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MASTER`S THESIS

**Role of social networks in marketing communications of service-based,
international SME's**

**Sociālo tīklu loma starptautiskajiem pakalpojumu MVU mārketinga
komunikācijās**

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ABSTRACT

This study is focused on the role of social networks in marketing communications of service-based SMEs. Author proposes that social networks represent effective marketing tool and analyzes theoretical concepts and practical implications that the utilization of this tool can have on such companies.

Internet development and use of social networks are on a constant rise and marketers need to adapt their strategies to correspond with these trends. This thesis focuses on providing deep understanding of methods in which service-based SMEs can use this marketing tool to raise brand awareness and develop deeper customer relationships in order to lead prospects toward desired point of action. The aim of this study is to show effectiveness of social networks as a marketing tool for service-based SMEs through the model proposed.

Key words: social networks, marketing communications, market orientation, SMEs, international business

ANOTĀCIJA

Šajā maģistra darbā pētīta sociālo tīklu loma mārketinga komunikāciju veidošanā pakalpojumus sniedzošos mazos un vidējos uzņēmumos (MVU). Pēc autores domām, sociālie tīkli darbojas kā efektīvs mārketinga instruments. Darbā tiek analizētas teorētiskās koncepcijas un praktiskās ieviešanas aspekti, kā sociālo tīklu izmantošana var tikt izmantota kā efektīvs instruments minētajos uzņēmumos.

Interneta attīstība un sociālo tīklu lietošana aizvien pieaug un tirgotājiem jāpielāgo savas stratēģijas, lai atbilstu šīm tendencēm. Šis maģistra darbs koncentrējas uz padziļinātas izpratnes veidošanu par metodēm, ko pakalpojumu MVU var izmantot kā mārketinga instrumentus, lai palielinātu zīmola atpazīstamību un pilnveidotu attiecības ar klientiem, kas, savukārt, palīdzētu efektīvāk sasniegt savus mērķus sadarbības veidošanā.

Šī darba mērķis ir demonstrēt sociālo tīklu kā pakalpojumu MVU mārketinga instrumenta efektivitāti, izmantojot maģistra darbā piedāvāto modeli.

Atslēgas vārdi: sociālie tīkli, mārketinga komunikācijas, orientācija uz tirgu, MVU, starptautiskais bizness

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INTRODUCTION

Internet and high development of communication technologies have significantly changed the way businesses operate. Such progress of technology has influenced the way people respond and interpret information. Proliferation of Internet is being followed by high growth of social media and social networks. This progress influenced the way marketing communication should be conducted and it cannot be ignored by marketers. Customers are shifting online and marketers need to follow such trends in order to position themselves where their targeted audience is.

Internet provides conditions for almost pure competition as power of sellers has minimized and shifted towards customers. Users can compare different offerings by different companies with minimized efforts and time input. This indicates that in order to succeed on the market, a company needs to focus on customer and the relationships established. Author of this thesis considers that social networks are an excellent tool for acquisition of these goals.

The aim of this study is to show effectiveness of social networks as a marketing tool for service-based SMEs through the model proposed. Accordingly, **hypothesis of this study is that social networks represent effective marketing tool for service-based SMEs which facilitates customers targeting, relationship building, brand awareness and ultimately sales.** Thus, research question is related to effectiveness of marketing through social networks for service-based companies. In order to achieve stated aim and answer research question, author had to undertake following tasks:

- Research of the marketing communications and market orientation concepts based on various literature sources
- Research of the service marketing concept with focus on characteristics of services compared to products
- Research of the concepts of online marketing, Internet development, social media and social networks
- Indicate ongoing trends in service sector
- Emphasize proliferation of the Internet, related ongoing trends and statistics regarding its usage and penetration
- Analyze trends and statistics related to the utilization of social networks that have been chosen for analysis in this research (Facebook and Twitter)

- Analyze shifts and trends in advertising by comparing existing trends in online and traditional marketing
- Conduct qualitative and quantitative research that should provide in-depth understanding of the topic and show existing tendencies
- Proposal of REAN model for efficient utilization of social networks as marketing tool
- Make conclusions about the research and provide suggestions that can contribute to effectiveness of marketing through social networks for service-based companies.

In the *first chapter* author researches marketing communication and market orientation concepts and theory and emphasizes their characteristics. Different views of many researches are considered and presented with emphasis on works of two groups of authors - Kohli and Jaworski and Narver and Slater. Based on the conducted research author proposes market orientation concept that is applicable for the companies operating in modern environment. Concept of service marketing is presented with emphasis on characteristics of services and their marketing implications, and author proposes theoretical solution on utilization of social networks in order to overcome obstacles imposed by those characteristics. Further, concepts of online marketing, social media and social networks are researched and presented.

In the *second chapter* author presents and analyses ongoing trends, shifts and statistics related to service sector, online marketing, Internet proliferation and usage, and growth and usage of social networks. Author focuses on statistics and trends in usage of two social networks that are focus of this research – Facebook and Twitter. For better understanding of ongoing shift from traditional to online marketing author presents trends and statistics related to spending and forecasts for these marketing methods.

Third chapter is focused on analysis of data obtained during qualitative and quantitative research, with clear description of methodology used. Based on obtained results author indicates present positive tendencies and existing concerns when it comes to efficiency of marketing through social networks. Author further proposes model for efficient utilization of social networks as marketing tool.

Final part of this thesis is *conclusions and suggestions*. In this part main conclusions of this research have been given and author provides specific suggestions that can contribute to effectiveness of marketing through social networks for service-based companies.

Possible limitations of this work are that it is focused on marketing effect that two specific social networks (Facebook and Twitter) can have on service-based SMEs. Other social networks were not part of this research. Author has focused on SMEs operating in business sector while large companies and companies that are product oriented were not included in this research. However, author considers that model developed according to this research would be effective in cases of both large and product oriented companies, but such hypothesis requires additional, thorough exploration. Specific, possible limitations in regards to methodology of the conducted research are presented in the third chapter of the thesis.

For this research author has used comprehensive literature from University databases, public articles, books, business records and statistics of Flight Media Co. and diverse Internet sources.

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Maja Jaredić

1. THEORETICAL APPROACH TO MARKETING COMMUNICATIONS AND SOCIAL MEDIA

Modern business environment is changing rapidly due to globalization, high technological continuous development, changes in customer's preferences, vast progress of Internet and communications, etc. Rapid changes that have rose with fast development of the internet and communication systems have affected marketing communications very strongly. Advent of the internet brought new opportunities for the process of marketing communications that have changed drastically compared to traditional marketing communication approaches. In order to stay competitive, companies need to adapt their marketing strategies to current business environment.

These continuous changes in business environment have affected how the customers perceive advertising. It is evident that marketing have penetrated all the spheres of human life. Such tense and consistent exposure to mass marketing has made people less sensitive towards it what lead to new concepts of marketing being developed and applied. Marketing is continuing to evolve constantly in order to keep up with changed customers perspectives.

Marketing communications are the means by which organizations attempt to inform, persuade, and remind consumers – directly or indirectly – about the products, services and brands that they sell.¹Marketing communications allow the company to establish a dialogue and build relationships with consumers while at the same time building their brand awareness and reputation.

Fierce global competition is forcing companies to accept new and modern theories which differ from the traditional approaches in the sense of marketing communication role and strategies. Proper marketing communication strategies allow companies to connect their brand to the consumers and can contribute to brand equity by establishing brand in the memory and building a brand image.

¹Kevin L. Keller, "Building strong brands in a modern marketing communication environment", Journal of Marketing Communications, April-July 2009, P. 141

1.1 The concept of marketing communications and main definitions

Modern marketing requires that companies, besides developing a product or service, pricing it accordingly and attractively and making it available to the consumers, communicate with their target audience. Marketing communications are critical aspect of a company's overall marketing strategy and are major determinant of its success. Shifts in business environment of the companies, globalization, high-speed development of communication channels and internet has significantly affected the way marketing communications are perceived.

Marketing communications represent the collection of all elements in a brand's marketing mix that facilitate exchanges by targeting the brand to a group of customers, positioning the brand as somehow distinct from competitive brands and sharing the brand's meaning with the brand's target audience.² The best way of understanding marketing communications is by examining its two constituent elements, marketing and communications. **Marketing** is the set of activities whereby businesses and other organizations create transfer of value (exchange) between themselves and their customers.³ **Communications** is the process whereby thoughts are conveyed and meaning is shared between individuals or between organizations. Marketing communications represent the 'voice' of the company and its brand and are a set of means by which a company can establish a dialogue and build relationships with and among consumers.⁴

Analyzed together, marketing communications define the collection of all elements in a brand's marketing mix that enable and ease exchanges with targeted customers while building strong brand value.

Marketing communications allow companies to link their brands to other people, places, events, brands, experiences, feelings and things.⁵

²Terens A. Shimp, "Advertising, Promotion, and other aspects of Integrated Marketing Communications", South-Western, Cengage Learning, 2010, P. 3

³Ibid P. 4

⁴Kevin L. Keller, "Building strong brands in a modern marketing communication environment", Journal of Marketing Communications, April-July 2009, P. 140

⁵Ibid P. 141

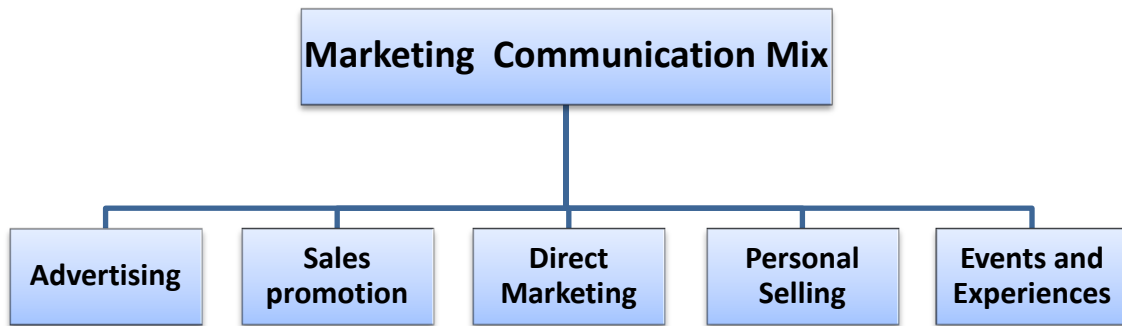


Figure 1.1. Elements of marketing communication mix, Source: Kaleem M. Khan, Mohammed N. Khan, The Encyclopedic Dictionary of Marketing (Sage Publications Inc., California, 2006)

Figure 1.1 represents marketing mix and its components. As shown in the figure 1.1., the marketing communications mix consists of a seven major modes of communication:⁶

1. Advertising – any paid form of non-persona presentation and promotion of ideas, goods or services by an identified sponsor
2. Sales promotion – a variety of short-term incentives to encourage trial or purchase of a product or service, designed to make a temporary increase in sales.
3. Direct marketing – selling of products or services without the aid of wholesaler or retailer to the end customers, by use of mail, telephone, fax
4. Personal selling - face-to-face interaction with one or more prospective customers for the purpose of making presentations, answering questions and procuring orders.
5. Events and experiences – company sponsored activities and programs designed to create daily or special brand-related interactions.

Author of this thesis considers that Figure 1.1 and defined Marketing mix need to be adapted in order to correspond to the environment in which modern companies do business. Such stand is in alignment with definitions of Kevin L. Keller, that argues in his work⁷ that marketing communications mix consist of eight major elements, as shown on figure 1.2, and that first four elements can be seen as more mass media types of marketing communication while the latter four are more personal modes of marketing communication.

⁶ Definitions are adapted from Peter D. Bennett, ed., Dictionary of Marketing Terms (Chicago: American Marketing Association, 1995) and Kaleem M. Khan, Mohammed N. Khan, The Encyclopedic Dictionary of Marketing (Sage Publications Inc, California, 2006)

⁷ Kevin L. Keller, “Building strong brands in a modern marketing communication environment”, Journal of Marketing Communications, April-July 2009, P 141

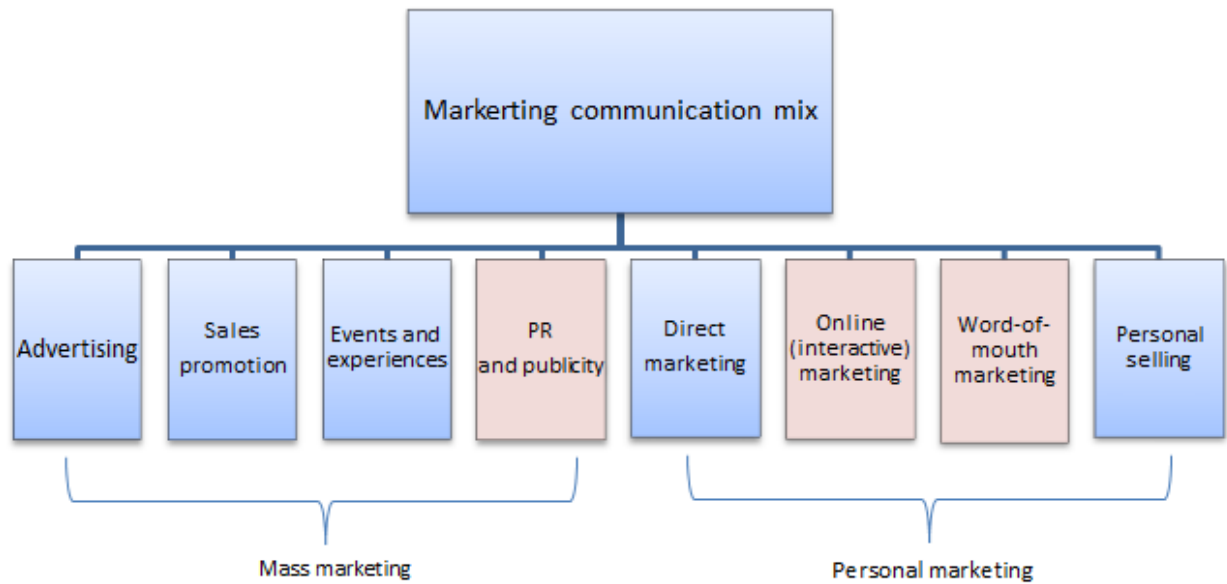


Figure 1.2. Elements of marketing communication mix adapted by Keller, created by author. Source: Kevin L. Keller, “Building strong brands in a modern marketing communication environment”, Journal of Marketing Communications, April-July 2009

Figure 1.2 shows adapted marketing mix that includes, in addition to previous figure:⁸

- PR and publicity – a variety of programs designed to promote or protect a company’s image or its individual products.
- Online marketing – online activities and programs designed to engage customers or prospects and directly or indirectly raise awareness, improve image or elicit sales of products and services. Online advertising uses the Internet as a medium to deliver promotional marketing messages to consumers.
- Word-of-mouth marketing – people-to-people oral, written or electronic communications which relate to the merits or experiences of purchasing or using products or services.

Author of this thesis takes the stand that marketing communication mix needs to include all elements listed by Keller, as they are more adequate for the modern business environment.

⁸ Definitions adapted from Kevin L. Keller, “Building strong brands in a modern marketing communication environment”, Journal of Marketing Communications, April-July 2009, P 141

Importance of marketing communications has increased dramatically in the last two decades. With the change of marketing concept from mass marketing to targeted marketing such as relationship and one-to-one marketing concepts, ability of company to communicate its message to the pinpointed, targeted customers is of vital importance to its success. Being able to retrieve data and information about the potential customers has been facilitated by fast and continuous development of technology, thus allowing companies (and even forcing them) to use more targeted, more personal marketing approaches.

It is crucial that companies have in mind that such opportunity is given to the customers too. Due to the internet and interconnectedness among people around the globe, information is being accessible to almost everyone. Companies do not longer control information given or shared but the customers are involved in those processes to very big extent. Reputation, credibility and overall success of the brand and the company are highly dependent on customer's impressions being shared every second freely. That is why the message sent to the customers through marketing communication channels must be unified and integrated – “speak with a single voice”⁹. That is why marketing communications and its integrations are absolute imperative for success.

1.2. Kotler's analysis of ongoing marketing shifts

With constantly changing business environment shifts in marketing are inevitable. Philip Kotler, one of leading marketing authors, consultants and professors, has identified 14 major marketing shifts that are occurring nowadays that companies cannot ignore.¹⁰

1. *Companies are shifting the marketing actions.* In the previous years, companies had selected marketing department that were executing marketing strategies in the name of the company. This has changed dramatically. Successful businesses today recognize the importance of having all its divisions involved in marketing actions in order to achieve synergy and deliver unified message to the customers.

2. *Business units are no longer organized by product.* Rather than implementing traditional policies of organization by products, companies are dividing and organizing its operation by

⁹ Terens A. Shimp, “Advertising, Promotion, and other aspects of Integrated Marketing Communications”, South-Western, Cengage Learning, 2010, P. 4

¹⁰ Philip Kotler, Kevin Lane Keller, “Marketing Management, 12th Edition”, Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P.27-29

customer segments. Instead of centering products into the marketing strategy, the core of all business strategies is customer.

3. *More frequent usage of outsourcing.* Companies are opting to own brands rather than physical assets and are increasingly subcontracting activities to outsourcing firms. High interconnection and cheap communication systems are enabling outsourcing of activities that others can do more cheaply and effectively while the management of the company is focusing on strategy development and core activities.

4. *Companies are deepening relationships with their suppliers.* Companies are shifting their perception of suppliers and intermediaries as customers to treating them as partners in delivering value to final customers.

5. *Constant uncovering of new markets.* Due to highly competitive markets, companies are constantly investing in innovation of products and services and development of marketing programs. Rather than relying on past successes, companies are constantly seeking new opportunities.

6. *Focusing on intangible assets.* It has come to attention of the managers that the most of their market value is coming from intangible assets, more specifically – brands, skilled employees, know-how, relations with stakeholders, etc.

7. *Building brand through performance and integrated communications.* Marketers are blending several communication tools to deliver consistent brand image to customers at every brand contact instead of relying on heavy advertising.

8. *Making products and services available online instead of using only physical stores and salespeople.* With the advent of internet, the number of companies implementing online marketing strategies is consistently growing.

9. *Shifting to highly targeted, well defined markets.* Instead of trying to reach the biggest number of people as possible, marketers are directing their efforts towards well defined, pinpointed niche markets.

10. *Shifting attention to customer retention.* Even though they are always trying to attract new customers companies are investing much bigger efforts to retain current customers. Not only because according to Kotler attracting new customers may be up to 5 times more expensive compared to retaining a customers, but also in order to transform current customers into the brand ambassadors and promoters that will enhance word-of-mouth marketing and boost company's credibility.

11. *Building customer share instead of market share.* Companies are building customer shares by offering a larger variety of services and goods to existing customers and are training their employees in cross-selling and up-selling.

12. *Becoming “glocal”.* Managers are devoted to balancing local adaptation with global standardization in order to be able to respond to requests of both business environments.¹¹

13. *Focusing on marketing results instead of financial results.* Marketers realize that marketing results can predict changes in financial results. Instead of examining revenue alone, marketers are devoting their attention to analyses of market shares, customer loss rate, customers’ satisfaction, etc.

14. *Focusing on stakeholders instead on shareholders.* Companies respect the importance of creating value for all business partners and customers and are committed to development of strategies and policies that will balance the return to all stakeholders.

With the vast development of technology and globalization, marketing concepts have shifted dramatically, especially in last two decades. Customer focus has been foundation for all company’s’ decision making processes, mass marketing is being less used while more personal marketing approaches are gaining on importance and overall business philosophy has changed in a way that company orients its entire actions and strategies toward market and consumers.

In order to comprehend these shifts better and what companies need to apply when it comes to their marketing strategies, it is crucial to understand concept of market orientation.

1.3 Development of market orientation concept and its importance for the overall success of the company

Market orientation concept is prerequisite for the success of service companies operating in modern economy nowadays. A business that increases its marketing orientation will improve its marketing performance.¹² In order to establish solid market presence, build reputation, brand and

¹¹ Goran Swensson “Beyond Global marketing and the Globalization of Marketing Activities”, Management Decision 40, no.6 (2002) 574-583, quoted from Philip Kotler, Kevin Lane Keller, “Marketing Management, 12th Edition”, Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P.28

¹² Narver C. John, Slater Stanley F. (1990) “The effect of a market orientation on business profitability”. Journal of Marketing, Vol. 54 Issue 4, 1990, P 20

success, focusing on the customers and their needs (not only the current but also the needs that might arise in the future) is imperative.

Companies are operating in highly complex business environment and one of the key factors that will determine its overall success on the market is the way in which they are communicating their message to their environment. In today's economy companies have adapted their business philosophies in such manner that customer is placed in the focus of their strategies and activities.

Marketing literature has been comprehensively explaining this marketing conception, and the author of this thesis considers that understanding and applying this conception is prerequisite for the survival and success if the organization.

However, before we proceed, it is important to understand the sole term "**market orientation**". Up to the 1990's, authors have used the term "marketing orientation" when referring to this marketing conception. Authors of widely quoted article that market orientation theory has been built on, Kohli and Jaworski, in their research paper state that the term "marketing orientation" needs to be substituted with "market orientation" due to several reasons.¹³

1. This term (market orientation) clarifies that this conception is not solely concern of marketing function in the organization but rather a variety of departments
2. This term is more adequate as it does not inflate marketing function of organization and makes this conception the responsibility of all departments in the company
3. This term focused on the markets, that is, on the customers and forces affecting them.

Literature on effects of a company implementing this approach is very extensive and shows the development of this approach and the necessity for its implementation.

The author of this thesis has compared several research papers from prominent experts that have made big impact on understanding and defining this marketing conception. Our findings have been summarized and presented in following text.

Marketing concept, as a new approach in marketing theory, emerged in the mid-twentieth century and its main characteristics is that companies have accepted to build their business philosophies around customers and their needs.

¹³ Ajay K. Kohli, Bernard J. Jaworski, "Market Orientation: The Construct, Research Propositions, and Managerial Implications," *Journal of Marketing* (April 1990): P. 3

One of the pioneers of marketing concept theory is Peter Drucker, who declared that companies need to have only two functions, marketing and innovations. In 1954, in his work “The Practice of Management”, Drucker states:

“There is only one valid definition of business purpose: to create a customer. Therefore, any business enterprise has two—and only two—basic functions: marketing and innovation.”¹⁴

Such approach was highly revolutionary for the given time period. However, it was soon proved to be correct and followed by other economic thought leaders.

In the year 1960, Robert J. Keith published an article, which followed marketing’s development at the Pillsbury Company for almost a century between 1869 and 1960, that summarized history of marketing concepts used and announced revolution in marketing theory and practice – marketing concept.¹⁵ According to the article, this revolution was based on change in business philosophy and its greatest impact will be the emergence of marketing as the dominant function in businesses. In this article the author has portrayed marketing revolution as a process which can be divided in four separate eras:

1. Production era, or era of manufacturing
2. Sales era
3. Marketing orientation era
4. Marketing in control

Production era was characterized by business philosophy that focused primarily on the production, manufacturing and efficiency issues while marketing and customer preferences were considered less important. Efforts and capital were concentrated on production.

