

Interview

Harvard professor Mikolaj Piskorski's research-based social media business development model

Alistair Davidson

Over more than a decade, social networking has been one of the highest profile areas of the Internet. Online sites for matching up parties in a wide variety of transactions, personal communication sites like Facebook and Twitter and company-sponsored networks designed to increase and track interactions with users have become mainstream marketing initiatives. There has been, however, a lack of a strategic perspective on how best to design social network platforms, whether to own a network or use established social networks and how social networking contributes value to corporations.

Mikolaj Piskorski, Associate Professor in the Strategy Unit at Harvard Business School, is one of the first researchers to write about the underlying economic, social and strategic drivers that make social platforms important to CEOs, CIOs, CMOs and strategists generally. His research-based insights emphasize the importance of designing a platform that enables transactions that would not occur otherwise, transactions that benefit both companies and individuals. Professor Piskorski is the author of *A Social Strategy: How We Profit from Social Media* (Princeton Press, 2014) and a number of cases and articles on social networking strategy. His interviewer, Alistair Davidson, a *Strategy & Leadership* contributing editor, is a strategic and business development consultant based in Silicon Valley. His latest book is *Innovation Zeitgeist: Digital Business Transformation in a World of Too Many Competitors* (Kindle, 2014).

Strategy & leadership: When you first started your research on the social strategy success factors in 2008, what kind of questions and concerns were executives raising with you?

Mikolaj Piskorski: Many managers I taught in Executive Education at Harvard Business School would ask: "What should my Twitter or Facebook strategy be?" They had bought into the notion that presence on these social platforms would create value for them, though in reality it rarely did. And I always responded saying that you should not ask tactical questions of how to use individual



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platforms. Instead, you should step back and ask a strategic question, “What is my competitive advantage and how can I use social media to increase it and make more money?” Once you think about the world this way, you might discover that you don’t necessarily want to be on Twitter or Facebook. Instead you may, for example, want to build your own platform.

S&L: How did you research what was working and not working about how businesses were using social strategy?

Piskorski: There were so many different topics to study, so I had to make some decisions about what to focus on. I started with B2C in the USA, anticipating that my next round of research would address B2B in the USA before studying strategies overseas. I started with archival research of social strategies of the B2C USA based-firms, and then I met with a wide variety of executives at companies that had built significant social platform presence. Some of these companies were startups, like Yelp or Zynga, but others were big established companies. I was always on the lookout for companies that you would not naturally expect to benefit from social media, and yet they did. American Express is a great example. Then I moved to study B2B social media strategies – Cisco is a definite leader in this area. And then I examined how companies used social media overseas, particularly in China.

It was very interesting to see that the more successful companies were keeping their success quiet – they did not want to disclose specific figures that would document their success with social strategy. But if you look at the publicly available figures you saw significant revenue growth without commensurate growth in marketing expense, so it was very clear that they were making money from their social networking activities. They just did not want others to imitate them.

S&L: What factors did you discover were important? Was what you found more tactical and focused on short-term revenue issues or was there a longer-term impact in terms of competitive advantage?

Piskorski: Over time, it became very obvious what distinguished companies that benefited from social media from those that did not. Companies in the latter category followed what many consulting firms have suggested: that the benefits of social networking are soft benefits. They give advice such as, “Focus upon what customers are interested in, not on selling your product.” The problem with that approach is that it does not lead to profit.

In contrast, companies that did well with their social strategy did not treat social platforms as a way to broadcast to customers. Instead, they focused on building interactions between their customers or suppliers. And to do that, they actually changed their product offering. For example, Nike started selling shoes and other devices that integrated sensors that tracked their customers’ activities. The customers could then upload that information to Nike’s proprietary platform – NikePlus.com. The information was then used to enable people to run with friends or find local running partners with similar abilities and schedules. By addressing social needs of runners, Nike provided an additional reason to buy its products in a highly competitive market. By augmenting the existing product and linking it to a social platform, Nike was able to grow its shoe sales by 30 per cent in just a few years.

Cisco, which produces Internet routers and switches, had a very similar approach. It set up a social platform for engineers who wanted to obtain various Cisco certifications, and gave them the opportunity to interact with each other to study for certification tests. These relationships continued and engineers used the platform on the job to seek help and support for on-going business problems. And when a low-cost Chinese competitor came along, engineers who used the Cisco social platform did not want to switch and give up the resources available through the social network. This really helped Cisco weather a huge competitive incursion.

S&L: What models have you come up with when it comes to designing online social platforms and social strategy?

Piskorski: There are two interconnected models in my book. The first model tells you how to build effective online social platforms, while the second tells you how to develop social strategy.

To build an effective social platform, I argue that you first need to understand the reasons why people don't interact in the offline world, but would benefit from doing so. For example, a Cisco engineer may not be able to connect with someone who can solve a particular problem. Someone looking for a social contact may not be able to find a suitable relationship. A runner may not be able to find a regular running partner.

