerce websites can realize product bundling in order to promotion.

4.2. Revenue Source

Compared with traditional e-commerce websites, here we summarize the revenue models about the social commerce. There are no differences among four types of social commerce.

•E-commerce oriented social commerce uses the revenue model called transaction fees model which earns the revenue via capturing commissions paid on volume of transaction via e-commerce website, and this is a form adopted by most of social commerce websites.

•The second form of revenue model is subscription model in which customers pay a fixed amount of money within a fixed period, usually monthly based, to get some type of service. Sellers pay Mogujie some amount of subscription fee, and then these sellers can get data support from the platform, which is valuable to improve sales.

•Thirdly, the advertisement fees model is most commonly used, in which social commerce company allows other companies to place a banner on their sites like Google revenue. Facebook website has many banners actually and they charge for advertisement.

•Affiliate fee is the fourth model for social commerce, and companies receive commissions for directing customers to others' Web sites, such as Douban and Epioion.

•Sales model, some group buying websites generate revenue from splitting the revenues with their business partners at a predefined rate.

•Firms may develop a new brand by facilitating the social interaction of customers through social commerce websites. Research shows that social commerce constructs are useful tools for co-creation of value and co-branding. So brand cooperation is one of the social commerce revenue resources.

4.3. Capability and Sustainability

The sustainable development strategies of social commerce differ significantly for these social commerce platforms. It is important to understand the characteristics of each social commerce category and identify its business goals. In addition, we believe it is useful to consider the motivation for users' visits to e-commerce and social commerce. The main goals of users' visiting e-commerce websites is to find a product they

want to buy and determine from which vendor they want to buy it based on price, reputation, product and service. However, in a social commerce context, users' intentions of visits may depend on social and commerce present of the websites[39].

•The E-commerce oriented commerce websites must create a social climate on the internet. Users' primary aim revolves around real-time participation, information sharing, and problem solving. So firms may develop social commerce constructs on their e-commerce platforms and provide online social support or service for their consumers. Social components provide an effective way that can expand firm's reach, improve its reputation and increase its sales. For example, Amazon sells books and video on the internet originally. It encourages user conversation to increase sales. An online research reports that Amazon's current social strategy focuses on producing UGC and sharing social content with the purpose of stimulating user participation. Chinese E-commerce giants - Alibaba and Ai.taobao - take advantage of Douban to improve their user participation and sharing. Whether it will succeed is still a problem.

•Group buying oriented social commerce offers daily deals and flash sales around users' local areas. Their key business strategy of using social media applications is to constitute aggregations of user groups and involve them in group activities by selling discount coupons provided by their partner companies. However, Reibstein asserts that the weaknesses of the group-buying business model are that its success will eventually limit the growth due to a huge increase in competition, as well as that there will be a sharp decrease in its capability to deliver the original value business proposition. For instance, in 2013, Groupon spent US\$4.95 per new customer, but in 2014 it had to spend US\$5.30, an increase of about 7%. The increase is worrisome to potential investors, which influences the sustainable of group buying commerce.

•Interest oriented social commerce and social network oriented social commerce let customers base their purchase decision making on collective intelligence, and shopping is not only "I want to buy something". For example, sometimes we do not want to buy any things, but when we stroll on the Pinterest, we find something we like it, so we will buy it. There are different aspects of the social commerce features from e-commerce oriented social commerce. These social commerce websites are directed towards social activities, such as entertainment, sharing, and connection originally, which contribute to the interest community and friendship community. We can make an interest graph through following somebody. At the same time we can make a social graph through focusing on our friends in real life, such as Facebook or WeChat. But from the user behavior, both platforms and sellers need take into consideration users' preferences for commerce features of interesting group or friendship community, which will influence the sustainable development of social network oriented social commerce.

5. Conclusions

Web 2.0 generated a new e-commerce stream named social commerce, which is an innovation of business model. With more customers using social media, business has developed tools to reach more of them to increase sales and brand awareness. In this paper, we have reviewed and leveraged existing frameworks and explored the concept model of social commerce from business model. The community interaction is the foundation which can influence business activities. This model guides people to understand the social commerce platform from four respects: taxonomy, value proposition, revenue source and sustainability. This research is not only contributes to our theoretical understanding but also provides guidance for successful social commerce practice.

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A business model is a framework for finding a systematic way to unlock long-term value for an organization while delivering value to customers and capturing value through monetization strategies. A business model is a holistic framework to understand, design, and test your business assumptions in the marketplace. However, a business model implies the understanding of operations, customer acquisition, retention, supply chain management, besides monetization. According to the business model you designed over the years for your organization there will be a piece that plays a more critical role compared to others. For instance, a vital component of the Coca-Cola business model is its distribution strategy. Business models of today are highly depending upon internet based transaction and trading platforms, use of Web portals and mobile applications. Proposition of new business models sans the inclusion of internet and their application has become almost impossible for business. Business data pertaining to E Commerce has become highly valuable in recent times. They developed the prerequisites framework for assisting decision makers assess the suitability of electronic business models during the intelligence phase of the decision making process and not in other phases. E - commerce. In its broadest sense, the term e-business is usually understood as the application of information technologies (IT) into a business process.