Sales era is described by author as era of immense development of marketing and marketing departments, since businesses became more aware of vital importance of customers (their wants and preferences), suppliers and distributors.

Marketing orientation era is characterized by high penetration of marketing into the business philosophy of organization and its values. Focus is shifted and “*marketing begins and ends with the consumer*”.¹⁶

Finally, author has emphasized the overall impact that marketing orientation is having on the organization’s success. Findings of this author can be summarized as following¹⁷:

¹⁴ Peter Drucker, “The Practice of Management”, Harper & Row Publishers, New York 1954, P 39-40

¹⁵ Keith, R.J. (1960), "The marketing revolution", Journal of Marketing, Vol.24 .January 1960, P.35-38

¹⁶Ibid P.35-38

¹⁷ Summarized by the author of this thesis

- Shift from short-term to long-term marketing operating policy
- Alignment of marketing function with the top management and their interdependencies
- Immense importance of marketing research and planning on long-range
- All activities of organization will be aimed at satisfying the needs and desires of the customers.

This article has been widely quoted and referred to as it has pointed out new, radical trend change in marketing theory.

During the 1990's, many papers on this topic were published, as economists and marketers realized its necessity and constantly growing impact on overall success of organizations. It can be noted that in this time period literature on the theory and practical implications of marketing orientation concepts has marked significant growth. Most of the papers published on this topic were built on two papers published in 1990 - Ajay K. Kohli and Bernard J. Jaworski, "Market Orientation: The Construct, Research Propositions, and Managerial Implications," and Narver John C., Slater Stanley F. "The effect of a market orientation on business profitability".

Based on the literature that they had used as a foundation for their research, Kohli and Jaworski state that many diverse definition of marketing concept existed. Marketing concept was defined as "a corporate state of mind that insists on the integration and coordination of all marketing functions, which in turn are melded with all other corporate functions, for the basic purpose of producing maximum long-ranged corporate profits" by Felton.¹⁸ Broader and more complex definition was offered by McNamara, who defines conception of marketing orientation as "a philosophy of business management, based upon a company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing in communicating the needs of the market to all major corporate departments".

Kohli and Jaworski state that market orientation is based on three pillars:

- Customer focus
- Coordinated marketing
- Profitability

Findings of the authors suggest that being customer oriented means taking actions based on marketing intelligence, not on verbalized customer's opinions alone. Market intelligence is

¹⁸ Felton, Artur P. "Makin the Marketing Concept Work", Harvard Business Review, 37 (July-August) P. 55-65, quoted from Ajay K. Kohli and Bernard J. Jaworski, "Market Orientation: The Construct, Research Propositions, and Managerial Implications," Journal of Marketing (April 1990): P. 2

broader concept that includes exogenous market factors (e.g. competition, legal regulations) that affect customer needs and preferences and current as well as future needs of customers.

Coordinated marketing emphasizes that market orientation is not the responsibility of marketing department solely. All the more, authors suggest that it is crucial that variety of departments be aware of customer needs and be responsive to those needs.

Profitability is seen as a consequence of market orientation, rather than a goal to be reached.

Findings of the authors have therefore suggested that market orientation requires:

1. One or more departments involved in activities directed towards developing an understanding of customers current and future needs and the factors affecting them
2. Sharing these information across departments
3. Various departments included in activities designed to meet customers' needs

Therefore, Kohli and Jaworski define market orientation as “the organization-wide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence within an organization and responsiveness to it”.¹⁹

Remotely different definition was proposed by Narver and Slater, as they had defined market orientation as “the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus superior performance for business.”²⁰

The authors state that for a company to achieve consistently above-normal market performance it needs to create superior value for its customers. Narver and Slater in this research disclose that market oriented organization need to continuously examine all alternatives that can lead to creating superior values for customers and thus superior performance for business.

Findings of these authors (Narver and Slater) suggest that market orientation consists of three behavioral components:

1. Customer orientation

¹⁹ Ajay K. Kohli and Bernard J. Jaworski, “Market Orientation: The Construct, Research Propositions, and Managerial Implications,” *Journal of Marketing* (April 1990): P. 6 accessed at: <https://faculty.fuqua.duke.edu/~moorman/Marketing-Strategy-Seminar-2013/Session%202/Jaworski%20and%20Kohli.pdf>

²⁰ Narver John C., Slater Stanley F. “The effect of a market orientation on business profitability” *Journal of Marketing*, Vol. 54 Issue 4, 1990, P. 21, accessed at: <http://bear.warrington.ufl.edu/weitz/mar7786/Articles/narver%20and%20slatter.pdf>

2. Competitor orientation
3. Inter-functional coordination

and two decision criteria:

1. Long-term focus and
2. Profitability.

Stated behavioral components of market orientation (customer, competitor and inter-functional coordination) perceive the activities of market information acquiring and dissemination and the coordinated creation of customer value. These findings were consistent with the definition brought by Kohli and Jaworski.

Customer orientation requires the sufficient understanding of target buyers in order to be able to continuously create superior value for them. It is necessary that the company understands a buyer's entire value chain, not only at the current moment but also as it will evolve in the future.²¹ As authors suggest, company can create value for its customers in two ways and that is: by increasing benefits for the customer in relation to the cost or by decreasing customer's cost in relation to customer's benefits.

Competitor orientation means that a seller understands short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and key potential competitors.²²

Inter-functional coordination represents coordinated utilization of resources in order to create superior value for target customers, where this effort needs to be in the focus of entire business and not a single department.

What Narver and Slater add to basic components are two decision criteria. Authors accent that market orientation has primarily a *long-term focus* both in relation to profits and in implementation of behavioral components of market orientation.²³

²¹ Day, George S, "Strategic Marketing Planning", West Publishing Company, New York 1984 and Robin Wensley "Assessing Advantage: A Framework for Diagnosing Competitive Superiority" Journal of Marketing, 1988, quoted from Narver John C., Slater Stanley F. "The effect of a market orientation on business profitability" Journal of Marketing, Vol. 54 Issue 4, 1990, P. 21, accessed at: <http://bear.warrington.ufl.edu/weitz/mar7786/Articles/narver%20and%20slatter.pdf>

²² Narver John C., Slater Stanley F. "The effect of a market orientation on business profitability" Journal of Marketing, Vol. 54 Issue 4, 1990, P. 22, accessed at: <http://bear.warrington.ufl.edu/weitz/mar7786/Articles/narver%20and%20slatter.pdf>

²³ Narver John C., Slater Stanley F. "The effect of a market orientation on business profitability" Journal of Marketing, Vol. 54 Issue 4, 1990, P. 22, accessed at: <http://bear.warrington.ufl.edu/weitz/mar7786/Articles/narver%20and%20slatter.pdf>

When it comes to profitability, authors take different stand compared to Kohli and Jaworski. They have also concluded that profitability is a component of market orientation, not as a *consequence*, but rather an *objective* of a business.²⁴

In order to create market orientation, companies usually use either programmatic or market-back approach.²⁵ Programmatic approach is the a priori approach taken by the most companies in which companies use education programs, trainings and organizational changes to attempt to implant the desired norm of continuously creating superior value for customers. Market-back approach is experimental approach where company is continuously learning from its daily efforts to create and maintain superior value for customers, and therefore constantly develops and adapts its resources, skills and procedures.

Authors of the research paper²⁶ state that theory has proven that both approaches contribute to increasing market orientation, but the combined effect of the two learning strategies is the largest, implying that both strategies need to be applied and managed as a coordinated joint strategy for creating market orientation.

Author of this thesis believes that market orientation is a prerequisite for company's success in modern economy, since the ever growing customer power and change in power dynamics from marketers to customers. Due to the high development of technology and Internet, consumers have easy and fast access to information, are able to compare their buying options much faster and at almost no cost. Therefore, building a strong relationship with customers that will mitigate the risks of them defecting to the competitors is an imperative for the companies. Not only focusing on customer's needs and wants but building an entire organizational philosophy with customer in the center of strategic planning and decision making is of vital importance. Furthermore, companies that seek to achieve above-normal success and become leaders in the industry do not rely solely on the current customer's needs and wants, but rather try to (according to market research, trends and analysis) predict future, evolved preferences.²⁷

Experts have differentiated opinions on what exactly construct market orientation, as previously stated in this thesis. We believe that companies who strive to implement successful market orientation conception need to merge components analyzed in the works of Kohli and

²⁴ Ibid. P.22

²⁵ Narver John C., Slater Stanley F., Tietje Brian (1998): Creating a Market Orientation. Journal of Market Focused Management, Vol. 2, Issue 3, P. 245, accessed at: http://digitalcommons.calpoly.edu/cgi/viewcontent.cgi?article=1014&context=mkt_fac

²⁶ Ibid. P 252

²⁷ Narver C. John, Slater Stanley F. (1990) "The effect of a market orientation on business profitability". Journal of Marketing, Vol. 54 Issue 4, 1990, P 21

Jaworski and Narver and Slater. Our stand on this topic is therefore presented in the following figure.



Figure 1.3 Components of market orientation, created by author of the thesis

Figure 1.3. shows components of market orientation in the opinion of author of this thesis. In author's opinion market orientation is founded on 6 pillars – customer focus, competitor focus, profitability, long-term focus, coordinated and integrated marketing and market-driven learning. This represents the merger of the components defined by stated authors, a combination of elements that we believe create the most appropriate market orientation concept for the modern economy. Companies that strive to implement such orientation should concentrate on each of the given components. Author of this thesis takes the stand however that the profitability is not a consequence but rather an objective and purpose of business's existence and operation (non-profit organizations are excluded from this analysis). By doing so, author takes the stand of Narver and Slater, confronting the Kohli and Jaworski's perception of profitability.

Conceptions of these authors were challenged by numerous economists,²⁸ with the main critique being that the market orientation is synonymous with customer orientation what should

²⁸ Tomaz Kolar, "Development of Market Orientation in a Services Context – an alternative model proposal", P. 3 accessed at: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CC8QFjAA&url=http%3A%2F%2Fmiha.ef.uni-lj.si%2F_dokumenti%2Fwp%2Fdevelopment%2520of%2520market.doc&ei=-

be distinguishable from competitor orientation. In the point of view of critics, putting customer interests first is the central part of definition of market orientation. But contrary to Narver and Slater, they argue that competitor orientation can be almost **antithetical** to customer orientation when the focus is more on the strengths of the competitor than on the unmet needs of the customer.²⁹

Author of this thesis considers that customer focus and competitor focus are by no means antithetical, but contrary, **complementary principles**. In order to focus and deliver to the needs and wants of its customers and prospective customers, companies have to constantly invest and engage in market-learning processes. By obtaining relevant market information (according to analysis, market researches, etc.) companies learn how to deliver the needed service or a product. Market information analyses must include competitors, since without it the research and the results that arise from it would not be complete. From the analysis of competition organization can obtain wide range of information regarding their perspective customers – their needs, wants, preferences – avoid committing same mistakes or businesses gaps and even adopt best business practices. Even though the focus of the business, business philosophy and strategy is on the *customer*, understanding competition will enable company to cater the customer preferences in the best manner.

1.4 Service Marketing

It is acknowledged in marketing literature that marketing of products and services differ. Focus of this thesis is on small and medium enterprises (SMEs) operating in tertiary sector of economy – service sector. Therefore, it is of crucial importance to understand these differences in services marketing strategy as it will contribute to more comprehensive and profound understanding of the topic.

Economic sector can be divided into three different, separate sectors.³⁰ Primary sector of economy consists of industries that engage in retrieval and production of raw materials. Secondary sector consist of industries that engage in transformation of raw or intermediate materials, and tertiary sector represent service industry or service sector - supplying services to

[fpvU937EO6Q4gTpv4H4Bw&usg=AFQjCNGOqZLARw1Hi3hP56WpebWJz4UYug&sig2=cnvWpiP9BtcN0Jji_LL12A&bvm=bv.66330100.d.bGE](http://www.roiw.org/1987/359.pdf)

²⁹ Deshpande Rohit, Farley John U., Webster Frederick, “Corporate culture, customer orientation, and innovativeness.” Journal of Marketing. Vol. 57 (January 1993), pp. 23-37. Quoted from ibid P.3

³⁰ Zoltan Kenessey. "The Primary, Secondary, Tertiary and Quaternary Sectors of the Economy". The Review of Income and Wealth. Accessed at: <http://www.roiw.org/1987/359.pdf>

consumers and businesses. The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. The focus is on people interacting with people and serving the customer rather than transforming physical goods.

Role of services in modern economy is highly valuable. Services sector represents vital support to the economy and industry as a whole, for instance through finance, logistics, business consulting, communications, etc. Increased trade in services and the widespread availability of services may boost economic growth by improving the performance of other industries, since services can provide key intermediate inputs, especially in an increasingly interlinked and globalized world.³¹ Importance of service sector is clear if considered that trade in services demonstrated relative resilience in the financial and economic crises that hit the world in 2008 in terms of lower magnitude of decline, less synchronicity across countries and earlier recovery from the crises. Such resilience has led many countries to incorporate services trade into their post-crisis national trade and growth strategies.³²

³¹ Nuray Terzi, “The role of trade liberalization in services in developing countries”, P. 121, accessed at: http://dosya.marmara.edu.tr/ikf/iib-dergi/2010-1/07_terzi.pdf

³² United Nations UNCTAD, “Global importance of services”, 2013, <http://unctad.org/en/conferences/publicsymposium/2013/Pages/importance-of-services.aspx> 25.03.2014

1.4.1. Definition of services and characteristics of services

In the literature many variation of services exist. Here we list several definitions that are usually cited and used.

American Marketing Association defines services as: “Activities, benefits and satisfactions, which are offered for sale or are provided in connection with the sale of goods”.³³

Quinn, Baruch and Paquette state that: “Services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser”³⁴

Kotler and Keller define services as: “Any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything while its production may or may not be tied to a physical product”.³⁵

Nature of the services differs greatly from the nature of physical goods. Such differentiation leads to the necessity for differentiated marketing approaches as well. Services are characterized by following:³⁶

a) Intangibility

Services are intangible, since they cannot be physically perceived (seen, tasted heard, felt, etc.) before they are bought. Nevertheless, it is argued that services are intangible to different degrees, as they can be tangible actions aimed at people (such as healthcare services), intangible actions aimed at people (such as education), intangible actions aimed at things (banking or legal services) and tangible actions aimed at things (such as freight transportation).³⁷ In order to reduce

³³ Robert C. Judd, “The Case for Redefining Services”, Journal of Marketing, Vol.28, January1964, P.58, accessed at: http://tickertape.typepad.com/judd_the_case_for_redefining_services.pdf

³⁴ Quinn J.B., Baruch J. J. and Paquette P.C “Technology in Services” Scientific American: Vol.257, No.6 December 1987, pp.50-58, quoted from P. Dionysopoulou “The Quality of Provided Services as a Crucial Factor in Athen’s Conferential tourism”, <http://tourconf2013.aegean.gr/proceedings/paper92.pdf>

³⁵ Philip Kotler, Kevin Lane Keller, “Marketing Management, 12th Edition”, Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P.402

³⁶ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, “Contemporary strategic marketing” 2nd edition, Palgrave Macmillan, 2008, P. 184

³⁷ WTO World Trade Report 2012; Data from WTO and UNCTAD Secretariats for commercial services, quoted from United Nations UNCTAD, “Global importance of services”, 2013, <http://unctad.org/en/conferences/publicsymposium/2013/Pages/importance-of-services.aspx> 25.03.2014

³⁷ United Nations UNCTAD, “Global importance of services”, 2013, <http://unctad.org/en/conferences/publicsymposium/2013/Pages/importance-of-services.aspx> 25.03.2014

³⁷ Philip Kotler, Kevin Lane Keller, “Marketing Management, 12th Edition”, Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P.402

the uncertainty, buyers are trying to find ways that will serve as evidence of quality. Therefore, the strategic marketing implication of intangibility is the need for companies to recognize the importance of “tangibilising the intangible”³⁸. In order to achieve that, companies demonstrate their service quality through physical evidence and presentation. It is necessary that the companies first develop a clear picture of desired customer’s perception and then to design a consistent set of performance and context clues that will support such perception.³⁹ This can be achieved through enhancement of the atmosphere of the environment in which the service is delivered (known as a servicescape), by introducing service guarantees, by producing brochures etc.

b) Inseparability

Services are typically produced and consumed simultaneously. Marketing techniques serve to facilitate supplier-customer interactions, rather than only facilitating the exchange.⁴⁰ Due to the fact that both the customer and the provider of the service need to be present in order for service to be produced, provider-customer relationship is of crucial importance.

This characteristic of the services implies to marketing strategists that the relationship between the consumer and the company need to be carefully managed in order to develop trust and commitment so as to enhance customer retention loyalty. Managing trust and commitment is absolutely necessary for the service providing companies and is nourished through well executed relationship marketing.

c) Variability

Quality of services depends on the exact company that provides them and the customers are usually interested in the specific provider of the service. Physical goods are standardized and customers have clear expectation of the quality they are going to receive. In case of service, quality is much more variable, even in the case of same provider. For example, if company provides the same services through two different employees, those services can differ in quality

³⁷ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, “Contemporary strategic marketing” 2nd edition, Palgrave Macmillan, 2008, P. 184

³⁷ Lovelock, C.H. “Classifying Services to Gain Strategic Marketing Insights”, Journal of Marketing, 1983, P. 9-20, quoted from Ibid P.185

³⁸ Theodore Levitt, “Marketing Intangible Products and Product Intangibles”, Harvard Business Review (May-June 1981): P 94- 102, accessed at <http://jakehuber.files.wordpress.com/2013/03/opportunity-reading-2.pdf>

³⁹ Philip Kotler, Kevin Lane Keller, “Marketing Management, 12th Edition”, Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P 405

⁴⁰ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, “Contemporary strategic marketing” 2nd edition, Palgrave Macmillan, 2008, P. 185

due to differences among the employees themselves. Differences can arise as a result of skill levels, professionalism, or simply different personal characteristics. In order to mitigate the issues that arise from variability company can take following steps:⁴¹

- **Invest in good hiring and training procedures.** Hiring adequate employees and providing them with excellent training is crucial for the companies, due to easy access to information about the competitors and very fierce competition on the global market.
- **Standardize the service-performance process throughout the organization.** Companies can acquire this by installing *service blueprint* – document that will depict events and processes in a flowchart, with the objective of recognizing fail points.⁴²
- **Monitor customer satisfaction.** In order to track customers satisfaction company's management can employ various procedures, such as suggestion and complaint system and customer surveys. With the use of the Internet and the means of communication such as e-mails or social networks communication, companies can acquire these data regularly, in short time periods. E-mail satisfaction surveys are regular procedure of many companies, such as marketing, airline or travel agencies.

It is important that the management of the company understands what customers see as important elements of their service, as that will differ across industries. Important elements of service usually include tangible elements (such as uniforms), reliability, responsiveness and assurance, and sympathy.⁴³

Modern economy is characterized by fierce competition. As a result, companies that strive to succeed and be profitable on the markets need to not only satisfy customers' expectations but to exceed them. Some service providers will even allow potential customers to try the service before they buy them, i.e. business schools giving free access to certain short courses.⁴⁴

⁴¹Philip Kotler, Kevin Lane Keller, "Marketing Management, 12th Edition", Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P 406

⁴²Ibid P. 406

⁴³Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, "Contemporary strategic marketing" 2nd edition, Palgrave Macmillan, 2008, P. 186

⁴⁴Ibid P.186

d) Perishability

Services cannot be stored for a period and consumed at a later date in a way that is possible for physical goods. Services are most often dependent on immediate delivery and consumption, particularly if interactivity is an important component of the service. Due to this characteristic, service-based businesses try to optimize capacity utilization by carefully managing supply and demand.⁴⁵

Companies can implement several strategies in order to accomplish better match between demand and supply of their services. These strategies include:⁴⁶

- *Differential pricing*, what can shift share of demand from the peak period to off-peak periods.
- *Nonpeak demand* – companies can try to push sales in the periods when the sales are lower (specific parts of the day, month or a year)
- *Development of complementary services* in order to provide alternative to waiting customers
- *Implementation of reservation systems* will disperse the demand significantly. (This strategy is heavily used by companies that provide services in the sector of tourism.)
- *Outsourcing or hiring part-time employees during the peak demand*
- *Introduction of peak-time efficiency routines* – during these periods employees perform only essential tasks
- *Development of shared services* – Companies can associate with one another in order to handle the demand in better manner

e) Non-ownership

Selling of the service does not imply transfer of the ownership. Buyers cannot own the service they receive since ownership is not transferred from the seller like in the case of physical products. Due to this fact, it is company's' task to stress the benefits of not owning the service or associated product. In order to adopt this approach, marketers need to promote their services based on the benefits obtained from not owning the service – the time, effort and expense the

⁴⁵Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, "Contemporary strategic marketing" 2nd edition, Palgrave Macmillan, 2008, P. 186

⁴⁶ Philip Kotler, Kevin Lane Keller, "Marketing Management, 12th Edition", Upper Saddle River, New Jersey, Pearson Education, Inc., 2006, P 406

customer saves as a result. Excellent example is benefit of renting a holiday house over the cost of actually buying it and acquiring the ownership.⁴⁷

Author of this thesis proposes that social networks can allow service companies to overcome obstacles imposed by stated characteristics. The negative effects and problems that these characteristics impose can be mitigated by use of social networks, as presented in following figure.

Characteristics of services	Imposing problem	Social networks based solution
Intangibility – services cannot be physically perceived before they are bought	Missing evidence of quality	Allow users to leave reviews, share experiences and opinions on satisfaction with the received service
Inseparability – services are (in most cases) produced and consumed simultaneously	Crucial role of relationship between company and a customer Physical distance	Company can develop deeper relationships with prospects and customers by positioning itself as a source of valuable information rather than sole promoter.
Variability – quality of the services is variable, as they cannot be standardized in a way that goods can	Trust issues regarding the quality a user will receive Difficult to achieve standardization of services	Monitoring customer satisfaction through reviews and comments. Companies can not only use positive feedback as promotion but turn negative feedback into positive experience with proper CRM.
Perishability – services are most often dependent on immediate delivery and consumption	Discrepancy of supply and demand The need to manage demand	Optimization of capacities by careful management of supply and demand by differential pricing and non-peak demand through social networks
Non-ownership – selling of service does not imply transfer of ownership	Customer only has access to the service but no ownership, which can be perceived as an obstacle	Promotion of non-ownership benefits

Figure 1.4 Characteristics of services, possible problems they can impose and role of social networks in mitigation of negative effects

⁴⁷Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, “Contemporary strategic marketing” 2nd edition, Palgrave Macmillan, 2008, P. 186

Figure 1.4 summarizes unique characteristics of services compared to goods (products) and the problems and issues which may arise due to these characteristics. Author of this thesis proposes how these issues can be tackled through social networks.

Intangibility - These platforms enhance and allow users to leave reviews, share experiences and opinions on satisfaction with the received service potential customers will reduce (or enhance, depending on the reputation obtained) their quality related uncertainties. Access to this information greatly affects the purchase decision process. This can be very helpful in overcoming issues that arise from intangibility of services.