Then you need to figure out how to make these interactions happen. It turns out that there is a universal formula consisting of the four things you need to do. You need to have a lot of people on the platform, you need to help them display personal information about themselves, you need to help them search for and acquire information about others, and you need to help them communicate. And you have to do all four things at the same time – you miss one, and the site will not work well.

Once you understand how to build an effective social platform, you can use it to develop a social strategy. The trick here is to really think what you are going to ask your customers or suppliers to do in return for building relationships between them. Yelp, an online review site, is a great example – it invites its most prolific reviewers to exclusive parties, but to continue to get invited they have to continue creating content. This social strategy creates social benefits – connections between like-minded individuals – but it also creates great benefits for Yelp, as it obtains a lot of content essentially for free. Nike

is also a great example. Customers can engage in sport-related interactions with their friends via the NikePlus platform, but only if their friends buy Nike products. Again, people benefit, but so does the company.

S&L: Is there a corporate social network that you particularly admire because it represents one successful approach?

Piskorski: I am particularly taken with Cisco's social strategy, which entailed building a community of Cisco engineers. I like what they did because everyone thinks social does not apply to B2B, and yet Cisco managed to use social behaviors to protect its competitive advantage.

S&L: What are the five most important take-aways from your book for a CEO or CIO?

Piskorski: First, contrary to the popular perception, there are companies out there that are making a lot of money out of their social network. Their success should encourage C-level executives to start the process of using social platforms to create value.

Second, the way to get to profitability is not to get too tied up in the issue of what social platform to create or use. Start by identifying the strategic issue that you are trying to solve and



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what kind of value-creating social interactions you can create for customers.

Third, you need to determine how you are going to deliver on these social interactions. The four-part social platform model – a lot of people on the platform, help them display personal information about themselves, help them search for and acquire information about others, and help them communicate – is your best guide.

Fourth, you need to figure out what you are going to ask your customers or suppliers to do for you in return for better relationships: for example, will they do your customer acquisition for you, or will they supply free inputs for you.

Fifth, don't expect results right away. Experiment fast.

S&L: How should top management structure its organization to best implement a social strategy?

Piskorski: You need two things to happen. First, you need a lot of committed people in the organization who are enthusiastic about devising social strategies. Second, you need senior managers to sponsor such efforts. For example, at American Express, senior management provided cover for younger and more junior people developing social strategy initiatives. At Nike, they set up a digital sport division to ensure that sufficient resources were being focused on online social platforms.

S&L: Have you been able to quantify the benefits of a more disciplined approach to online social networks in any way? Was there a first mover advantage for example?

Piskorski: You might expect that there would be a network effect related to being the first mover in online social platforms. But this kind of advantage does not really exist when it comes to online social networks – Facebook was the third platform of its type to launch and yet it is now the largest network. So the key issue seems to be managing fast cycles of learning. The successful companies did many experiments and learned quickly about what customers would do and what they needed. It was the companies' rate of learning that mattered the most.

S&L: In the year after writing your book, I'm sure you have had insights from ongoing research. How has your perspective and research evolved since finishing the book?

Piskorski: I was fortunate enough to receive funding from Harvard Business School to spend time in China researching social networking there. It was quite an eye-opener. Some people might have expected that a sophisticated idea like social networking would be adopted first in developed countries and then it would slowly migrate to less developed countries. That assumption turns out to be completely wrong. Social networking is far more pervasive and important in China than in developed countries.

I think what has happened is, just as cell phones allowed developing countries to skip building more expensive land-line infrastructure, social networking became ubiquitous in China because it lacks the broadcast media infrastructure we assume in developed countries. Chinese TV tends to be quite boring and controlled, so social networking fills the gap. As a result, user-created content and communication in China is more important than broadcast media.

Interacting with Chinese social network executives was also an eye opener. Because there is no intellectual property protection in China, management at Chinese social networks were exceptionally open about their numbers, making research easier than the in the USA. Their assumption seems to be that everything is going to be disclosed anyway, so why worry?

Five key questions for social network platform developers

1. **Breadth.** How would a social network enable transactions with the broadest number of desirable contacts or with a specific high-value set of contacts? What contact breadth failures is the platform resolving?
2. **Display.** How does the social network facilitate the display of transaction information that would otherwise be overly expensive or that has social restrictions? What privacy settings will promote the value of transactions? What display failures is the platform resolving?
3. **Search.** What new search capabilities and goals are enabled by the platform? What search failures is the platform resolving?
4. **Cost.** How is the network changing the ratio of the cost of transactions – both the monetary and opportunity cost – to the value created? What cost of transaction failures is the platform resolving?
5. **Value and opportunity cost.** How will the platform create value for the company? Is there an opportunity cost if the platform is not established?

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