Inseparability and variability - Usage of social networks can greatly enhance and facilitate development of closer and deeper relationships with customers and prospective clients. Instead of being passive receivers of the marketing messages and eventually the service clients engage in two-way communication with the companies. They express their preferences, needs and wants and share this information across platforms with their social circles. This is beneficial to companies in two ways. Firstly, companies have access to this information as well and can use them at any given moment to adapt their offerings to the preferences of their perspective customers. Second, at any given moment company can use this information in order to establish more targeted, personalized marketing approach that will suit its customers, engage in communication, respond to their inputs and develop meaningful relationship. Company can monitor level of satisfaction with the quality of service, based on reviews and comments of customers. Negative feedback can be immediately addressed and if possible turned around into positive experience through good customer service and provision of solution of the problem. Such actions will establish credibility of the company and trust, as the company position itself as carrying and responsible, and can deepen customer relationships

Perishability and non-ownership – Company can stimulate non-peak demand and differential pricing through promotion of special offers to its contacts (prospective customers) on the social networks. In that manner company can manage its supply and demand and ensure that discrepancies between them are minimized. These platforms are also great medium for emphasizing benefits of non-ownership through promotion of such information and engagement with the audience that if done correctly gives company the possibility to shape opinions of its audience.

1.4.2. 7 P's of service marketing

Marketing mix or 4Ps paradigm – product, place, price and promotion – represents specific techniques by which the operations attempt to meet customers' needs, or the firm's commercial aim.⁴⁸ The marketing mix paradigm includes the marketing tools that the managers combine in specific way to deal with specific marketing situation.⁴⁹ Characteristics of the services – intangibility, inseparability, variability, perishability and non-ownership mean that marketers have to configure their marketing plans and activities differently in order to predict, fulfill and identify customers' needs and wants.⁵⁰

Recognizing these specifics of services, further 3Ps were added to the existing concept of 4P marketing mix to account for the differences in processes required to market service products. The components that were added to the existing concept are:⁵¹

- **Physical evidence** – Emphasizing that the tangible components of services are actually important, since customers used these as proxy measures to determine the quality of a company's service or to infer what quality might be. The task of the physical evidence is to reinforce the customers belief that the organization can provide the service it is promoting itself to be doing. Due to the fact that some services cannot be evaluated before they have been actually supplied, this physical evidence provides the prospects with testimonials from previous customers offering the perspective of service quality they are going to obtain.
- **Process** – Services are characterized by inseparability, that is, the delivery of service cannot be separated from the customer's consumption process. Process of providing the service is thus very important part of the marketing mix because of the need to manage customer's expectations and satisfaction levels. The quality of the service can always be enhanced through employee training and development programs. Nonetheless, it is crucial that the organization providing the service manages customers' expectations and perceptions of the service quality as well.

⁴⁸Defined by McCarthy, Jerome E., in "Basic Marketing. A Managerial Approach" Homewood, IL: Irwin. 1964

⁴⁹Booms, B.H., Bitner, M.J. (1982), "Marketing Strategies and Organization Structures for Service Firms", in Donnelly, J., George, W.R. (Eds),Marketing of Services, American Marketing Association, Chicago, IL, quoted from Evert Gummesson, (1994) "Making Relationship Marketing Operational", International Journal of Service Industry Management, Vol. 5 Iss: 5, P. 9 EMERALD

⁵⁰ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, "Contemporary strategic marketing" 2nd edition, Palgrave Macmillan, 2008, P. 188

⁵¹ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, "Contemporary strategic marketing" 2nd edition, Palgrave Macmillan, 2008, P. 189

- **People** – in this meaning, “people” represents any person coming into contact with the customer. Services are delivered by organization’s personnel, and how they interact with the customers, and how satisfied customers are as a result is of 9industry tend to invest more into training and development programs for their workers. Competent and professional staff that offers high-end service can provide the company with sustainable competitive advantage.

Market orientation requires centering customer in the sole essence of the business, its strategy and philosophy. Therefore, relationship marketing is marketing conception that is resulting from the market orientation. Relationship marketing emerged from a market orientated business philosophy and is focusing on long-term relationships with customers, competitors, and other important elements that influence markets. By creating such relationships, companies are developing deeper understanding of their key stakeholders’ needs and wants in so that they can service those needs better and retain obtained customers.⁵² Relationship marketing is defined as “the identification, establishment, maintenance, enhancement, modification and termination of relationships with customers to create value for customers and profit for organization by a series of ongoing exchanges that have both a history and a future.”⁵³ Relationship marketing is the process of identifying, developing, maintaining and terminating relational exchanges with the purpose of enhancing the performance.⁵⁴ Relationship marketing includes creating, maintaining and enhancing strong relationships with customers, prospects and other important stakeholders. The goal of this marketing concept is to deliver long-term value to customers that will result in success of a company.⁵⁵

Internet and its development had influenced markets in a way that power shifted from marketer to customers, since we can say that the competitive environment is close to pure competition as sellers have no market power since behavior of buyer is volatile as they can with

⁵² Michael Antioco, Adam Lindgreen, “Relationship Marketing in Internet Age”, P. 3
https://www.uclouvain.be/cps/ucl/doc/iag/documents/WP_45_Lindgreen.pdf

⁵³ N.Kanagal, “Role of Relationship Marketing in Competitive Marketing Strategy”, Journal of Marketing Research
<http://www.aabri.com/manuscripts/09204.pdf>

⁵⁴ Robert W. Palmatier “Relationship Marketing”, Marketing Science Institute. 2008, P.3

⁵⁵ Philip Kotler, Gary Armstrong, John Saunders, Veronica Wong, “Principles of Marketing, second European Edition”, Prentice Hall Europe, 1999 P. 483

just several clicks compare different offerings by different companies.⁵⁶ This led to the need of focusing on customer and the relationships established.

Development of technology had created abilities for management of the organizations to analyze and target more narrow niches or even target individual customers. This growth of the internet and technology enabled relationship marketing to further evolve and move forward as technology opens more collaborative and social communication channels. Online marketing gives managers excellent opportunity of relationship building through two way communication with their prospects and customers.

1.5. Online marketing

Traditional advertising media, such as television, printed media and radio, were the main and most important marketing channels used by marketers in order to reach their perspective, targeted audiences. Traditional methods of marketing usually involve advertising through newspapers, magazines, telephone books, radio, and TV. These ads are placed for a fee which corresponds to the size of the ad, as well as the medium in which it is published.

In recent years, however, increased efforts have been made on the part of advertisers and marketing professionals to locate new media that is less costly, less cluttered and potentially more effective than the established media. Online marketing showed to be superior to traditional media since it fulfilled the stated requirements and due to the fact that it provides consumers with virtually full control over the information that they choose to receive or avoid, including advertising information and messages.

The Internet performs multiple marketing functions, serving as mechanism for building demand, conducting transactions, filling orders, providing customer service and serving as a versatile advertising medium. This paper will not look into technical background of the Internet and e-commerce, but will focus on Internet as rapidly growing marketing channel.

Exact role of Internet in marketing is constantly evolving due to the fact that new technologies are constantly emerging. The Internet is claimed to be a better communication channel due to its versatility and superiority at targeting customers.⁵⁷

⁵⁶ Michael Antioco, Adam Lindgreen, "Relationship Marketing in Internet Age", P. 3
https://www.uclouvain.be/cps/ucl/doc/iag/documents/WP_45_Lindgreen.pdf

⁵⁷Rafi A. Mohammed, Robert J. Fisher, Bernard J.Jaworski, Gordon.J.Paddison "Internet Marketing, Building Advantage in a Networked Economy", Mc GrawHill Education Asia, Singapore 2011, quoted from R.Satish Kumar, Atul Sen Singh "Social Media as an Effective Tool of Marketing Communication: A Case Study of Maruti Suzuki", Asia Pacific Journal of Marketing & Management Review, May 2013, EMERALD P. 81

Technology and Internet changed the way people respond and interpret information. Users have quick and easy access to vast quantity of data at any given moment and they are interacting with companies and their products through these communication channels. Internet allows users to compare products, prices, reviews and communicate and connect with other users in order to investigate product quality and satisfaction. They are also creating and sharing information, instead of merely reacting to given one enabling immense flow of information and knowledge within short time periods. Social media and networks, such as Facebook, Twitter, YouTube, etc, allow consumers to access direct feedback about products – both good and bad – from their connections. All these facts are changing the way businesses operate. The customer is more powerful and companies are building all their strategies based on customer focus. Since the consumers are shifting online marketers need to follow such trends and position themselves where their target audience is. That is why online marketing, in the opinion of the author of this thesis, needs to be integrated part of overall marketing strategy of a business operating in modern economy.

Online marketing can be defined as any marketing activity that is conducted online through the use of Internet. Online marketing, also called Internet marketing, uses the Internet to deliver promotional marketing messages to consumers.

Since being conducted via Internet as a marketing channel, online marketing is characterized with individual and interactive marketing approach.⁵⁸ Individualization refers to the facts that customers, who are users of the Internet, have control over the flow of information. In return, this provides marketers with an ability to target advertisements and promotions that are relevant to the consumers. Interactivity allows users to select information that they acknowledge as relevant and for brand managers to build relationships with customers through two-way communication.

Online marketing is essentially conducting marketing activities through interactive computer-aided systems. Even though online marketing is relatively new concept it has captured attention of large number of organizations, marketing professionals and companies around the world. Small and medium enterprises (SMEs), multinational corporations, governments and non-profit organizations see this marketing concept as a strategic and necessary in order to be competitive in today's economy.

⁵⁸ Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, "Contemporary strategic marketing" 2nd edition, Palgrave Macmillan, 2008, P 161

Online marketing, since conducted via interactive tools and channels, provide marketers with following distinct advantages:⁵⁹

- **Global reach:** Growth of the Internet allows marketers to access market places anywhere. Philip Kotler uses term market spaces for the marketplaces in the virtual world.
- **Speed and flexibility:** Internet provides the opportunity for buyers and sellers to interact swiftly and exchange information at minimal cost and in the shortest time frame. Users can interact according to their own discretion which provides them with great flexibility.
- **Low costs:** Online marketing is characterized with substantially lower costs compared to other marketing forms. After the initial cost required establishing the necessary technology in place the actual cost of each virtual interaction is usually a fraction of what that cost would be in physical world.
- **Interactivity:** Internet allows users to engage in a two-way communications process, comparing to the traditional marketing strategies where one way communication is represented. Potential customers are constantly being exposed to the marketing messages of the companies while their response is usually minimal. In online advertising this problem is avoided.

However, there are some points that can represent obstacles for proper implementation of online marketing:

- **Clutter and congestion:** Users have access to unlimited number of websites and information in each given moment. Marketers must implement consistent and planned strategies in order for their message not to be lost or overlooked in so called “internet noise” – massive amount of irrelevant data that potential customers of the organization have access to and are exposed to on daily basis.
- **Sensory limitations:** Virtual world is defined by words, color and images, and more recently – motion and sound. There are predictions that the online scents may be introduced but at the current moment virtual marketplaces are denied senses of touch, taste or smell. In regards with the nature of the product marketed, this can represent significant limitation.

⁵⁹Ross Brennan, Paul Baines, Paul Garneau, Lynne Vos, “Contemporary strategic marketing” 2nd edition, Palgrave Macmillan, 2008, page 162-163

The advantages brought by technological development bring numerous other benefits to the companies. Due to the Internet companies are able to:

- Customize offerings and services by using data-base information pulled from their web pages
- Improve purchasing, recruiting, training and internal and external communications
- Achieve substantial savings by easily comparing suppliers' prices
- Improve logistics and operations
- Accelerate share of information, orders, transactions, payments, etc.

Research made by Stefan Largosen, on the topic "Effect of the Internet on the marketing communication of service companies" showed how Internet can affect steps of the buying process according to the AIDA model.⁶⁰

AIDA model is approach used in marketing in order to describe a common list of events that may occur when a consumer engages with an advertisement. Marketers understand that when it comes to new customers attracting their attention in the first place is imperative to gaining interest in the service or product offered. Once the interest of potential customer is established, it is the task of the company to create sufficient level of desire that will cause them to take action, what generally means buying product or the service offered.⁶¹

Research made by Largosen that included 19 Swedish service companies showed following results when it comes to Internet and steps of buying process according to the AIDA model:⁶²

- **Attention** – Research showed that companies often consider that getting attention is somewhat weak aspect of marketing communication done via Internet. They reasoned that due to overwhelming and uncountable number of web pages and data on the Internet it is not very likely that customers will encounter their specific marketing messages.
- **Interest** – Interest is perceived as one of the stronger aspects of Internet as marketing medium. *Actions of people on the Internet are interest-driven.*

⁶⁰ Stefan Largosen, "Effects of the internet on the marketing communication of service companies", P. 66 EMERALD

⁶¹ Priyanka Rawal, "AIDA Marketing Communication Model: Stimulating a purchase decision in the minds of the consumers through a linear progression of steps" IRC's International Journal of Multidisciplinary Research in Social & Management Sciences, Jan-March 2013, P. 39 accessed at: <http://ircjournals.org/vol1/37-44.pdf>

⁶² Stefan Largosen, "Effects of the internet on the marketing communication of service companies", P. 66 EMERALD

- **Desire** - Interactive nature of this medium and vast possibilities for publishing and relationship-building provide companies with numerous opportunities to raise level of desire of prospective customers
- **Action** – Internet gives both company and customers easier option for action taking. Companies can publish selective promotional offers or customized offerings to their clients, which is very beneficial in the case of service companies, while customers can use this medium to purchase goods or services, or book them for the future period (as in case of services connected to sector of tourism)

1.5.1 Social media and social networks

Integrated marketing communications (IMC) is the leading marketing principle companies apply in order to communicate with their target markets. Integrated marketing communications attempts to coordinate and control the various elements of the promotional mix: advertising, personal selling, public relations, publicity, direct (and online) marketing, and sales promotion, to produce a unified customer-focused message and, therefore, achieve various organizational objectives.⁶³ With the emergence of social media, or consumer-generated media, strategies for communicating with customers have changed drastically.

Social media can be defined as “variety of new sources of online information that are created, initiated, circulated and used by consumer’s intent on educating each other about products, brands, services, personalities and issues”.⁶⁴ Social media is being widely used across the globe by individuals and the companies that regardless of their size have started using social media to advertise and promote themselves. Big brands make use of the social media to convey their strong existence and friendly customer relationship. Social technologies, on a mass scale, connect people in ways that facilitate sharing information. But the emergence and high penetration of social media is not restricted to large and successful corporations only. On the

⁶³ Boone, L. E., & Kurtz, D. L. “Contemporary marketing (13thed.)”. Mason, OH: Thomson/South-Western, 2007, P.488 quoted from Mangold, G.W., Faulds, D.J, “Social media: The new hybrid element of the promotion Mix”. Business Horizons, Kelley School of Business, Indiana University. (2009), p. 357

⁶⁴ Blackshaw, P., & Nazzaro, M. (2004). Consumer-Generated Media (CGM) 101: Word-of-mouth in the age of the Web- fortified consumer. Retrieved July 25, 2008, from [http:// www.nielsenbuzzmetrics.com/whitepapers](http://www.nielsenbuzzmetrics.com/whitepapers), quoted from Mangold, G.W., Faulds, D.J, “Social media: The new hybrid element of the promotion Mix”. Business Horizons, Kelley School of Business, Indiana University. (2009), p. 358

contrary, it has provided excellent tools for small enterprises to be competitive in the global scale, as the costs of promotion and communication have sharply fallen.

Prior to social media consumers used the Internet in order to consume content: they read it, they watched it, and they used it to buy products and services. Customers are increasingly utilizing platforms, such as content sharing sites, blogs, social networking, etc., to create, modify, share, and discuss Internet content, rather than being passive observers and consumers. This is known in marketing literature the social media phenomenon, which can now significantly impact a firm's reputation, sales, and even survival.⁶⁵

Social media introduce substantial changes to communication between organizations, communities, and individuals. This presents significant challenge for companies, as traditional marketing communication methods are not adapt to deal with customers who no longer represent passive receivers of broadcasted information customers but instead want to be heard, engage and respond.

According to listed data, it can be stated that 21st century has been characterized with major shift in a way communication is managed. Internet-based messaging systems are marking tremendous growth and they have become a major factor in influencing various aspects of consumer behavior including awareness, opinions, attitudes, purchase behavior and post-purchase communication and evaluation. Due to these facts, social media should be incorporated as an integral part of the organization's IMC strategy and be considered as a component of marketing mix.⁶⁶

Use of social media demonstrates that this media has two interrelated promotional roles in the marketplace.⁶⁷ First, social media enables companies to talk to their customers, and second, it enables customers to talk to one another. (Social media also enables customers to talk to companies; however, this role is market research-related.)

The fact that the social media enables companies to talk with the customers is consistent with the traditional use of integrated marketing communications. Through various platforms, such social networks Facebook and Twitter companies can engage in communication with their

⁶⁵ Jan H. Keitzmann, Kristopher Hermkens, Ian P. McCarthy, Bruno S. Silvestre "Social meda? Get serious! Understanding the functional building blocks of social media", *Business Horizons*, Volume 54, Issue 3, May–June 2011, Pages 241–251

⁶⁶ Mangold, G.W., Faulds, D.J, "Social media: The new hybrid element of the promotion Mix". *Business Horizons*, Kelley School of Business, Indiana University. (2009), P. 358

⁶⁷ *Ibid* P. 358

customers. These platforms may either be company-sponsored or sponsored by other individuals or organizations.

The promotion-related role of social media which is unique is the ability of customers to use these platforms in order to communicate with each other. Mangold proposes that this role of social media can be understood as an addition to traditional word-of-mouth communication⁶⁸. But one very important aspect is different. Instead of small circle of individuals that they had previously had access to and with whom they could share information, consumers now have the ability to share experiences with hundreds or thousands of other people all around the globe with very little effort and time input. While companies cannot directly control consumer-to-consumer messages, they do have the ability to influence the conversations that consumers have with one another, what shall be further discussed in the second part of the thesis.

Social media should be an integrated part of the marketing mix. It combines characteristics of traditional IMC tools (companies sending one-way message to customers) with a highly improved form of word-of-mouth (customers talking to one another). However, marketing managers cannot control the content and frequency of such information. New paradigm of communication represented in the social media that springs from mixed technology and media origins that enable instantaneous, real-time communication, and utilizes multi-media formats (audio and visual presentations) and numerous delivery platforms (Facebook, YouTube, and blogs, etc.), with global reach capabilities.⁶⁹ The importance of social media was shown in a study conducted in 2009, which revealed that 88% of marketers were using social media in order to promote their business. The same study revealed that the top four social media networks used by marketers were Facebook, Twitter, LinkedIn and blogs.

The impact of the interactions among consumers and potential customers in the social media on the development and execution of IMC strategies can be illustrated by the following points:⁷⁰

- The Internet has become a mass media vehicle for consumer-sponsored communications. It now represents the number one source of media for consumers at work and the number two source of media at home.

⁶⁸ Ibid P. 359

⁶⁹ Mangold, G.W., Faulds, D.J, "Social media: The new hybrid element of the promotion Mix". Business Horizons, Kelley School of Business, Indiana University. (2009), P. 359

⁷⁰ Rashtchy, F., Kessler, A. M., Bieber, P. J., Shindler, N. H., & Tzeng, J. C. "The user revolution: The new advertising ecosystem and the rise of the Internet as a mass medium" Minneapolis, MN: Piper Jaffray Investment Research, 2007, quoted from Mangold, G.W., Faulds, D.J, "Social media: The new hybrid element of the promotion Mix". Business Horizons, Kelley School of Business, Indiana University. (2009), P. 360

- Consumers are turning away from the traditional sources of advertising: radio, television, magazines, and newspapers. Consumers also consistently demand more control over their media consumption. They require on-demand and immediate access to information at their own convenience.
- Consumers are turning more frequently to various types of social media to conduct their information searches and to make their purchasing decisions.
- Social media is perceived by consumers as a more trustworthy source of information regarding products and services than corporate-sponsored communications transmitted via the traditional elements of the promotion mix.

In the era that is marked by the use and development of Internet and social media, customers are in control. They have greater access to information than in any other previous period and ability to command over their own media consumption. Ability of customers to communicate with each other limits the amount of control that companies have over the content and spreading of the information.

Such drifts and changes have put marketing experts in front of a challenge to adapt to new business environment characteristics and develop marketing processes that are adequate for such conditions. As previously stated in this thesis, funds directed towards online marketing are growing each year and are predicted to grow further in the future period, as individuals and companies shift away from the traditional media channels towards the online world and social media.

Social media marketing represents one of the components of online marketing. Social media marketing can be defined as an engagement with various social media tools or any other online collaborative media to generate exposure, opportunity and sales.⁷¹ Social media marketing refers to processes of gaining website traffic attention or attention through social media sites. Through social networking sites individuals can interact with one another while building relationships, or interact with companies or their products. Users of social networking sites consider this kind of interaction to be personal and therefor connect with the brand or company in a more meaningful way.

⁷¹ Dr. R. Satish Kumar, Atul Sen Singh, "Social media as an effective marketing tool of marketing communication: A case study of Maruti Suzuki", *Asia Pacific Journal of Marketing & Managemet Review*, Vol. 2 (5), May 2013, P.79

Social media marketing programs usually center on efforts to create content that attracts attention and encourages readers to share it with their social networks. The resulting electronic word of mouth refers to any statement consumers share via the Internet (e.g., web sites, social networks, instant messages, news feeds) about an event, product, service, brand or company.⁷²

What is fundamental to successful social marketing and establishment of successful social networks marketing strategies is engagement. Engagement in a social context implies that customers have taken a personal interest in what the company is bringing to the market.

Social media encompasses a wide range of online, word-of-mouth forums including social networking websites, blogs, company-sponsored discussion boards and chat rooms, consumer-to-consumer e-mail, consumer product or service ratings websites and forums, Internet discussion boards and forums, moblogs (sites containing digital audio, images, movies, or photographs), etc.⁷³ This wide range of communication platforms can be categorized in following principal categories:⁷⁴

- *Blogs* – Comprising individuals’ or firms’ online journals that are often combined with audio or video podcasts.
- *Social networks* – Applications allowing users to build personal web sites accessible to other users for exchange of personal content and communication.
- *Content communities* – Websites for organizing and sharing particular types of content.
- *Forums/bulletin boards* – Sites for exchanging ideas and information, usually around special interests.
- *Content aggregators* – Applications allowing users to fully customize the web content they wish to access.

Focus of this thesis is influence that social networks can have on business operations of small and medium service companies and due to that reason we will not engage I analysis of other forms of social media.

⁷² Kietzmann Jan, Canhoto Ana, "Bittersweet! Understanding and Managing Electronic Word of Mouth", Journal of Public Affairs (2013), Published online in Wiley Online Library, http://beedie.sfu.ca/files/Research/Journal_Articles/Journal_Articles_2013/Bittersweet_Understanding_and_managin_g_electronic_word_of_mouth.pdf 19.04.2014

⁷³ Mangold, G.W., Faulds, D.J, "Social media: The new hybrid element of the promotion Mix". Business Horizons, Kelley School of Business, Indiana University. (2009), p. 358

⁷⁴ Adrian Palmer, Nicole Koenig-Lewis, (2009) "An experiential, social network-based approach to direct marketing", Direct Marketing: An International Journal, Vol. 3 Iss: 3, P.164-165

Social networks are defined as web-based services that allow individuals to:⁷⁵

1. Construct a public profile within a bounded system
2. Articulate a list of other users with whom they share a connection
3. View and traverse their list of connections and those made by others within the system.

In order to understand changes that are happening in business environment with the proliferation of Internet and technology social networks are essential component. Many social network sites exists and keep on emerging, attracting different groups of users in terms of their demographic or according to particular interest. These platforms can be seen as an alternative communication toll that will support existing relationships and activities, and contribute to building new ones.⁷⁶

Social networks are marking high growth and penetration rates, with the constantly rising number of users. Author of this thesis considers that companies need to be present on these platforms as well, in order to reach their targeted audience and broadcast their marketing messages to them. Social networks offer an opportunity for companies to connect with their target audience in less intrusive way compared to traditional marketing methods such as television or radio.

Great benefit of social networks is that they have a practical cognitive function in facilitating product choice.⁷⁷ Users share their experiences and satisfaction with provided services or product on these networks. Evidences show that during the purchase decision making, especially in regards to comparing professional and personal service providers, customers prefer to guide their decision with information obtained from their peers rather than company's formal promotion mix.⁷⁸ Positive reviews and feedbacks strongly contribute to brand value building and are helping the company to establish solid market presence. Negative feedbacks and reviews however can have devastating impact on the company's credibility and reputation if not addressed and managed in the short time period. Companies can use social networks to turn such experiences into positive ones by proper and timely customer care.

⁷⁵ Fernando J. Garrigos-Simon, Rafael Lapiedra Alcamí, Teresa Barberá Ribera, (2012) "Social networks and Web 3.0: their impact on the management and marketing of organizations", *Management Decision*, Vol. 50 Iss:10 P 1881 EMERALD

⁷⁶ Adrian Palmer, Nicole Koenig-Lewis, (2009) "An experiential, social network-based approach to direct marketing", *Direct Marketing: An International Journal*, Vol. 3 Iss: 3 P. 165

⁷⁷ Ibid P. 167

⁷⁸ Ibid P. 167

Due to outlined characteristics of social networks author of this thesis considers that marketing through social networks needs to be integral part of overall marketing communication processes of the company. Social networks are a natural fit for online marketing due to the following advantages:⁷⁹

- Establishment and enhancement of the brand image
- Establishment and enhancement of the company's market reputation and authority through positioning as a thought leader
- Usage of social networks for market research purposes and data collection
- Great networking opportunities through similar-interest-driven groups
- Targeted Advertising

⁷⁹ Dr. M Saravanakumar, Dr. T. Suganthalakshmi, "Social Media Marketing", Life Science Journal 2012, http://dems.unimib.it/corsi/817/esercitazioni/social_media_mktg.pdf

2. ANALYSIS OF CURRENT TRENDS IN SERVICE SECTOR, ONLINE MARKETING AND SOCIAL NETWORKS

2.1. Importance and growth of service sector

Service sector has immense value for the social economic growth of a country. It represents supporting pillar to the economy as a whole as services can provide key intermediate inputs, especially in an increasingly interlinked and globalized world.⁸⁰

Nowadays, it is the largest and fastest growing sector globally. This sector represents the largest part of economy for majority of countries in the world and the reason for such progress and growing importance of service sector can be found in increase in privatization, overall development and progress of the world economy, etc. Strong impact of the services is confirmed by numerous studies.⁸¹ Services are becoming crucial in a country's development and achievement of goals such as poverty reduction, health services, access to basic services, education, etc.

World Bank has pointed to the higher contribution of growth in the services sector to poverty reduction than the contribution of growth in the agriculture or manufacturing sectors.⁸²

According to the World Bank⁸³, rise of the income is followed by higher demand in services as people become less concerned with material needs. For consumers this leads to increased demand for service sectors such as education, entertainment, health, etc. When it comes to companies, this leads to higher rates of outsourcing, which allows companies to concentrate on activities that are critical to success.

⁸⁰ Nuray Terzi, "The role of trade liberalization in services in developing countries", P. 121, accessed at: http://dosya.marmara.edu.tr/ikf/iib-dergi/2010-1/07_terzi.pdf 21.03.2014

⁸¹United Nations UNCTAD, "Global importance of services", 2013, <http://unctad.org/en/conferences/publicsymposium/2013/Pages/importance-of-services.aspx> 25.03.2014

⁸²World Bank presentation, "Role of Services in Economic Development"; Geneva, July 2012 (Data source: World Bank, 2010) , quoted from <http://unctad.org/en/Pages/DITC/Services/Global-importance-of-services.aspx>

⁸³ World Bank, "Beyond Economic Growth; Growth of Service Sector" P.51 http://www.worldbank.org/depweb/beyond/beyondco/beg_09.pdf 25.03.2014

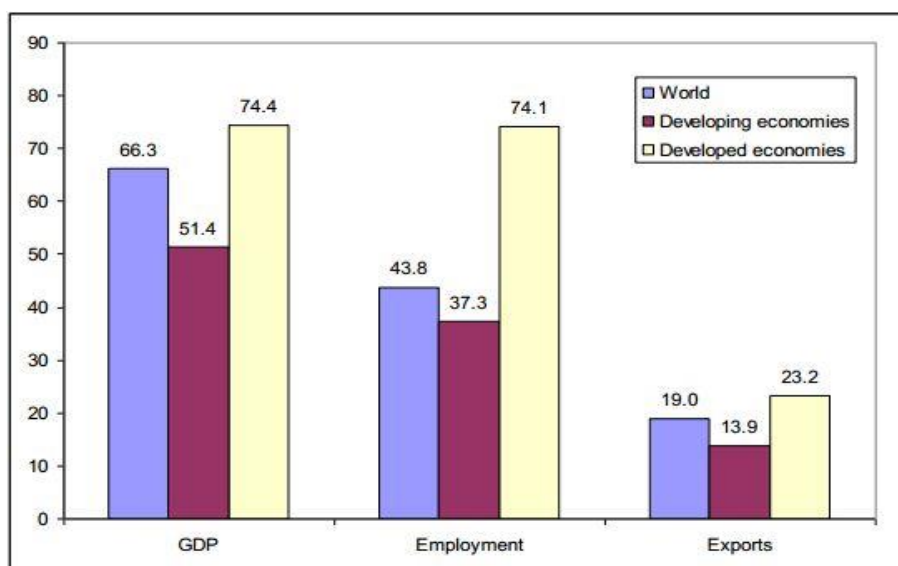


Figure 2.1, Share of Services Sector in GDP, Employment and Total Exports for the year 2011 (in per cent); Source: UNCTADStat, ILO Global Employment Trends 2012⁸⁴

Figure 2.1 shows share of services sector in world's GDP and GDPs of developed and developing countries, employment and total exports in the world economy and economies of developed and developing countries. As the figure shows, services accounted for more than 66% of world's GDP. Share of services in developing countries accounted for more than 51% while in developed countries that share was significantly bigger – service accounted for more than 74% of developed countries' GDP, more than 3/4th of total GDP. When it comes to employment on the world's scale services provided more than 43% of total jobs in 2011. Difference between developed and developing economies is immense. In developed economies more than 74% of jobs were accounted for services, while developing economies could attribute 37.3% of employment to service sector. Developed economies can focus more on services compared to primary and secondary sector of economy, while in developing countries these shifts are still ongoing and the economies are mainly based on primary and secondary sector of economy. Services account for 13.9% of exports in developing economies while in developed world this share rises to 23.2%.

⁸⁴ UNCTADStat, ILO Global Employment Trends 2012 (2010 figures were used for GDP statistics) http://unctad.org/meetings/en/SessionalDocuments/gsf2013_bn_sl_en.pdf 25.03.2014

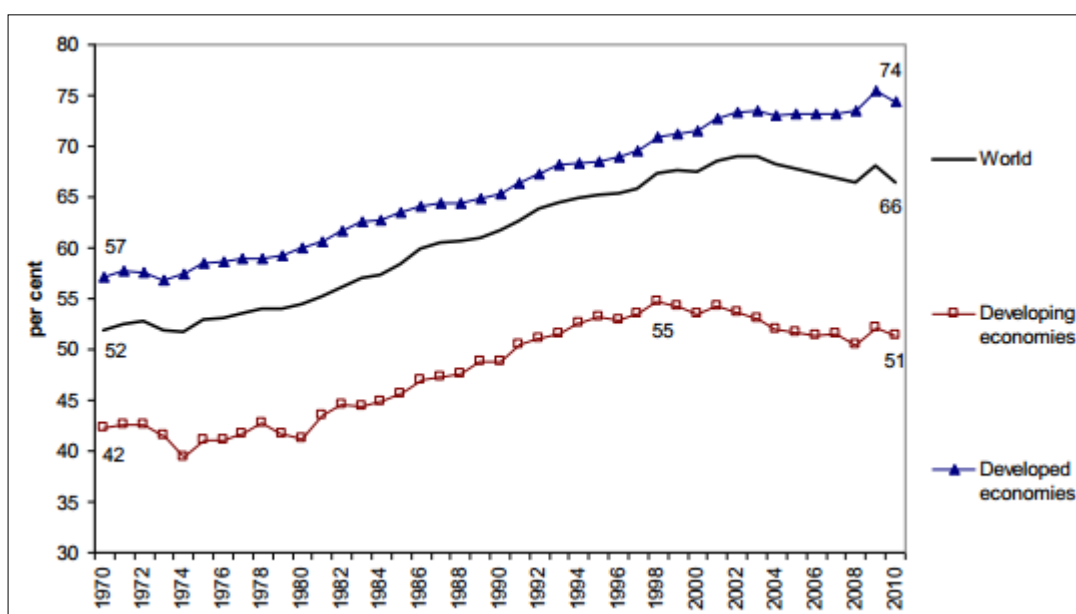


Figure 2.2 Share of Service Sector in GDP according to Development status for the period 1970-2010 (in percents), source: UNCTADStat, ILO Global Employment Trends 2012⁸⁵

Figure 2.2 shows share of service sector in GDP according to development status for the period 1970-2010. Share of service sector is marking steady growth in the world's GDP in this time period, up until the financial crisis in 2008. As previously stated in this thesis, trade in services showed relative resilience when the crisis occurred in terms of lower magnitude of decline, less synchronicity across countries and earlier recovery from the crisis.⁸⁶

Contribution of the service sector to the GDP of developed countries has increased steadily throughout this time period. During these 40 years, service sector registered rise of 17%, from 57% in 1970 to 74% in 2010. In developing economies service sector has shown similar growth trend until the end of 1990s when it stagnated and then continued to retreat in 2000s.

It can be concluded that service is marking steady growth in the GDP of world as a whole, and that even during the crisis that started in 2008 this sector showed the resilience thus proving its immense importance for the development of the world economy and potential in mitigating and overcoming negative consequences of the crisis.

⁸⁵ UNCTADStat, ILO Global Employment Trends 2012 (2010 figures were used for GDP statistics) http://unctad.org/meetings/en/SessionalDocuments/gsf2013_bn_sl_en.pdf 25.03.2014

⁸⁶ United Nations UNCTAD, "Global importance of services", 2013, <http://unctad.org/en/conferences/publicsymposium/2013/Pages/importance-of-services.aspx> 25.03.2014

2.2. Characteristics of Internet as marketing medium and usage statistics

Online marketing had proven to be very effective in the current, modern business environment. The fact that as the channel of communication online marketing is using Internet gives it sharp advantage compared to other forms of marketing. Effective online marketing requires that companies fully explore and become aware of benefits of using Internet as a marketing communication channel and incorporate these features into their marketing strategies in best possible way.

Following characteristics of Internet can be considered as unique compared to other media.⁸⁷

- *Interactivity* – the degree to which the user can interact with the webpage in meaningful manner. Interactivity is defined as the ability to address an individual, gather and receive a response, remember that response and tailor the next response on the basis of the received information.⁸⁸

- *Variety and customization* – levels of change, interaction and customized content that can occur on the web site. The power to direct the flow of information and receive content that they specifically value is major attraction to consumers. Empowering consumers in terms of determining what information is required and how it will be enacted upon strongly enhances the buyer behavior process. Customization and variety of information helps users to gain sense of control over ownership over their experience, especially if web pages offer additional value, such as storing information from previous visits or data entry.⁸⁹

- *Global access* – international nature of the medium is recognized and the fact that even local web pages have a global presence. Customers can be reached on a worldwide basis. Barriers and obstacles to doing business globally are being with a result that SME's and entrepreneurs are able to access customers and markets that were inaccessible to them (or the costs of accessing were very high) before the online marketing concepts and the Internet.

⁸⁷ Susan Dann, Stephen Dann, Strategic Internet Marketing 2.0, 2nd edition, 2004, John Wiley and Sons Australia, Ltd, P. 41

⁸⁸ Ghose, S&Dou, W.1988, "Interactive functions and their impacts on the appeal of Internet presence sites", journal of Advertising Research, P. 28

⁸⁹ Susan Dann, Stephen Dann, Strategic Internet Marketing 2.0, 2nd edition, 2004, John Wiley and Sons Australia, Ltd, P.44

- *Time independence* – ability of marketing messages and promotional efforts to be accessed at any given moment without the need of physical or personal presence of the company's staff. It is crucial that marketers manage the expectations of customers regarding the service delivery so that they are realistic and in line with the capability and capacities of organization, as even though the advertising messages can be accessed at any given moment organizations are still functioning in accordance with their working hours.

- *Interest driven* – except of passive acceptance of messages delivered to them, online experience is based on customers actively searching for the points of their interests, which makes it much more likely that the customers will respond positively to marketing efforts put in place.

- *Ubiquity* – ability of the Internet to be available in the same format, manner and nature wherever the user decides to log onto the system.

- *Mobility* – ability of Internet to be delivered beyond the conventional boundaries of desktop computers and systems. In example, mobile internet is omnipresent nowadays, and Internet is being accessible on many points, such as bars, restaurants, libraries, etc.

Due to the Internet, companies today have a new set of capabilities compared to previous periods of doing business. Companies can operate their businesses with augmented geographical reach to inform and promote their business worldwide. By establishing one (or several) web sites organization can present their products and services, business philosophy, history or any other information that can be relevant to their perspective buyers. Unlike the traditional forms of advertising such as ads and brochures, Internet allows a company to transmit unlimited amount of are information.

Acquiring data about markets, customers, competitors or prospects has been facilitated significantly due to this medium. By usage of Internet, companies can conduct marketing researches in order to obtain data they need at costs that are remarkably lower compared to any other way of marketing research.

Internal communication is greatly enhanced with the development of modern technologies. The fast and cheap spread of information throughout a company allows enhanced efficiency and productivity.

Communication with customers is now described as two-way communication since the customers are not only passive recipients of information and messages transmitted by a company.

Companies are able to send promotion material, ads, coupons and samples to customers who have requested these items or have given the permission to the company to send it to them. From the efficiency point, this is greatly affecting marketing efforts, as the promotions are directed towards the people that are actually interested into the product or service.

2.2.1. Internet usage and penetration statistics

The importance of Internet as a marketing channel is constantly rising as the use of Internet itself is rising on the world level. As the penetration of Internet is marking high growth rates in almost all parts of the world the author of this thesis considers that it can be expected that the concepts and strategies of online marketing will be applied by large and constantly growing number of companies as well.

World Region	Population (2012 Est.)	Internet Users (December 31. 2000)	Internet Users (June 30. 2012)	Penetration (% of population)	Growth 2000-2012
Europe	820,918,446	105,096,093	518,512,109	63.20%	393.40%
North America	348,280,154	108,096,800	273,785,413	78.60%	153.30%
South America	593,688,638	18,068,919	254,915,745	42.90%	1310.80%
Asia	3,922,066,987	114,304,000	1,076,681,059	27.50%	841.90%
Africa	1,073,380,925	4,514,400	167,335,676	15.60%	3606.70%
Middle East	223,608,203	3,284,800	90,000,455	40.20%	2639.90%
Australia	35,903,569	7,620,480	24,287,919	67.60%	218.70%
World Total	7,017,846,922	360,985,492	2,405,518,376	34.30%	556.40%

Figure 2.3. World Internet Usage Statistics for the period 31.12.2000-30.06.2012. Created by author.

Source: World Internet Users and Population Stats <http://www.internetworldstats.com/stats.htm>

Figure 2.2 shows World Internet Usage Statistics for the period from December 31st 2000 until June 30th 2012. As it can be seen in this figure, immense growth of Internet usage is present in all world regions. This medium is marking very high penetration rates, particularly in more developed economies. In Europe, over 63% of population is using Internet while in North America more than 75%, or three quarters of population uses this medium. Due to high penetration rates already existing in developed regions of the world it is no surprise that growth rates of Internet users are significantly lower compared to developing countries that haven't reach such saturation points.

Penetration rates are not that high in developing economies and countries of the third world. In South America, less than half of population is using Internet, in Asia this medium is

used by over 27% of population while in Africa this number falls significantly, where only 15% of the population can be described as Internet user. However, what should be observed when these countries are in question are the growth rates of internet users, compared to the year 2000.

In 2012, South America had marked growth rate of 1310.8% compared to the data from 2000. Asian countries have also recorded very high growth rate of Internet use in this time period that amount to 841.9%. And finally Africa had marked absolutely highest growth rate of Internet usage from 2000 until 2012 that amount to 3606.7%.

Such extremely high growth rates have logical explanation. At the beginning of observed time period (year 2000) these countries had very small number of Internet users compared to their population, that is, very small penetration rates. With the development of their economies, infrastructure and communication technologies many users gained Internet access. In regards to the population of these regions it is no surprise that growth rates of Internet users are this high. Still, it should be marked that penetration rates in these regions are still low. For example, Africa marked growth of 3606.7% of Internet users but it translates to penetration of only 15.60%. Even though they show extremely large growth rates when it comes to Internet users, penetration rates for the year 2012 in these regions were significantly lower compared to developed economies, such as Europe and North America.

It should be expected that growth of Internet users globally continue to rise with further development of technology and progress of economies of developing countries.

Presented data is very encouraging as it demonstrates vast penetration of Internet across the globe and tremendous rise in the number of Internet users in all world regions. It can be seen that the importance of this medium is sharply rising. These growing trends will most likely continue and further expand the global reach of Internet. Analysts predict that the number of global Internet users will increase to 3.5 billion of users by 2020.⁹⁰

Internet growth is as well market by growth of social networks usage. Social networks are internet-based services that allow individuals to create a public profile, lists of other users with whom they'll share connection, and view and cross those connection within social network

⁹⁰ Michael Kende, "Internet global growth: lessons for the future", Analysis Mason Report, September 2012, P. 10 accessed at: <http://www.analysismason.com/Research/Content/Reports/Internet-global-growth-lessons-for-the-future/Internet-global-growth-lessons-for-the-future/>

system.⁹¹ On these platforms, users build networks and relations among the people who share their activities, interests, real-life connections etc.

With the high penetration of Internet and consistent technical development, social media has become a natural part of a life for many people of different ages. Organizations as well as individuals use blogs, Facebook profiles, Twitter accounts, and other parts of social media on a daily basis. In 2009 more than half (54 %) of Internet users, aged between 16 and 24, have set up their own page or a profile on a social networking site.⁹² In the United States of America, 67% of online users between the ages of 18 and 32 are users of social networking sites, with 60% having set up their own profile.⁹³

Traditional forms of media have faced major challenges in recent years. Significant amount of advertising budgets has been directed to online channels.⁹⁴

According to the Forrester researches,⁹⁵ by R. Jennings, audiences and attention is shifting to online channels with 52% of European users watch less television, 28% has reduced their newspaper and magazine reading and 17% have decreased listening to the radio since going online. Taking into consideration the above facts, it can be concluded that the technological development (more specifically - Internet, mobile and social media) is significantly changing traditional marketing campaigns, which need to be adjusted to these new business environment conditions.

Usage of social media is marking high growth and penetration rates. To marketers, this is data that needs to be considered when it comes to targeting potential customers and building relationships with current customers. According to the eMarketer report, “*Worldwide Social Network Users: 2013 Forecast and Comparative Estimates*”, this growth of users will continue in the future years as well.

Following figure shows number of social networks users (in millions) by region:

⁹¹Danah M. Boyd, Nicole B. Ellison, “Social Network Sites: Definition, History, and Scholarship”, <http://www.danah.org/papers/JCMCIntro.pdf> 16.04.2014

⁹² Ofcom “Social networking: a quantitative and qualitative research report into attitudes, behaviors and use”, Office of Communications, 2008, www.ofcom.org.uk/advice/media/jiteracy/medlitpubhnedlitpubrss/socialnetworking/reportpdf (accessed 2 April 2009) quoted from Adrian Palmer, Nicole Koenig-Lewis, (2009) "An experiential, social network-based approach to direct marketing", *Direct Marketing: An International Journal*, Vol. 3 Issue: 3, P.165

⁹³ Ibid. P. 165

⁹⁴ Ibid P.163

⁹⁵ Jennings, R. (2007), *European Online Marketing Tops e16 Billion in 2012*, Forrester Research, Cambridge, MA, quoted Adrian Palmer, Nicole Koenig-Lewis, (2009) "An experiential, social network-based approach to direct marketing", *Direct Marketing: An International Journal*, Vol. 3 Issue: 3, P.164

World Region	2011	2012	2013	2014	2015	2016	2017
Western Europe	142.5	159.7	174.2	185.8	194.5	202.3	208.6
Central & Eastern Europe	137.2	154.7	173.6	189.8	202.6	213.4	223.3
North America	163.6	174.2	181.2	187.9	193.8	198.8	203.7
South America	151.6	182.7	216.9	246.6	280.2	302.6	324.4
Asia-Pacific	501.6	632.6	777	906.6	1018.3	1129.6	1231.5
Middle East & Africa	123.2	164.3	209.8	248.6	287.3	324.8	358.1
Worldwide	1219.6	1448.1	1732.7	1965.3	2176.8	2371.4	2549.7

Figure 2.4, Social Networks Users Worldwide, by region, statistics and predictions for the 2011-2017 (millions). Created by author of the thesis, source: <http://www.emarketer.com/Article/Social-Networking-Reaches-Nearly-One-Four-Around-World/1009976>

Figure 2.4. shows rise in usage of social networks broken down by the regions of the world. As it can be seen, all regions of the world mark substantial growth in use of social networks. According to this report, number of users of social networks is rapidly expanding in the emerging markets of Asia-Pacific and Middle East and Africa. These regions of the world are expected to reach almost triple number of users by the year 2017 and represent immense drivers of social network users growth, according to estimations listed in this report. Rise in number of users is notable in more developed regions such as North America or Western Europe. We can draw a parallel between this data and data presented in figure 2.3. Due to existing high internet penetration and high number of users of social networks at the current moment, data predicted for the following years doesn't have such sharp rise as in the case of developing regions. Author of this thesis considers that it can be expected that with further proliferation of Internet and communications in developing countries number of people that use social networks grow accordingly.

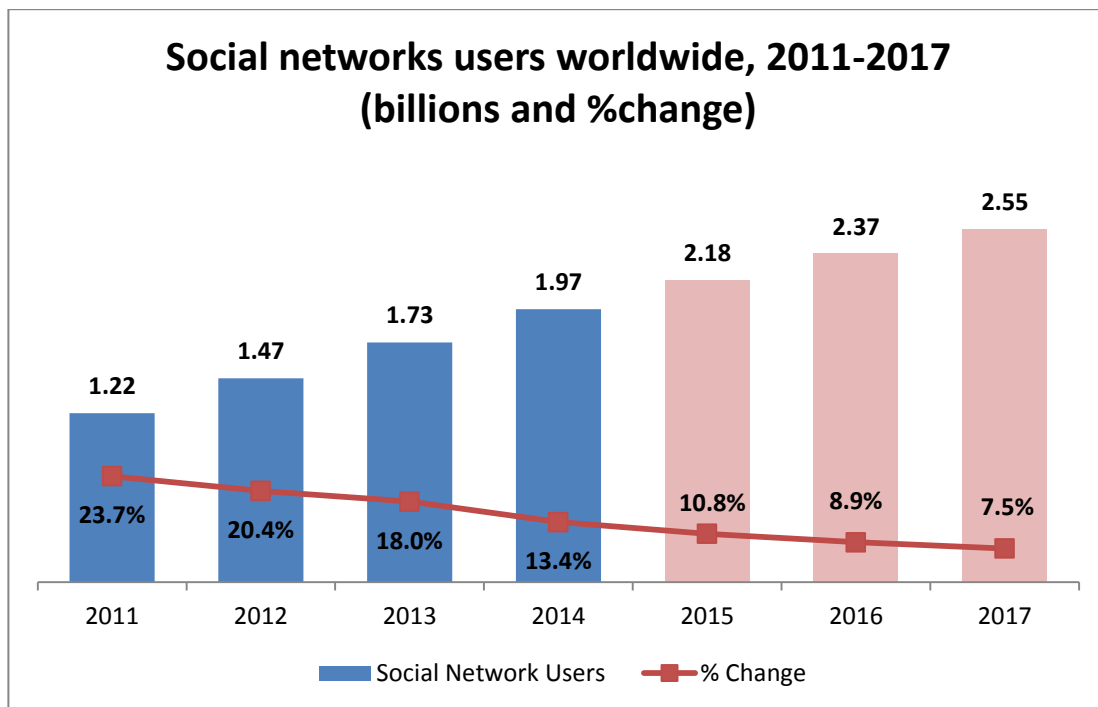


Figure 2.5. Social networks users worldwide, statistics and forecasts for the time period 2011-2017 (billions and % change). Created by author. Source: <http://www.emarketer.com/Article/Social-Networking-Reaches-Nearly-One-Four-Around-World/1009976>

Figure 2.5 shows statistics and forecasts for social networks users worldwide for the time period 2011-2017. Data is expressed in billions and % change is shown. It can be seen that number of users of social networks is predicted to rise and by the year 2017 it is expected that number of users reach 2.55 billion. According to the eMarketer’s research, the rapidly expanding number of social network users in the emerging markets of Asia, Middle East and Africa will be the biggest drivers of this growth. The rise of this medium will continue but it can be seen that growth rates are predicted to fall down. The reason for such trend is the fact that markets will reach saturation and will keep growing but at smaller growth rate.

These numbers are certainly not to be ignored by the managers of the companies. Social networks enable companies to establish deeper connections with their customers and present them to their perspective clients in the best possible manner through building strong brand, credibility and overall positive reputation. Rise of the number of users of social networks represent broadening of the potential market for the companies and possibility to reach their prospective buyers around the globe at very low costs and very high speed.

Very often misconception is that social networks are reserved for young people. However, published reports state that even though young people aged from 18-29 represent the biggest

share of social networking sites' users, other age groups are also very represented on these platforms.

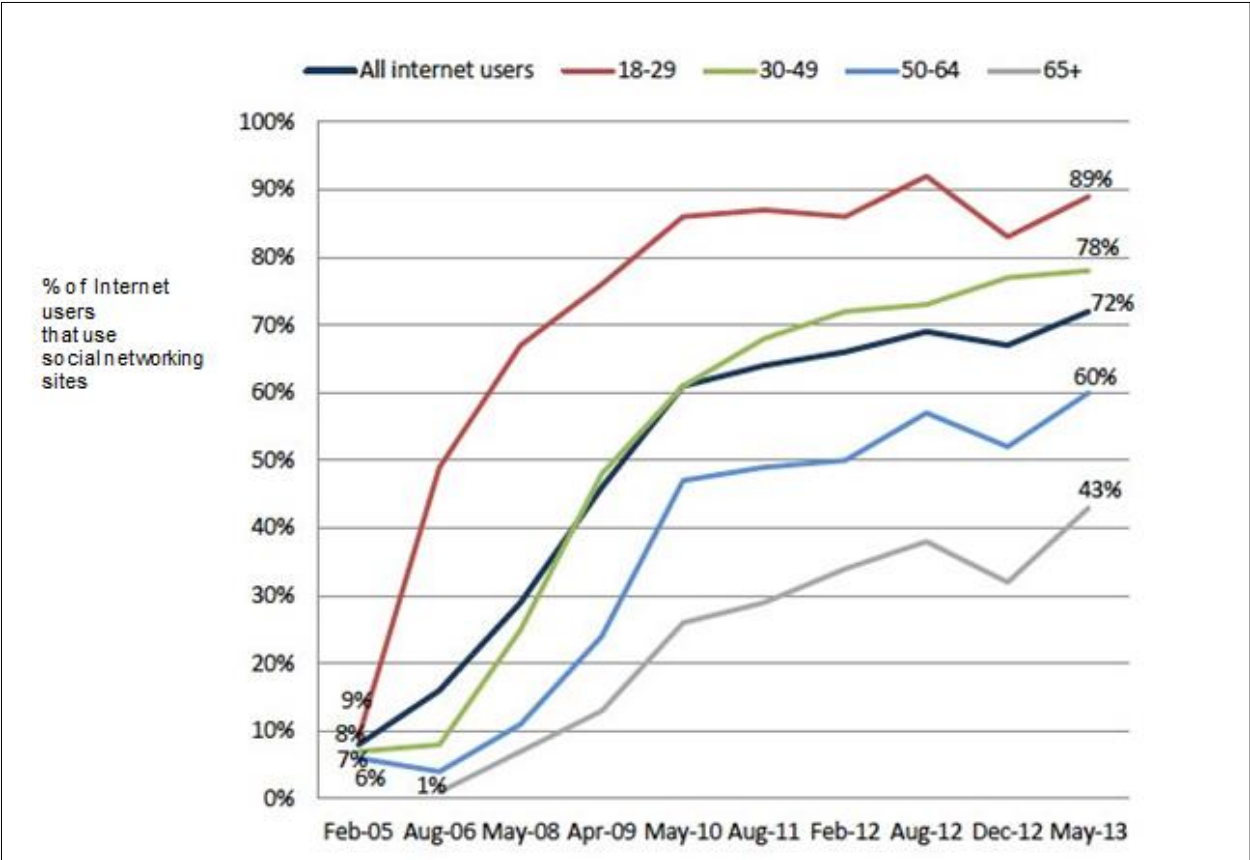


Figure 2.6. Social Networking site use according to age group in United States, 2005-2013, source: Pew Research Center’s Internet & American Life Project tracking surveys 2005-2013, <http://www.pewinternet.org/2013/08/05/72-of-online-adults-are-social-networking-site-users/>

Figure 2.6 shows usage of social networks by different age groups in United States, for the period from 2005-2013. As it can be seen, in 2005, less than 10% of Internet users in all age groups were using social networks. From this point all age groups mark high growth rate when it comes to usage of social networks. Youngest group aged from 18-29 marks the highest and fastest rate of growth. In 2005, only 9% of Internet users that belong to this particular group were using social networks while in 2013 this percentage rose to 89%. Similar growth trends can be noted for other groups as well. Users that belong to group 30-49 are also very frequent users of the social networks, with 78% of total Internet users being present on social networks as well. Other age groups do not fall too far behind. 60% of total Internet users aged from 50-64 and 43% of total Internet users that are older than 65 years are using social networks.

Sharp rise in the usage of social networks started in the year 2005 and 2006. The reason for such change is appearance of two, currently biggest and most popular social networks, Facebook and Twitter. Facebook was founded in 2004 while Twitter was founded in 2006, and even though social networks existed previous to emergence of Facebook and Twitter, such expansion in number of users was never recorded before.⁹⁶

As it is shown on the figure 2.6. on average 72% of total Internet users is present on social networks. When compared with data previously shown and analyzed in the figure 2.3 that presented World Internet Usage Statistics for the period 31.12.2000 - 30.06.2012 we conclude that the number of total users that are using social media is extremely high (and will continue to rise in the future as well, with further penetration of Internet across the globe). Such information is very encouraging for marketers, since it can be seen that large number of world population is using social networks what provides marketers with excellent opportunity to target their perspective customers at low cost, exchange information rapidly, deepen the relationships with existing customers and achieve bigger sales.

Very large number of social networks is present on the Internet. Depending on the region, some might have higher impact compared to other. For example, even though Facebook accounts for the social network with the highest impact, growing rate and number of users, Chinese Internet users much more frequently use Chinese social networks, such as Qzone, Sina weibo etc. Similar situation is noted in Russia, where Facebook ranks as 5th on the list of top 15 social media sites used by Internet users, falling behind Russian VK (VKontakte).

The research of this thesis will be directed on the role of two specific social networks in marketing communication: Facebook and Twitter. The author will not, therefore, engage in analysis of other social networks and their statistics.

2.2.2. Facebook statistics and trends

Facebook is a social network service which was founded by Mark Zuckerberg in February 2004.⁹⁷ Facebook is one of the most commonly used website in the world, with more than 1250 million of users at the current moment.⁹⁸

⁹⁶ Carlson, Nicholas. "At Last – The Full Story Of How Facebook Was Founded". Business Insider. March 2010, <http://www.businessinsider.com/how-facebook-was-founded-2010-3?tru=ITEpZ#we-can-talk-about-that-after-i-get-all-the-basic-functionality-up-tomorrow-night-1> 01.05.2014

⁹⁷ Ibid

⁹⁸ The Statistics Portal Number of monthly active Facebook users worldwide as of 1st quarter 2014 <http://www.statista.com/statistics/264810/number-of-monthly-active-facebook-users-worldwide/> 03.05.2014

It is stated that currently more than 45% of Internet users and more than 17% of overall world population use Facebook.⁹⁹

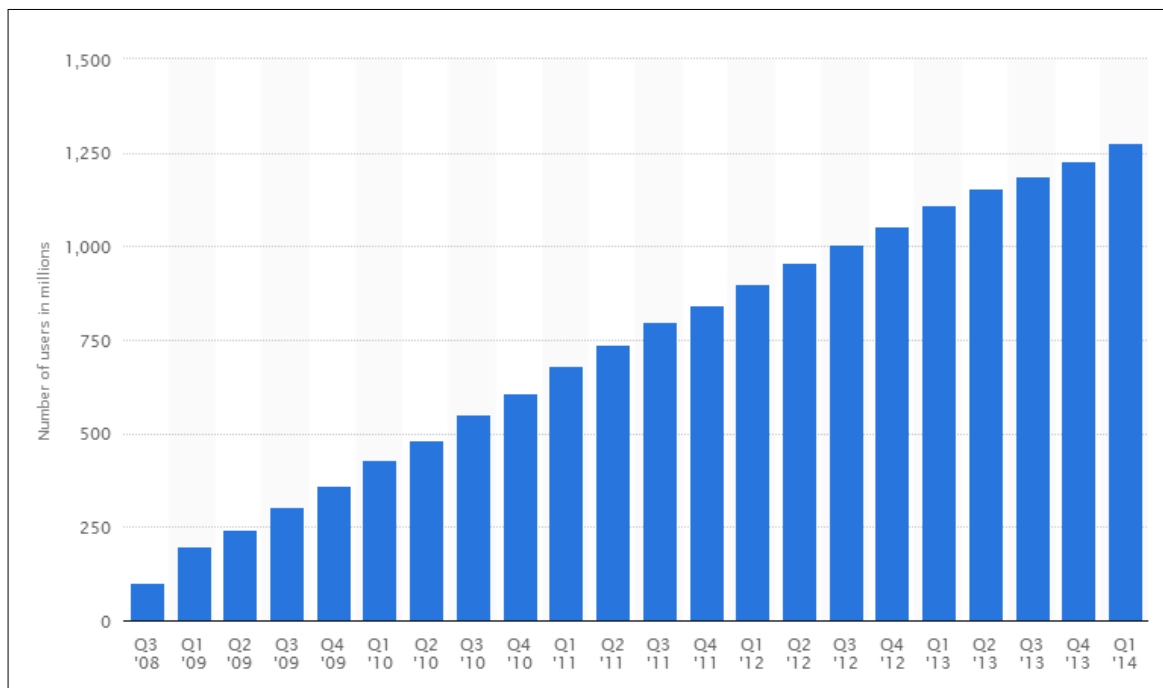


Figure 2.7 Number of monthly active Facebook users worldwide from 3rd quarter 2008 to 1st quarter 2014 (in millions), source: <http://www.statista.com/statistics/264810/number-of-monthly-active-facebook-users-worldwide/>

Figure 2.7 shows growth of monthly active Facebook users across the world, from 3rd quarter 2008 to 1st quarter 2014. Monthly active users is way of measuring the success rate of social networking services that counts the number of unique users for a period of one month (30 days).

Usage of Facebook is highly effective tool for driving awareness and creating interest.¹⁰⁰ Users of this platform share large amount of personal and demographic information on their profiles and are therefore easier to target and segment into particular market niches. Another very important and valuable characteristic of this social network is a fact that if a particular user decides to “like” page of specific company (connect with that company on this platform) entire network of Facebook connections will receive this information in their news-feed. In addition, if any of the

⁹⁹ Emerging Markets Drive Facebook User Growth, May 2013 <http://www.emarketer.com/Article/Emerging-Markets-Drive-Facebook-User-Growth/1009875> 10.05.2014

¹⁰⁰ "Facebook can transform your business: How one small start-up stimulates sales", Strategic Direction, Vol. 29 Iss: 9, P. 9 - 11 EMERALD 08.05.2014

members that see such information decides to connect with the company as well then the endorsements can grow exponentially.

2.2.3. Twitter statistics

Twitter is defined as social networking and micro blogging service that enables its registered users to read and post short messages, so-called tweets. Twitter messages are limited to 140 characters. Twitter users can also use this platform to upload photos or short videos. Tweets are posted to a publicly available profile or can be sent as direct messages to other users.

Twitter is one of the most popular social networks worldwide. What is particularly appealing is the ability of users to follow any other user with a public profile, enabling users to interact with celebrities, brands and companies who regularly post on this social network. Twitter is excellent platform for maintaining fast, two-way communication with clients and image building, broadcasting promotional messages and leading targeted audience towards desired point of action.

However, marketers need to be aware of the fact that Twitter is highly fast-paced platform, with immense and almost immeasurable flow of information.

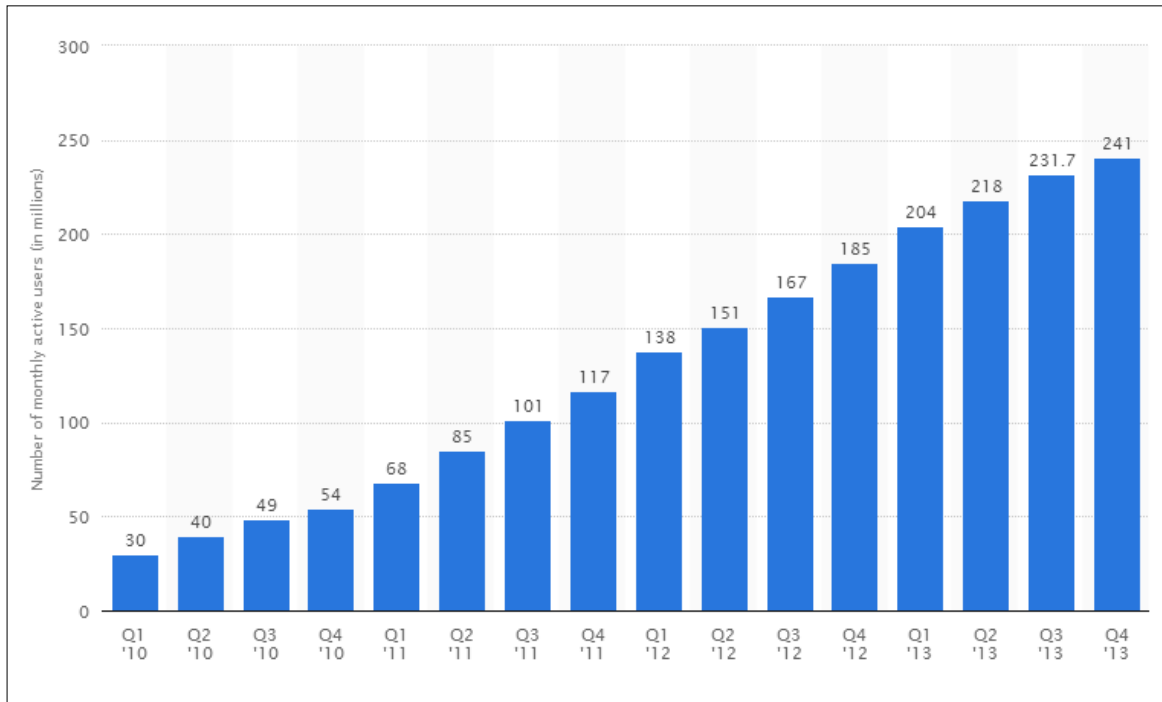


Figure 2.8. Number of monthly active Twitter users worldwide from 1st quarter 2010 to 4th quarter 2013 (in millions), source: <http://www.statista.com/statistics/282087/number-of-monthly-active-twitter-users/>

Figure 2.8. shows number of monthly active Twitter users worldwide from 1st quarter 2010 to 4th quarter 2013, stated in millions. Immense growth of Twitter users is eminent. In the first quarter of 2010 monthly active Twitter users accounted for 30 million of people. However, the number of users sharply rose throughout this time period. At the end of last quarter of 2013, monthly active Twitter users accounted for 241 million people.

Even though usage of Twitter is drastically lower than usage of Facebook, which marked more than 1000 million of users in the same point of time (last quarter of 2013), Twitter is still among largest social networks on the Internet. What is even more important, Twitter is excellent marketing tool, since it is being stated that besides being social network Twitter is excellent broadcast medium.

According to the data obtained from social media analytics and monitoring service Sysomos Inc, lifespan of content published via Twitter is very short. In order to prove their statement, the company run a research that examined 1.2 billion Twitter posts (tweets) posted during the time period of two months.

The result of the research was that only 29% of tweets actually produce a reaction - that is, a reply or a re-tweet. According to the same research, the biggest chance of producing a reaction to a posted message is within the first hour. From the actions being produced, more than 90% happens in this time frame.¹⁰¹

This is no surprise. Twitter is extremely fast paced social network which means that, as the research done by Sysomos Inc. proved, around 70% of posted messages will induce no reaction at all. Considering that the estimated number of Twitter messages that are published each second amount to 9,100, and that in the time frame of 5 days 1 billion of Twitter messages get sent¹⁰², these results are logical.

However, even with these statistics in place, Twitter is still great mean for marketers to attract consumers and promote their business.

Investing in marketing through these social networks will give companies access to large markets. What is crucial benefit of these mediums is that even though they encompass extremely wide and diversified market, they also provide possibilities for targeted, niche marketing. In case of small and medium service companies this is highly significant. Companies can develop relationship with their customer and prospective clients through these mediums easier than through traditional marketing channels. Communication through social networks is interactive and more engaging for the customers, and it may become more suited to the individual customers' needs and wants.¹⁰³

2.3. Online marketing Spending and Forecasts

According to the research of The European Interactive Advertising Bureau (or IAB), funds that are being invested into the online marketing are on the constant rise. The Interactive Advertising Bureau (or IAB) is an advertising business organization that develops industry standards, conducts research, and provides legal support for the online advertising industry. The organization represents a large number of the most prominent media outlets globally, but mostly

¹⁰¹Frederic Lardinois, "The Short Lifespan of a Tweet: Retweets Only Happen Within the First Hour", September 2010, http://readwrite.com/2010/09/29/the_short_lifespan_of_a_tweet_retweets_only_happen#awesm=~oDpgxTIYgoGxj5 29.03.2014

¹⁰² Statistic Brain, "Twitter statistics", January 2014 <http://www.statisticbrain.com/twitter-statistics/> 01.05.2014

¹⁰³ Stefan Largosen, "Effects of the internet on the marketing communication of service companies", P. 66 EMERALD 25.04.2014

in the United States and in Europe. Together with its members – companies and national trade associations – IAB Europe represents over 5,500 organizations.¹⁰⁴

According to the reports of IAB Europe, companies are shifting marketing budget funds away from traditional marketing media and investing greatly into online advertising. IAB Europe's annual AdEx Benchmark survey for the year 2012 revealed that online was the best performer in the advertising market with an overall growth of 11.5% in 2012, from 21.8 billion of euros in 2011 to 24.3 billion € in 2012.¹⁰⁵ Since IAB Europe began documenting the size of the European online advertising market in 2006, spend has grown every year. In 2006, the value at the market stood at €9.4 billion, versus €24.3 billion in 2012. This is an increase in spend of €14.9 billion and translates into a compound annual growth rate of 17.2 per cent, or €2.5 billion per annum.¹⁰⁶

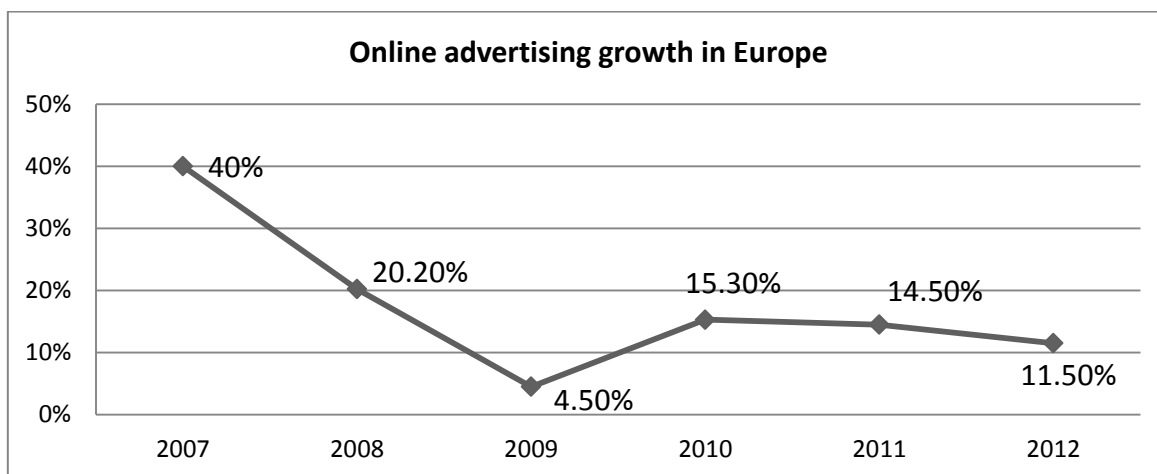


Figure 2.9. Online advertising growth in Europe for the period 2007-2012, created by author according to data from [http://www.iab.net/media/file/GlobalSummit2013-Presentations/Insights on Digital Growth and Opportunities from the Global IAB Network-Europe.pdf](http://www.iab.net/media/file/GlobalSummit2013-Presentations/Insights_on_Digital_Growth_and_Opportunities_from_the_Global_IAB_Network-Europe.pdf)

The Figure 2.9 shows **online advertising growth** over time in Europe. 2009 market conditions were characterized by the global economic recession. All media were affected, including online media as well. Yet, 2009 also demonstrated that online advertising was more

¹⁰⁴ About IAB Europe, <http://www.iabeurope.eu/about> 18.04.2014

¹⁰⁵ European Online Advertising Market Surpasses €24.3bn in Value <http://www.iabeurope.eu/news/european-online-advertising-market-surpasses-243bn-value> 18.04.2014

¹⁰⁶ AdEx Benchmark 2012, European Online Advertising Expenditure, August 2013 http://www.iab.nl/wp-content/uploads/downloads/2013/08/2013_08_28_IAB_Adex_Benchmark.pdf 19.04.2014

resilient against economic volatility. Whereas all other media were flat or down, online advertising achieved 4.5 per cent growth across Europe. Europe’s online advertising market rebounded from the 2009 slump a year later. In 2010, growth was back at double-digit (15.3 per cent).

Economically, 2012 was the toughest advertising year since 2009. Many European economies suffered both GDP and advertising spend declines. In contrast, online advertising experienced double-digit growth for the third year in a row, up 11.5 per cent. This was primarily helped by advertiser confidence in the performance-based nature of search, the brand-friendly online video format, as well as the increased scalability of mobile advertising

According to the estimates of eMarketer, one of the most renowned, independent market research companies that provides insights and trends related to digital marketing, media and commerce, spending on ads served to internet-connected devices including desktop and laptop computers, mobile phones and tablets will reach \$137.53 billion in 2014.¹⁰⁷

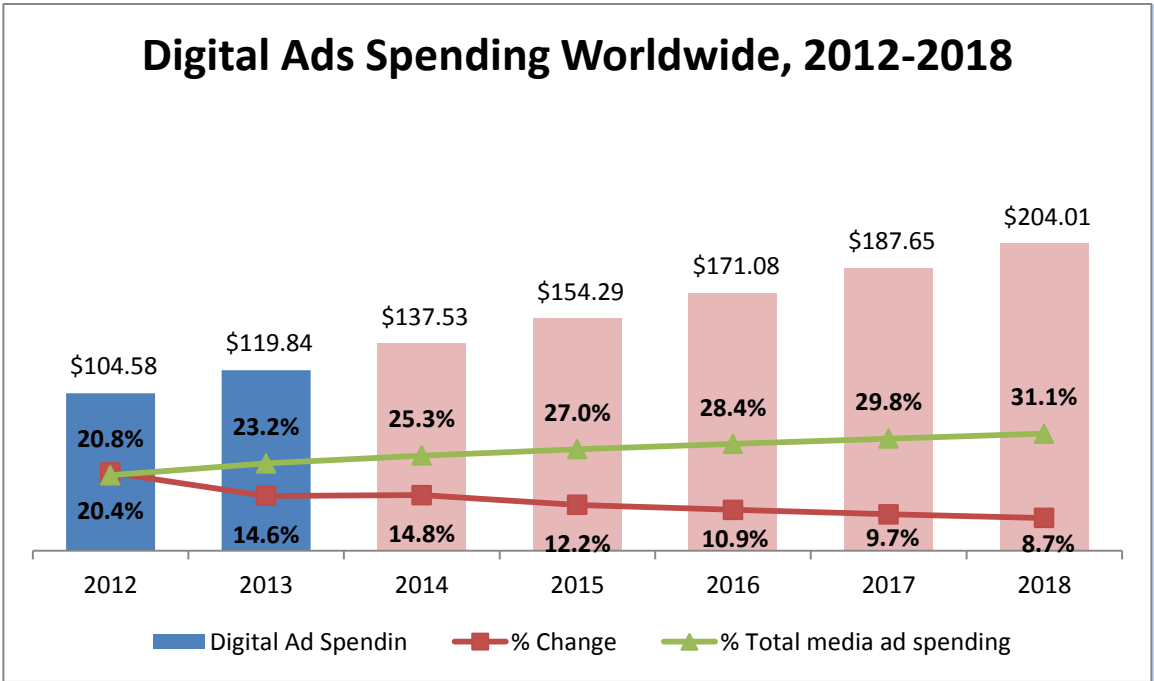


Figure 2.8. Digital Ad Spending worldwide, 2012-2018. Created by author. Source: <http://www.emarketer.com/Article/Digital-Ad-Spending-Worldwide-Hit-3613753-Billion-2014/1010736>

¹⁰⁷Digital Ad Spending Wordwide to hit\$137.53 Billion in 2014, <http://www.emarketer.com/Article/Digital-Ad-Spending-Worldwide-Hit-3613753-Billion-2014/1010736> 8.4.2014

As the figure 2.8. shows, digital spend will be up 14.8% over 2013 levels, according to the forecasts, and will make up just over one-quarter of all paid media spending worldwide. That’s up from about one-fifth of spending in 2012, and it is set to rise to nearly one-third of the total by the end of our forecast period, when advertisers around the world will invest \$204.01 billion in digital. According to the eMarketer’s forecast it is expected that the online advertising worldwide is will keep growing until the year 2018. Total media ad spending worldwide will grow at a significantly slower pace, hovering around 5% growth for the next several years. eMarketer expects that by 2018, total media spending will reach \$656.3 billion.

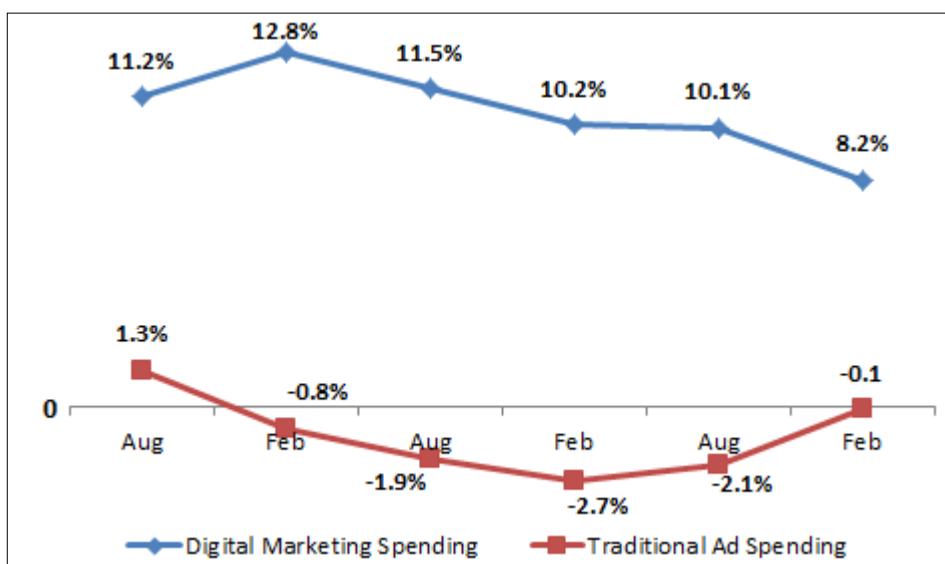


Figure 2.9 Change in digital marketing spending vs. traditional ad spending, according to US marketers, for the period August 2011-February 2014. Created by author. Source: <http://www.emarketer.com/Article/Traditional-Media-Ad-Spend-Dips-Lower-More-Dollars-Shift-Digital/1009727>

Figure 2.9. shows change in digital marketing spending compared to traditional ad spending, as reported by US marketers, for the period August 2011-February 2014. The shift from traditional to digital marketing cannot be debated, according to Duke University Fuqua School of Business survey of US marketers commissioned by the American Marketing Association (AMA) and conducted in February 2013.¹⁰⁸ Funds invested into traditional media are

¹⁰⁸ “Traditional Media Ad Spend Dips Lower as More Dollars Shift to Digital”, March 2013, <http://www.emarketer.com/Article/Traditional-Media-Ad-Spend-Dips-Lower-More-Dollars-Shift-Digital/1009727> 29.04.2014

marking declining rates while digital marketing marks growth. Growth rates for digital marketing spending vary slightly, but as shown in figure 2.8., are predicted to continue growing trend.

3. ANALYTICAL APPROACH TO MARKETING THROUGH SOCIAL NETWORKS

3.1. Methodology of the conducted research

This thesis was based on research that consisted from two parts, questionnaire and interviews, since we wanted to obtain both qualitative and quantitative data. Questionnaires were distributed to 30 service companies that operate internationally, in April 2014. The sample for this study came from previous and current clients and associates of marketing agency Flight Media Co. In addition to questionnaires three interviews were conducted with the CEO's of service companies, in order to get deeper knowledge and understanding of the topic.

From 30 companies that questionnaire was distributed to 28 companies have responded (93%), but 23 (82%) were found usable for analysis. The respondents of the questionnaire are mainly micro companies employing up to ten people (87%) while 13% are companies that employ from 11 to 20 employees.

Majority of our respondents are situated in United States of America (61%), while 21% was situated in Europe, 9% in Asia and 4% in other world regions.

Even though all of our respondents are service-based companies, they belong to different industries. 43% of our respondents belong to Consulting and Marketing sector, 26% to Coaching and Health sector, 13% to Financial sector, 13% to sector of Tourism and Hospitality Management while 4% stated that they belong to other sector.

When it comes to the age of the companies that responded to our questionnaire the data is following:

- Less than a year – 22% of our respondents
- Between 1 and 3 years – 17% of our respondents
- Between 3 and 5 years – 35% of our respondents
- Between 5 and 10 years – 13% of our respondents
- More than 10 years – 13% of our respondents

The respondents were also asked to state for how long they have been using marketing through social networks. 43% of our respondents stated that they are using this way of marketing from 1 to 3 years, 39% use it for less than a year while 18 % of respondents is using this form of marketing for less than 6 months. None of the respondents is using this way of social marketing for more than 3 years.

The interviews were conducted with three CEO's of three different services companies – one marketing agency and 2 consulting companies, all of them based in United States. Respondents were asked to respond freely to the author's questions. Obtained information were analyzed and compared with the data obtained from the questionnaire in order to make conclusions about tendencies in use of social networks as marketing tool by service companies.

Author indicates that this research can have possible limitations due to time limits in which it was conducted. Further, research focused on usage of Facebook and Twitter while other social networks were excluded. All the interviewees and questionnaire respondents belong to SME sector while large companies were not included in this research. Stated limitations can present foundation for future, further researches on this topic.

3.2 Results of the conducted research

Results of the questionnaire showed that service companies are well aware of necessity to incorporate online marketing into their marketing mix. From the interviews we concluded that companies even though are aware of the importance to be included and well positioned in online markets often do not have clear strategy in mind. CEO of marketing agency Flight Media, Joshua Coffy, stated that companies usually outsource this particular part of their marketing strategies due to these reason. As we found out, majority of clients that seek this kind of service are also service-based companies.

All of the respondents stated that they use online marketing as part of their marketing strategy, which confirmed our inclusion of online marketing into the marketing mix in the figure 1.2., in accordance with Keller's definition¹⁰⁹.

¹⁰⁹ Kevin L. Keller, "Building strong brands in a modern marketing communication environment", Journal of Marketing Communications, April-July 2009, P 141
<http://markenmanagement.files.wordpress.com/2012/01/buildingbrands.pdf> Retrieved on 22.03.2014

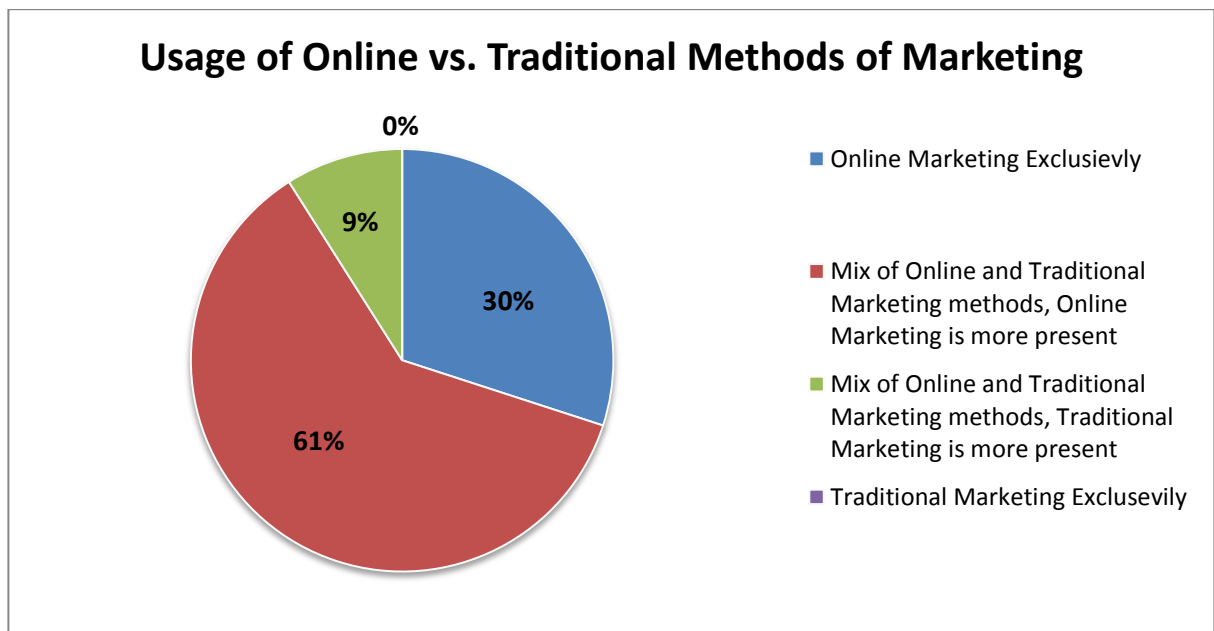


Figure 3.1. Usage of online marketing methods compared to traditional marketing methods, created by author based on conducted research

Figure 3.1. shows usage of online marketing methods compared to traditional marketing methods by our respondents. 30% of our respondents stated that they use exclusively online marketing methods, while 61% of respondents answered that even though they use mix of online and traditional marketing methods they give primacy to online marketing. It is interesting that only 9% of respondents gave primacy to traditional marketing, while no one from our respondents rely solely on methods of traditional marketing.

Author considers that it should be noted that out of 30% of respondents that use exclusively online marketing, majority (57%) are companies that are operating for less than a year. 9% of respondents that gave primacy to traditional marketing methods are companies that are operating for more than 10 years. These results show tendency of younger companies to engage in online marketing at much higher rate compared to older businesses. 61 % of companies stated that they use both online and traditional methods, and this group of respondents is composed of mainly companies that are in business less than 5 years.

These results demonstrate tendency of service companies to favorite and shift towards online marketing methods. Through the interviews we attempted to reach reasons for such shift and answers can be summarized as follows:

1. **Easier targeting and feedback** – Among the main reasons for shift towards the online media our respondents listed easier targeting and feedbacks. Traditional marketing doesn't provide such targeting possibilities as it gives small level of control to *whom* exactly marketing message is delivered. Also, traditional marketing is based on one-way communication which results in very small feedback from the customers or prospects. Online marketing overcomes such issues, as it enables narrow targeting and two-way communication with customers and prospects.
2. **Lower costs** – All interviewee emphasized that the cost of online marketing are lower compared to traditional methods, such as television or printed media.
3. **Shift of customers and their raising power** – Managers of the companies are aware of shifts in customers' attention. Our respondents stated that due to trend that people are spending much more time on the internet and social networks companies are following them. Companies try to position themselves where there customers are.
4. **Easier development of deeper relationship with the targeted audience compared to traditional methods** – Two-way communication enables companies to develop relationship with their clients easier and at faster pace compared to traditional methods. Social networks allow very direct and personal approach as company can not only communicate with the potential customer but also have insight in his interests and value systems. Personalized approach and fast, real-time communication greatly contribute to deeper relationship building.
5. **Easy internalization of business** – Service companies that use online marketing and social networks have easy access to consumers around the globe which facilitates internationalization of the business. One of our respondents, CEO of consulting company, stated that prior to engaging in online marketing they were providing their services locally. With Internet and communication tools such as Skype, they were able to target foreign markets as well and internationalize their business.

Our findings show that companies from different industries use different social networks to connect with their customers and prospects. However, large majority will use one of the two biggest, general networks (Facebook and Twitter) in addition to more specific social network that

they choose according to their industry (for example - Pinterest or LinkedIn). These findings are represented in following figure.

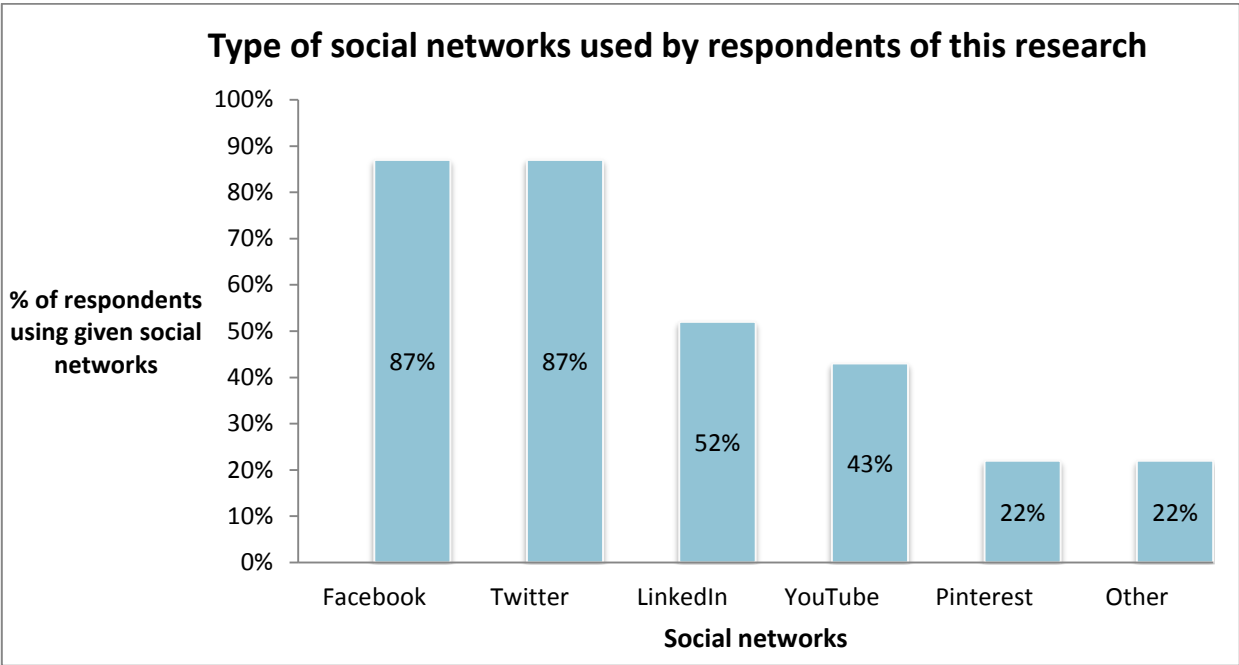


Figure 3.2. Type of social networks used by respondents of the research (created by author)

Figure 3.2. shows type of social networks used by respondents of our research. Facebook and Twitter are most commonly used social networks by our respondents, as 87% of companies are using these platforms. Following are LinkedIn which is being used by 52% of our respondents and YouTube that is being used by 43% of our respondents. Image-driven social network Pinterest is being used by 22% of our respondents.

Such results were expected, as Facebook and Twitter are most frequently used social networks and the fact is that companies are trying to position themselves where their prospects are. However, it is noted that the choice of social network for the companies to market themselves on is also depending on the exact industry in which they operate. For example, companies that are in sector of tourism and hospitality will use Facebook and Pinterest instead of Twitter. Such positioning is very practical and effective in case of these organizations as people that they target respond better to images of promoted offerings than to short, broadcasting marketing messages that are in use on Twitter. Companies that offer marketing and consulting services should avoid image driven social networks (such as Pinterest) as such platforms are not of vital importance in this industry.

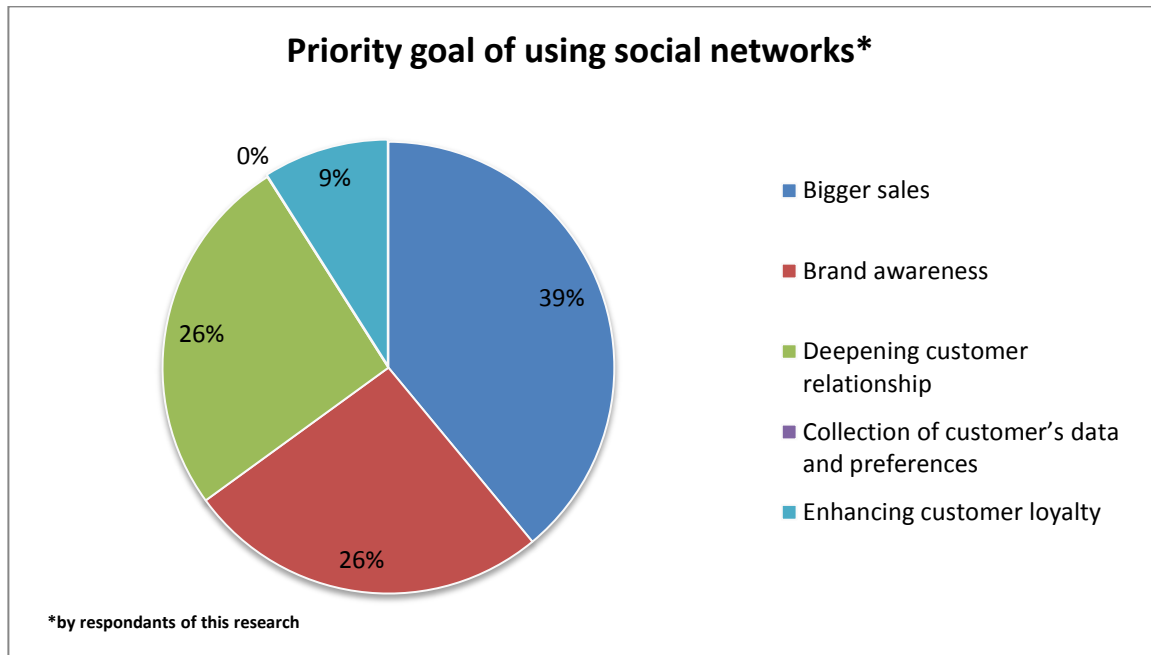


Figure 3.3 Priority goal of using social networks by respondents of this research (created by author)

Figure 3.3 shows *priority goal* of using networks by respondents of our research. Respondents were asked to prioritize their goals of using social networks. Majority of respondents, 39% stated that their priority and primary goal is achieving bigger sales. 26% respondents stated that their priority was raising the level of brand awareness while 26% of respondents stated that deepening customer relationship is their primary goal when it comes to social networks. 9% prioritized enhancement of customer loyalty while only once percent of responding companies prioritized collection of customer data and preferences. We conclude that even though the listed goals are firmly and closely connected, bigger sales and brand awareness are leading reasons companies engage in marketing through social networks.

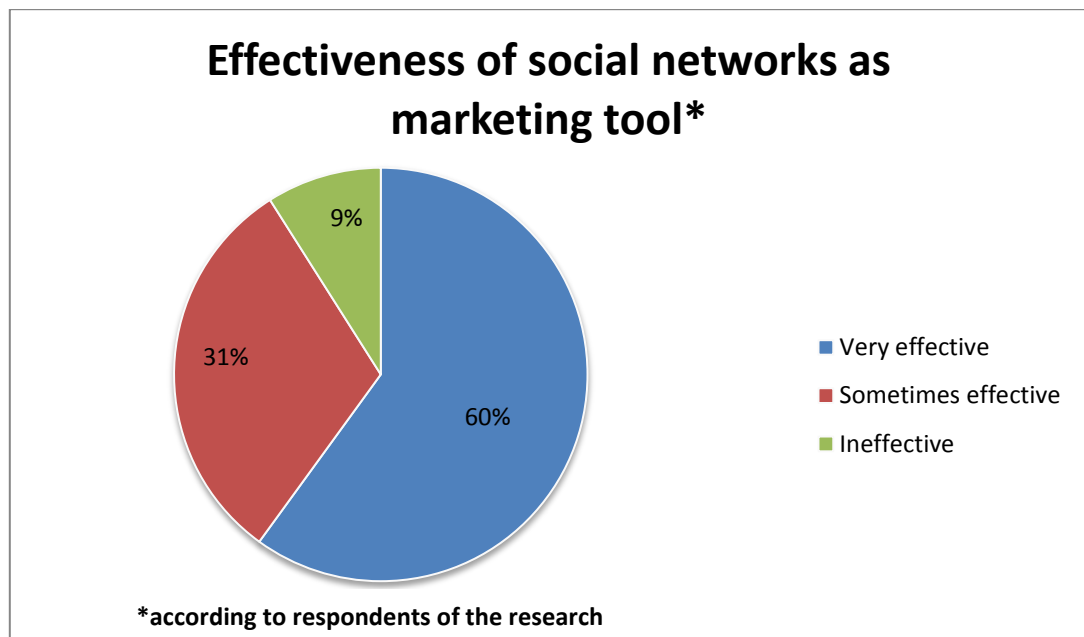


Figure 3.4. Effectiveness of social networks as marketing tool according to respondents of the research (created by author)

Figure 3.4. shows attitudes of our respondents when it comes to effectiveness of social networks as a marketing tool in reaching desired goals. Majority of our respondents, 60%, believe that social networks are very effective marketing tool. 31% of our respondents stated that they are sometimes effective while 9% was not satisfied with the effectiveness of this marketing tool.

In order to better understand level of satisfaction with the effectiveness of this tool, in opinion of our respondents, we also inquired about the future business strategy when it comes to investing in marketing through social networks. Following figure 3.5 shows our findings.

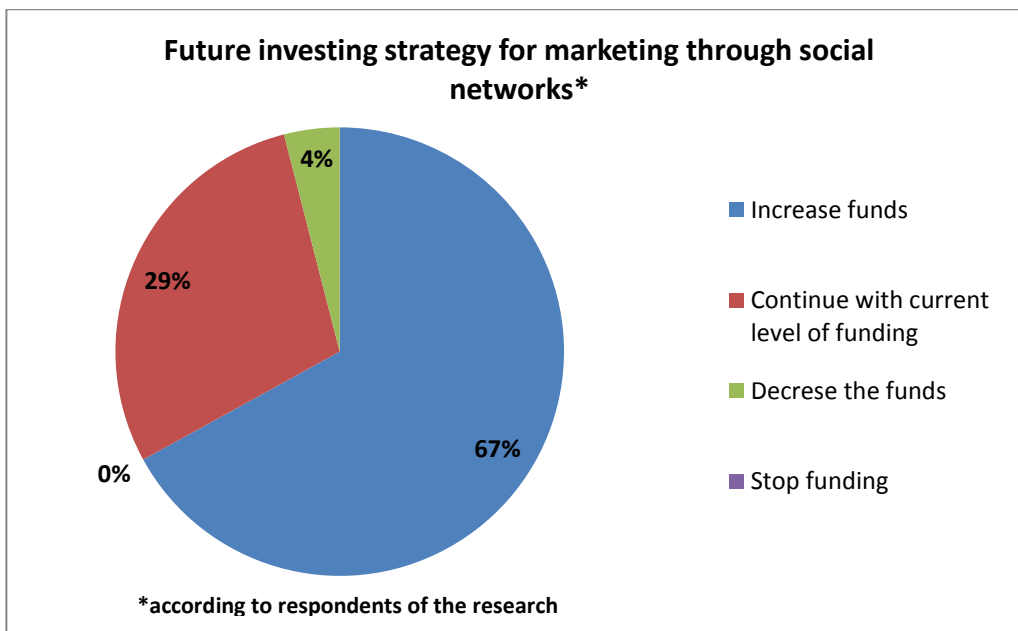


Figure 3.5. Future investing strategy for marketing through social networks, as reported by respondents of the research (created by author)

Figure 3.5 shows future investing strategy of our respondents when it comes to marketing through social networks. The author of the thesis considers that it is very interesting that even though 9% of our respondent stated that they are not satisfied with effectiveness of social networks (as shown in figure 3.6), none of our respondents stated that they will terminate marketing actions through this channel. Out of 9% (2 respondents) of our respondents that were not satisfied (figure 3.6) one stated that, in the future, the funds dedicated to this cause will be decreased while other respondent stated opposite. Author concludes that these results indicate companies being aware of the necessity of using marketing through social networks. Companies are open to adjusting and changing their strategies instead of terminating them.

As shown in figure 3.3, majority of respondents use marketing through social networks in order to achieve bigger sales or higher brand awareness. In order for these goals to be achieved it is necessary to develop a strategy that will enable companies to be consistent in their efforts and maximize the results.

3.2.1 Summation of advantages and disadvantages of social networks as marketing tool

Before we proceed to model development, we would like to point out our findings when it comes to advantages and disadvantages of social networks as marketing tool obtained through this research.

According to the responds of our interviewees and author's research, benefits of using social networks as a marketing tool that have been elaborated through this thesis can be summarized as following:

- Contribute to increased exposure
- Increase traffic to company's webpage
- Allow extremely targeted marketing
- Deepening of customer relationships
- Offering better customer service
- Associate with other businesses and make connections
- Enhance customer loyalty
- Overcoming of obstacles imposed by nature of services
- Reduce marketing expenses
- All industries can use this way of marketing
- Convenient for analytics and reporting

The list of advantages this method of marketing brings is truly broad. However, author would like to point out main disadvantages of using social networks as marketing tool, in order to have extensive and profound understanding of this marketing tool:

- Posting and engaging on social networks is time sensitive and time consuming - Company can establish presence on multiple social media channels easily. However, none of these platforms will enable company to gain customers without an investment of time and effort. Neglected and unattended Facebook page or Twitter profile can leave a negative impression on potential customers and lead to loss of contacts on these platforms.
- It can be perceived as intrusive by users – Some users are dissatisfied with the possibility of companies using their private data shared on these networks for targeting purposes and find this very intrusive.

- Lack of feedback control – negative posts by customers (or competitors) can be very damaging to marketing campaigns if not addressed properly in very short time period. Negative feedback cannot be

Author would like to emphasize that all of our respondent agree that advantages of marketing through social networks overpower disadvantages that this marketing tool can have. Risks from such disadvantages arising and damaging company's reputation or marketing efforts can be mitigated if company timely and properly manages its social networks. By doing so, it will promptly minimize any damage that can arise from using these platforms.

Author of the thesis proposes that in order for desired marketing goals to be achieved, companies should implement all four elements of REAN model, explained in the following section.

3.3. REAN model in marketing through social networks

Using a system such as AIDA model enables companies to better understand how to effectively target their market and lead customers towards desired point of actions.

The AIDA model is traditional marketing model but it can be applied to online marketing, or more specifically to marketing through social networks. However, several more adequate models in terms of modern marketing have emerged, all based on the AIDA model, such as its variations AIDAS, that adds satisfaction as a new element or ADICAS, where beside traditional AIDA elements (Attention, Interest, Desire, Action) two more elements are added – satisfaction and confidence.

Author of this thesis has chosen to use the REAN model, which is as well modern adaptation of AIDA model that is in our opinion truly adequate for analysis of marketing through social networks.

REAN is marketing model that was originally introduced by Xavier Blanc in 2006 and further developed by Steve Jackson in 2009. REAN model stands for:¹¹⁰

- **Reach** – methods used in order to attract traffic to the company's webpage or other form of online presence. It analyses how people find the brand, service or a product

¹¹⁰ Steve Jackson "The Cult Of Analytics: Driving online marketing strategies using web analytics" Elsevier/Butterworth & Heinemann, April 2009 P.26

of the company. This factor defines how the awareness among the targeted audience is raised regarding the company or its service or product.

- **Engage** – explains process of engagement between company and its targeted audience. It is essentially a process preceding a point of action that helps company’s prospects to come to the decision.
- **Activate** – implies that the prospective customer has taken a preferred point of action that, and typically involves person buying service or a product, newsletter subscription, etc.
- **Nurture** – this describes methods of retaining and re-engaging with activated consumers.

This model is based on traditional AIDA model but it is more contemporary and adequate for our research and demonstration of our finding. AIDA model is traditional marketing approach that is used with purpose of describing common list of events that may occur when a customer engage with an advertisement. As author has previously explained in this thesis, marketers are aware of the fact that they need to attract their prospects, attract their attention as an imperative to gaining interest in the service or product offered.

AIDA		REAN	
<u>Attention</u>	Attract the customer	<u>Reach</u>	Attract the customer
<u>Interest</u>	Raise interest by demonstration of advantages and benefits	<u>Engage</u>	Raising interest about the company and product through two-way communication and engagement with prospective customers
<u>Desire</u>	Convince the customer that they desire the product/service	<u>Activate</u>	Person has taken desired action and/or purchasing
<u>Action</u>	Person has taken desired action and/or purchasing	<u>Nurture</u>	Relationship with customer is valued and nourished

Figure 3.6. Comparison of elements of AIDA and REAN model (created by author)

Figure 3.6. shows comparison of elements of AIDA and REAN model. Even though REAN model is based on AIDA model, in the opinion of author of this thesis, elements of REAN model

are more efficient for use in analysis of marketing through social networks for the two important reasons:

1. Instead of only awakening interest by demonstration of benefits of the offering, REAN model focuses on engagement with the prospective customers. The goal is to engage with prospects in a way that will lead to action taking and also build relationship with the client. Engagement and two-way communication instead of mere demonstration of features of product/service offered is a prerequisite for the relationship building, it adds to the overall positive image of the company and creates brand value.
2. Last element of AIDA model is “Action”, that is purchase of the offered service or product. This model neglect importance of nurturing existing relationship with clients. Companies operating nowadays cannot permit such practice. Nurturing of relationship with the customer is of crucial importance for the success of the company because not only it is more expensive to obtain new customer (acquiring new customers can cost five times more than satisfying and retaining current customers ¹¹¹) but the existing customers that are satisfied with the good or service sold will generate positive worth-of-mouth advertising and contribute to the brand building of the company

Reaching the targeted customers is a step number one in this process, and at the same time the part that is providing the biggest concerns to the managers of the company. Therefore, according to the information obtained from the interviewees, we have analyzed and presented necessary steps that company needs to undertake in order to reach its prospective clients.

3.3.1 Reach

During the research we have concluded that even though companies are aware that they need to be present online, they are concerned with the reach of their message and wheatear the message is being communicated to their targeted markets. Such concerns were also noted during the Largosen’s research, where majority of interviewed managers have given similar response.

¹¹¹ Alan E. Webber, "B2B Customer Experience Priorities In An Economic Downturn: Key Customer Usability Initiatives In A Soft Economy," Forrester Research, February 19, 2009, quoted from Sid Probstein “Listen to the voice of the customer”, April 2009, accessed at: <http://www.destinationcrm.com/Articles/Web-Exclusives/Viewpoints/Listen-to-the-Voice-of-the-Customer-53239.aspx>

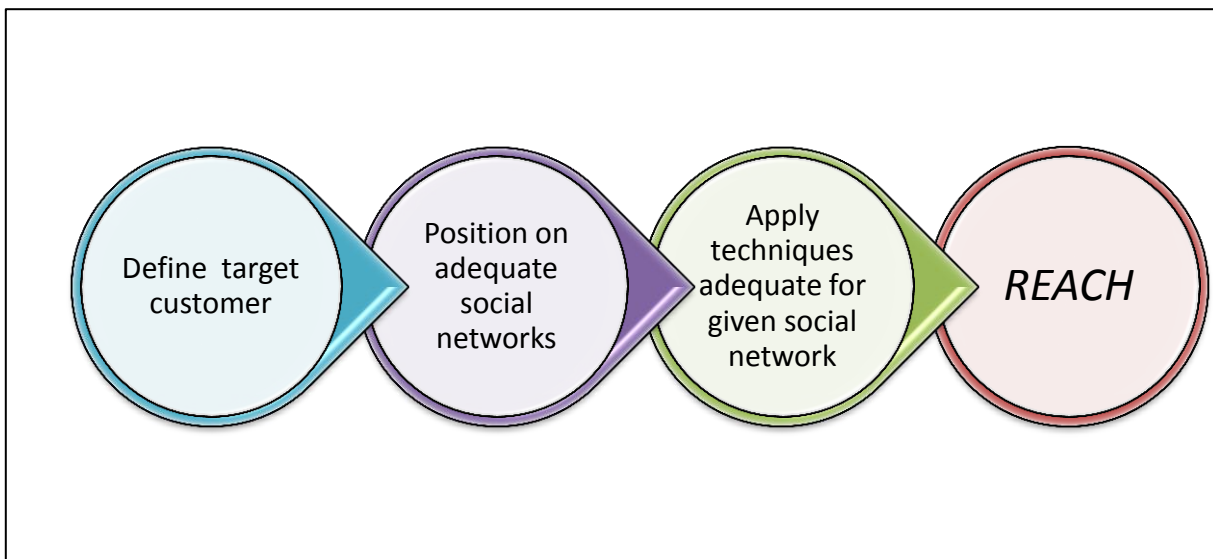


Figure 3.7. Flow chart of steps needed for a company to achieve desired reach, created by author

Figure 3.7. shows flow chart of steps needed for a company to achieve desired reach. Before further analysis, it should be stated that market orientation of a company is considered as a default marketing philosophy in our research. Market orientation represents starting point and prerequisite for this research. It is crucial that a service company adopts market orientation and place customer into the center of its business activities, strategies and philosophy.

Figure 3.7. depicts following steps that a company needs to take in order to reach its targeted customers (according to our research):

1) Define target customer.

Knowing exactly on which platform to position a company is crucial part in marketing through social networks. Prior to positioning on social networks companies need to determine their targeted customer. After clear definition of who represent targeted customers companies can continue with positioning themselves on an appropriate social network. Reach will highly depend on this matter. It is necessary that the companies understand their targeted market, their needs and wants and to position themselves according to those information. After such analysis and definitions are made company can choose most adequate social platform to position itself on.

2) Position on adequate social network.

Companies choose the social network they want to be present on according to their target customers and industry they are in. It is wrong to assume that companies need to be present on all major networks. Such efforts of companies tend to end up with scattered audience and non-consistent message delivery. Also, such efforts would require higher investments and costs, as

larger marketing budget would be needed, more hours devoted/employees working on this specific element of company's marketing. Therefore, companies choose platforms that are most appropriate and adequate for their service and target customers. In such way they can focus all sources to most relevant social networks and yield the best results.

3) Apply techniques adequate for given social network.

Marketing techniques and tools depend on the network being used. For the purpose of our research we constrain on techniques suitable for marketing on Twitter and Facebook. The nature of these two social networks is different and therefore the marketing techniques needed to reach the customers need to be different as well.

3a) Facebook

Facebook has implemented new algorithms in the beginning of the year 2014 that change the way how a company can reach its targeted audience. Prior to this change, for company to reach its targeted audience it was necessary to create a company's profile (called *page*) on this platform and then publish *quality* content that targeted audience will find valuable. This information would be presented in the so called *news-feed*. News feed shows updates about activities of other users the person is connected with and advertisements that are displayed to users according to their interests. Content creation requires a company to not only keep up to date with industry trends and development, but also to create and publish original, value-added content across its used social networks.

Research showed that companies need to research what their consumers prefer to hear, talk about and what they might find interesting, enjoyable and valuable; then the company should develop and publish content that will match those expectations.¹¹² Consistent posting of relevant content would yield targeted consumers to the page of company. However, this policy has changed. Facebook has implemented new algorithms that force companies to use Facebook Advertising in order to reach their targeted audience. If company chooses to ignore these changes and still applies organic (non-paid) publishing of its content, chances of its content to reach targeted consumers are minimized. Instead, company needs to invest in Facebook Advertising, which is equipped with very specialized tools of targeting according to demographics and interests that we will not discuss in this research.

¹¹² A. M. Kaplan, M. Haenlein "Users of the world, unite! The challenge and opportunities of Social Media" P.66 , accessed at: http://www.slideshare.net/majaj2/savedfiles?s_title=kaplan-haenlein-users-of-the-world-unite-the-challenges-and-opportunities-of-social-media&user_login=escpexchange

Facebook Ads are targeting audience according to their Facebook Profile information: age, location, education, relationship status, interests – such as favorite movies, music, books, events, etc.

Depending on their goals and the product that they are advertising, advertisers can set a targeting filter to select exact group of people to whom the ads will be displayed. This makes it possible to focus on or target the people most likely to be interested in the product, amongst the 500 million worldwide Facebook users.

There are two existing Facebook Ad’s structures:

1. Cost per click (CPC) – a model in which advertisers pay their host only when the ads are clicked on
2. Cost per impression (CPM) – a model in which advertisers pay their host based on how many thousands of people see the ad.

Through our research we came to conclusion that CPC is much more used by SME’s operating in service industry and that is why we will exclude CPM from our research and analysis. All data presented and analyzed therefore refers to CPC Facebook Ads.

Also, we will demonstrate Facebook Ads effectiveness based on 2 most important goals of using social networks given by respondents of our questionnaire – brand awareness and bigger sales.

Name of company	Industry	Bid for	Targeted audience	Reach	Reach (%)	Clicks	Average cost per click	Total spent
Company 1	Coaching	Website clicks	12,600	6,984		476	\$0.16	\$75.00
Company 2	Consulting	Page likes	54,000	35,869		781	\$0.19	\$145.73
Company 3	Education/ Entertainment	Page likes	19,000,000	118,340		5854	\$0.07	\$398.75

Figure 3.8. Results of Facebook Advertising for 3 different companies for the period of two weeks, compiled by author. Source: Facebook Advertising Data and Statistics, provided by Flight Media Co

Figure 3.8. represents results of Facebook Advertising for 3 companies for the period of two weeks. Advertising was conducted by agency Flight Media Co, to which these companies had outsourced this part of their marketing. All data was collected from the records and documents of Flight Media Co. with the purpose of demonstrating effectiveness of advertising

done through this social network. This figure shows companies whose primary goal of using Facebook Advertising is raising brand awareness.

As it can be seen in the figure, companies used Facebook Advertising in order to achieve their goals which were:

- for Company 1 *website clicks* - visits to their web site, and
- for Company 2 and Company 3 *page likes* – connection with the company on this social network, which enables company to communicate its marketing messages with these users, build relationship, build brand awareness, etc.

Before we analyze these results, it is necessary that we define given categories to ensure full understanding:

- **Bid** is the goal of advertising effort, what company is trying to achieve with Facebook Ads. Companies can bid on website click, page likes, conversions, etc.
- **Targeted** audience represents potential audience that ad will be displayed to.
- **Reach** represents total number of people to whom the ad was displayed.
- **Clicks** represent the number of times the ad has fulfilled its purpose – targeted customer has made required action (visited web page, liked company’s page on Facebook, etc.)

Data presented in the figure 3.8. represents results of advertising efforts through Facebook during two week time period. We have chosen companies from three different service sectors – coaching, consulting and education/entertainment.

Distribution of ads on Facebook is automated process which is determined by a number of factors including bid, marketplace competition, target audience, etc. Price of advertising largely depends on targeted audience and advertising budget. For some industries targeted audience (that is using Facebook) is much smaller than for others, as it can be seen on the example of consulting (company 2) compared to education/entertainment (company 3). This is logical if we consider that users of Facebook are usually spending their time on this platform in search of entertainment or interesting data, rather than professional services.

However, even though industries and budgets shown in the figure are different all companies are successfully reaching their targeted audience and raising their brand awareness (constrained by the budget limits and their definition of targeted audience in the first place) at affordable price.

Name of company	Industry	Bid for	Targeted audience	Reach	Reach (%)	Conversions	Average cost per conv.	Total spent
Company X	Health services	Conversions	19,200	14,734	77%	14	\$6.41	\$83.68

Figure 3.9. Results of Facebook Advertising for company X, for the period of 3 weeks, compiled by author, source: Facebook Advertising Data and Statistics, provided by Flight Media Co

Figure 3.9. represents results of Facebook Advertising for company X for the period of three weeks. Advertising was conducted by agency Flight Media Co, to which these companies had outsourced this part of their marketing strategy. All data was collected from the records and documents of Flight Media Co. with the purpose of demonstrating effectiveness of advertising done through this social network. Unlike Figure 3.8., this figure shows data for the company whose primary goal was acquiring *sales* through the use of this social network.

Company X was using Facebook Advertising in order to obtain conversions, in other words - sales. Advertisements managed to reach 77% of company’s targeted audience on this platform. From 14,734 that saw advertisement (offering) of company X 14 converted into actual customers. Following figure shows revenue that company X made based on this advertising:

Name of company	Industry	Conversions	Average cost per conv.	Total spent	Earnings per conversion	Total revenue
Company X	Health services	14	\$6.41	\$83.68	\$59	\$826

Figure 3.10. Revenue made by company X based on Facebook Advertising, for the period of 3 weeks, compiled by author. Source: Facebook Advertising Data and Statistics, provided by Flight Media Co

Figure 3.10. shows revenues made by company X based on Facebook Advertising presented in previous figure 3.9. As the figure shows, company acquired 14 conversions at the average price of \$6.41. In other words, company paid \$6.41 for each realized sale. Total cost of this campaign was \$83.68. Offering of company X was a service package priced at \$59, so the company has earned:

$$\underline{14 \text{ (realized sales)} * \$59 \text{ (cost of service package offered)} = \$826 \text{ (revenue made)}}$$

This means that company X earned \$9.87 on every dollar invested in this advertising campaign (excluding the cost of outsourcing). With the use of Facebook company managed not only to reach its targeted audience but to acquire new customers and realize sales at low cost.

3b) Twitter

We have explained that Twitter is extremely fast paced social platform, with more than 9000 messages being published each second by its users and once the message is posted its *lifespan* – the time during which it can lead to a reaction or response – is only one hour . It is no surprise that companies express concerns when it comes to reaching their targeted audience.

When it comes to appropriate techniques of reaching out to customers on Twitter, our interviews agreed that three factors were crucial for success:

1. Connecting with the potential customers directly
2. Consistency and
3. Quality and quantity of content published.

Connecting with the potential customers directly is the first step in achieving desired reach. In our research we came to findings that the best way to reach this goal is to first analyses competitors and their *followers* – users that are connected with them on this platform with the purpose of getting updates and other content form the company. In order to connect with their targeted customers companies need to reach out to them, instead of waiting for reverse action. Experience shows that users on Twitter tend to accept these connections and in return connect back with the company – become their follower, subscribed to messages being delivered by the company. Various softwares and programs enable companies to reach out to large number of people per day, in a matter of several minutes (such as Tweepi.com, Managefilter.com, etc.) and usual reciprocity percentage is between 35%-50%.¹¹³ That means that, conservatively, if a Company Y would decide to implement this strategy and connect with 300 users a day that correspond to their targeted audience, it could expect 105 prospective customers to connect back with the company – allow company to distribute its content to them.

Consistent activities are very important. Reaching out strategies need to be applied consistently in order to show their effectiveness. Our interviewees stated that usually their companies apply these strategies on a daily basis for the best result.

¹¹³ According to the statistics of Marketing company Flight Media Co

Quality and quantity of the content need to be very well adapted to perspective customers and to the nature of this platform in order for companies to reach their goal and not only reach customers with their marketing messages but direct them to the following stages of buying process as well. Content published by the company needs to be interesting and informative enough to make customers engage with the company. In order to do so, companies need to provide their customers with the content that they will find interesting and valuable instead of pure promotion.¹¹⁴ In fact, many leaders in marketing through social networks (Seth Godin, Jeff Bullas) propose that the ratio of the content posted needs to be 80% informative, valuable content on the given topic and 20% of company's promotional messages. In such manner companies will avoid being too intrusive in the eyes of their prospects and will be regarded more as a source of information which builds trust and better relationships among company and their prospect. When it comes to quantity, since the Twitter is extremely high paced platform companies need to publish their content regularly in order not to be replaced by newer content of other profiles that the users are following on this social network. It is suggested by the leaders in this field that the companies need to publish their content minimum 10-15 times per day. This is facilitated by the use of programs for scheduling publishing of posts in advance which allow company to schedule all of their posts for the particular time period that it chooses in just several hours (such as SproutSocial.com, HootSuite.com, Buffer.com, etc).

3.3.2. Engage

In order to lead their perspective customers toward the buying decision companies need to engage with their targeted audience. Once the reach was established companies need to communicate and engage with their customers in order to make them take action and buy promoted service. In order to do so, companies need to undertake following actions. Following summarizing of the steps needed for achieving engagement on social platforms emerged from our research.

¹¹⁴ A. M. Kaplan, M. Haenlein "Users of the world, unite! The challenge and opportunities of Social Media" P.66 , accessed at: http://www.slideshare.net/majaj2/savedfiles?s_title=kaplan-haenlein-users-of-the-world-unite-the-challenges-and-opportunities-of-social-media&user_login=escpexchange

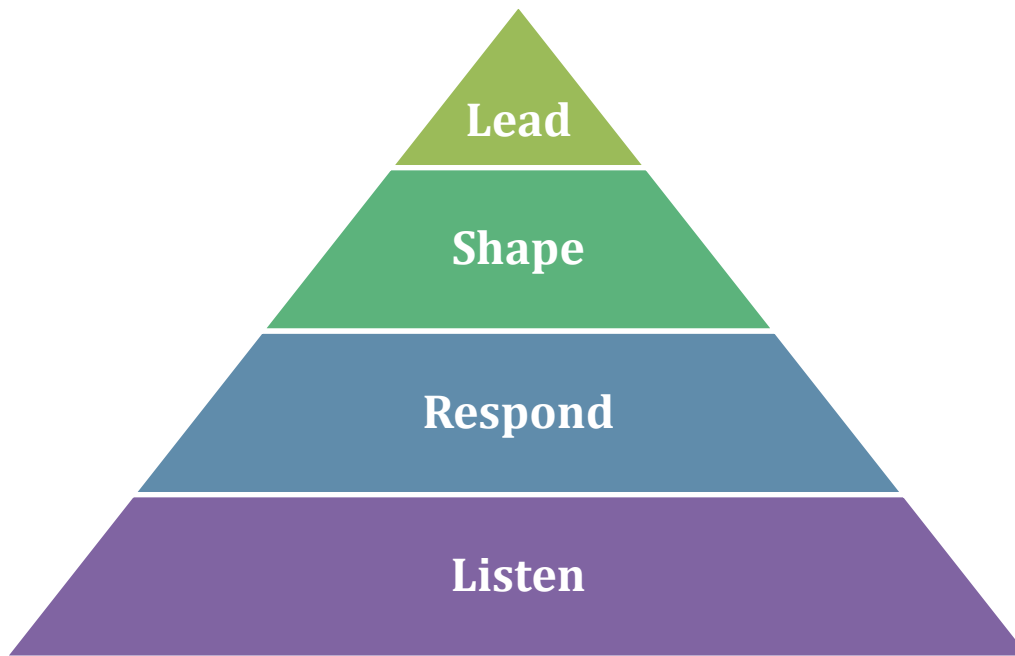


Figure 3.11. Process of engagement on social networks (created by author)

Figure 3.11. represent process of engagement on social networks. We summarized main points accentuated by our respondents into 4 main steps that company needs to undergo – listen, respond, shape and lead – in order to lead to a point of action.

- **Listen** - Facebook and Twitter (and other social networks) are platforms on which customers share their ideas, concepts, experiences, thoughts, etc. Company needs to monitor and track its target audience in order to learn how to answer to their needs and wants in best possible manner. Consumers feel more engaged with company and its offering if they are able to submit feedback. Feedback contributes to a sense of community in which honest, open communications are encouraged and customer engagement is enhanced.¹¹⁵
- **Respond** – It is not enough that companies hear and acquire information about the preferences of its customers. Social networks enable two-way communication between companies and its customers or prospects and allow companies to build deeper relationships with them by responding to their issues, comments or questions. The progress of social networks as marketing channel has significantly influenced the way companies communicate with their customers. Very high

¹¹⁵ W. Glynn Mangold, David J Faulds, “Social media: The new hybrid element of the promotion mix”, Business Horizon, 2009, accessed at: <http://www.sciencedirect.com/science/article/pii/S0007681309000329>

number of users across the globe, it is proved that social networks can be crucial marketing communication tool to companies offering services.¹¹⁶

- **Shape** – Social networks provide the ability to not only communicate with target audience but influence and shape their opinion. As companies position themselves as valuable source of information they can affect and shape opinion of their customers and prospects. Through engagement, communication and proactive approach company can gradually influence opinions of its audience.
- **Lead** – Final step of engagement process should lead prospect to the desired point of action or purchase of service. Companies can direct its targeted audience to the desired point of action after the relationship is established. At this moment, company is perceived as trustworthy source and connection and not a promoter.

3.3.3. Activation

All previous steps in REAN model lead to activation of the company's prospects. Activation of the prospect means that the previously taken steps had successfully led the prospect toward desired point of action, which can be different for different companies. Activation may imply conversions, i.e. sales, a prospect becoming a lead i.e. providing its contact information for the further actions of the company, a prospect visiting the webpage of the company etc.

It can be stated that activation is the end goal of a business as mainly companies lead their prospects towards sales. Reach, engagement and nurturing represent the support for the activation.¹¹⁷

Our interviewees have pointed out that after reach and engagement have been accordingly applied activation of prospects is best done through call-to-actions. Call-to-actions (CTAs) represent direct invitation from the company to the consumer to take desired point of action – buy a service, become a lead by provision of contact information, usually email (and potential customer for the future) or any other desired point of action that company is pushing towards its prospective customers at given moment.

Established relationship among the company and the potential customer are of crucial importance at this instance. Good relationship is established when company engage in a way that

¹¹⁶ Noor Raihban Ab Hamid, Romiza Md Akhir, Aw Yoke Cheng “Social media: an emerging dimension of marketing communications”, *Journal of Management and Marketing Research*, February 2013, P 2

¹¹⁷ S. Jackson “The Cult Of Analytics: Driving online marketing strategies using web analytics.” April 2009 Elsevier/Butterworth & Heinemann P.38

will solve issues of their audience, which do not need to be connected to the company itself. By doing this company position itself as a valuable contact and information source, rather than simple promoter of its offerings. Such practice builds strong brand image and reputation and is very likely to result with prospect becoming a customer. As we have stated several times previously in this thesis, in order to be successful and truly implement market orientation, company needs to have long-term focus. Such relationship building and establishment is excellent evidence of that claim.

3.3.4. Nurture

Relationships with customers need to be nourished and valued. Companies should adapt long term customer focus and maintain valuable relationship with them. The idea of nurturing such relationships is to get customers to be loyal to the brand or to value the brand for specific need that a company can cater to.¹¹⁸ Enhancing brand loyalty will mitigate odds of customer defecting to the competitors and help company establish better market presence.

Building strong, valuable brands that customers feel close to is very beneficial for the service companies. Nature of services (especially intangibility and variability) can invoke doubts and concerns regarding quality of the service that will be provided. Building strong reputation and brand awareness will reduce such problematic implications and shorten buying decision process for the prospects of the company.

Service companies can take advantage of social networking platforms to depict reviews from the current or previous customers. Reviews play very important role in brand building of service companies and allow prospective customers to overcome their intangibility. Reviews serve as viral marketing that can contribute (or work against) the company and its reputation. Companies should encourage satisfied customers to leave reviews whenever possible. In that way, if negative reviews occur, their negative effect will be minimal in comparison to positive feedbacks.

Rise of Facebook and Twitter (and other social networks) enables customers to take more active role in marketing process and reach (or be reached by) almost anyone and anytime.¹¹⁹ It is

¹¹⁸ S. Jackson “The Cult Of Analytics: Driving online marketing strategies using web analytics.” April 2009 Elsevier/Butterworth & Heinemann, P. 38

¹¹⁹ Noor Raihban Ab Hamid, Romiza Md Akhir, Aw Yoke Cheng “Social media: an emerging dimension of marketing communications”, Journal of Management and Marketing Research, February 2013, P 2

not rare that satisfied customers take the role of voluntary brand advocate. Brand advocates are defined as highly satisfied customers who are willing to recommend the brand, product, or service without being paid.

Brand advocates are highly valuable to the company due to following reasons:¹²⁰

- They create excellent reviews and testimonials about their experiences with the company and thus raise company's overall ratings
- Share company's content and offers with their contacts on social network
- Engage with prospects, answer their questions and lead them towards desired point of action
- They create content – reviews, videos, testimonials etc.

3.3.5. REAN framework for marketing through social networks

Prior to proceeding to conclusions and suggestions of this work, we present our adaptation of REAN model. Our adaptation is framework that includes steps that need to be taken in order to achieve effective marketing through social networks. If all elements of REAN model are implemented, author of this thesis considers that there would be no doubt in effectiveness of this tool.

Following figure summarizes actions that need to be taken in order for REAN model to lead to effective marketing.

¹²⁰ Rob Fuggeta, "Brand Advocates: Chronicling the revolution in fans and supporters", <http://www.brandadvocatebook.com/> 03.05.2014

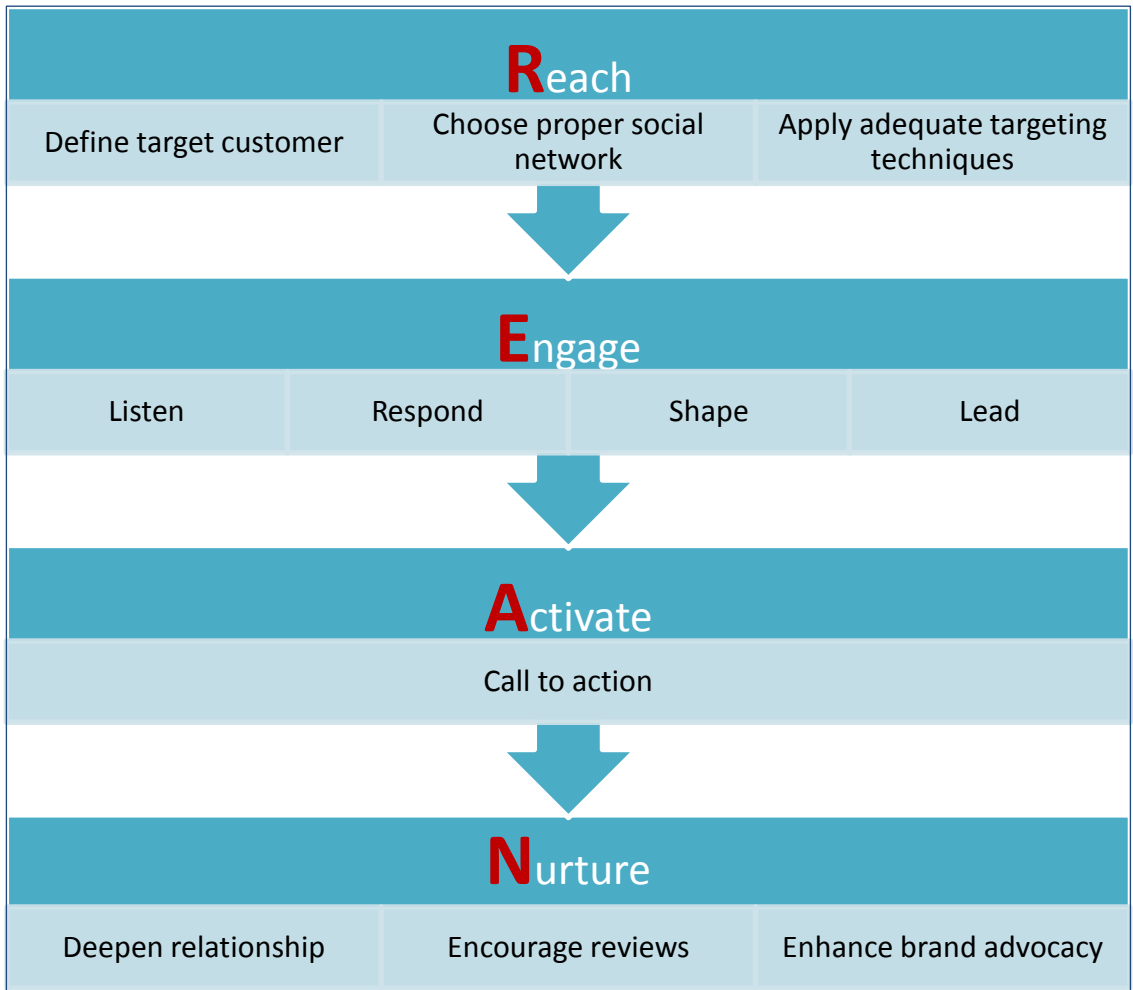


Figure 3.12. REAN model for effective marketing through social networks (created by author)

Figure 3.12. represents adaptation of REAN model by author of this thesis with purpose of developing a model that will be effective for marketing through social networks. REAN model is a framework with emphasized actions that are needed in order for successful implementation of social networks marketing strategy. Author believes that use of this model can help companies develop consistent social networks marketing strategies and achieve desired goals.

Conclusions and suggestions

Conclusions

The author presents conclusions of this thesis taking into consideration theoretical and analytical part of the work:

1. Service sector is becoming increasingly important in the world economies. Increased trade in services will boost economic growth by improving the performance of other industries, higher contribution to employment, mitigating effects of financial crisis, poverty reduction, etc. In increasingly interlinked and globalized world role of service sector is immense as services provide key intermediate inputs for other sectors and facilitate business processes.
2. Vast development and penetration of Internet have changed the way businesses operate. Also, people tend to spend more time online and online communities are marking high growth rates so marketers need to follow their customers and position themselves in their online surroundings.
3. Development of Internet and communication technologies enables companies to easier internationalize their businesses. Development of internet and communication technologies has large impact on internationalization of service SME's. Internet is constantly progressing and
4. Internet and development of communication facilitate internationalization of service-based SME's. Internet and modern communications overcome obstacles imposed by inseparability of services through Internet-facilitated programs and softwares. As a result, internationalization of service business is simplified.
5. Power dynamic has shifted from marketers to consumers. Internet enables customers to gain access to timeless, critical and verifiable data about organizations and their offerings, information placed not only by company but more important by their peers. Comparison of this data will affect their purchase decisions. Service companies need to adapt market orientation, i.e., positioning the customer in the center of their business philosophy, strategies and business decisions.
6. Market orientation needs to be based on mix of following elements: customer focus, competitor focus, profitability and coordinated and integrated marketing. To this must be added that company needs to have long-term focus when planning and conducting its marketing strategies which again, need to arise from market-driven learning.

7. Services require different marketing approach compared to products due to their different characteristic. Marketing through social networks provide excellent way of overcoming these differences.
8. Service companies tend to shift towards online marketing as it proves to be more effective and main reasons for such tendency are:
 - 1) easier targeting,
 - 2) easier feedback obtaining,
 - 3) lower costs,
 - 4) shift of customers and their raising power and
 - 5) easy internalization of business.Due to these reasons the shift from traditional media ad spending to digital marketing spending is present.
9. Advantages of social networks for service companies are:
 - 1) facilitation of their main goals (bigger sales and brand awareness),
 - 2) development of deep relationships through two way communication and engagement.Positioning the company as a valuable contact and source of information rather than promoter is crucial prerequisite for these advantages to valorize.
10. If proper techniques are applied, by use of social networks Facebook and Twitter companies can achieve desired reach at low cost and with high effectiveness.
11. Nurturing relationships with customers after the point of activation, when the desired point of action is taken, is crucial to turn customers into brand advocates. This will contribute to brand value and growth and ease new conversions (sales) due to good reputation and reviews.
12. All that has been outlined above points out that social networks are effective marketing tool. Such findings are in accordance with the author's hypothesis and thus the author indicates that hypothesis is accepted.

Suggestions

The author would like to indicate suggestions based on findings from this study that can contribute to effectiveness of marketing through social networks for service companies:

1. Content is the key factor for success - *Companies that decide to apply this marketing tool need to develop unique and quality content that their prospects and customers will find valuable. Topics need to be relevant to the industry the company is operating in, contemporary and interesting for targeted audience. That will stimulate benefits of viral marketing, as customers will be more likely to share it with their peers on the same network and even across different social networks.*
2. Consistency needs to be achieved - *It is recommended that companies develop detailed strategic plan of posting content in order to provide needed consistency. In order to be competitive companies need to consistently publish content and engage with its targeted audience to ensure that they are perceived as valuable source of information and leader in the field.*
3. Precise and planned strategy is prerequisite for success – *In order to be able to reach desired goal company needs to have strategic plan when it comes to marketing through social networks.*
4. Usage of scheduling tools and softwares - *It will allow company to lower the cost of marketing through social networks through automation and scheduling of content in advance. Use of such tools also enhances consistency and lowers the costs as less time input is needed.*
5. Leading the engagement process – *Instead applying reactive approach and just listen to what their customers are saying and commenting on social networks companies should apply proactive approach that will trigger reactions and engagement. This can positively affect image of the company and shape the opinions of the audience in favorable manner.*
6. Immediate response to negative feedback - *Author suggests that such feedbacks are immediately put in focus of the company and if possible turned around into positive experience through good customer service and provision of solution of the problem. Such actions will establish credibility of the company and trust. As the company position itself as carrying and responsible it will deeper relationships with customers.*

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Annex N.1 Questionnaire

Following questionnaire was distributed to 30 service-based SMEs that operate internationally.

Name of the questionnaire: *Social networks as marketing tool*

1. Do you define your company as service-based company?

- Yes
- No

2. Which of the following marketing communication tools does your company use?

- Traditional mass media advertising (papers, television, radio)
- Online advertising and promotions
- Offline promotions
- Direct mail
- Sponsorship
- Other _____

3. Do you use Online Marketing as part of your marketing strategy?

- Yes
- No

4. Does your company rely more on Online Marketing or Traditional Marketing concept?

- We use Online Marketing methods exclusively
- We use mix of Online Marketing methods and Traditional Marketing methods, but Online Marketing is more present
- We use mix of Online Marketing methods and Traditional Marketing methods, but Traditional Marketing is more present
- We use Traditional Marketing methods exclusively

5. Do you consider Online Marketing methods to be more effective than Traditional Marketing methods for your company?

- Yes, Online Marketing methods proved to be more effective
- Online Marketing and Traditional Marketing methods proved to be equally effective
- Traditional Marketing Methods proved to be more effective

6. Do you use Social Networks as a Marketing channel (part of your Online Marketing)?

- Yes
- No

7. Which of the following Social Networks do you use?

- Facebook
- Twitter
- LinkedIn
- YouTube
- Pinterest
- Other _____

8. What would you define as **priority goal** of using Social Networks for your company?

- Bigger sales
- Brand awareness
- Deepening customer relationship
- Enhancing customer loyalty
- Collection of customer's data and preferences
- Other _____

9. In regard to general effectiveness in reaching your marketing goals, as perceived by your strategy, please mark the statement true for your company:

- Social Networks proved to be the most effective marketing channel for my company
- Social Networks proved to be sometimes effective as marketing channel for my company
- Social Networks proved to be ineffective as marketing channel for my company

10. Do you consider Marketing through Social Networks to be the most effective component of Online Marketing for your company?

- Yes
- No

11. If not, which components of Online Marketing do you consider to be most effective?

12. How much from your Marketing budget is being directed towards Marketing through Social Networks?

- Up to 10%
- Up to 30%
- Up to 50%
- More than 50%
- I don't have this information

13. In the future period, what is your business strategy when it comes to investing in Marketing through Social Networks?

- Increase amount of funds invested in Marketing through Social Networks
- Continue with the current amount of funds invested in Marketing through Social Networks
- Decrease the current amount of funds invested in Marketing through Social Networks
- Stop investing in Marketing through Social Networks

In order to have better understanding of the topic and your company, please answer the following questions.

1. How many people does your company employ?

- 1-10
- 11-30
- 31-50
- 51-100
- More than 100

2. How old is your company?

- Less than a year
- Between 1 – 3 years
- Between 3 – 5 years
- Between 5 – 10 years
- More than 10 years

3. Where is your company situated?

- USA
- Europe
- Asia
- Other _____

4. What type of services does your company provide?

- Financial
- Consulting/Marketing
- Tourism and Hospitality Management
- Transport
- Other _____

5. How long have you been using Marketing through Social Networks?

- Less than 6 months
- Less than a year
- Between 1 – 3 years
- Between 3 – 5 years
- Between 5 – 10 years
- More than 10 years

Annex N.2 Interview questions

Interviews for this master thesis were conducted with:

1. Joshua Coffy, owner and CEO at Flight Media Co (Marketing agency)
2. Scott Briton, owner and CEO at Life Long Learner (Consulting and business development)
3. Dr. Josh Wagner, owner and CEO at The Perfect Patient Funnel System (Consulting)

Questions:

1. What are the main reasons for shifting towards online marketing in your opinion?
2. What are the main benefits of using social networks as marketing tool?
3. What are best strategies for marketing through social media?
4. What would you categorize as risk or disadvantage of marketing through social media?

