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Use of Facebook and Google Platforms for SMEs Business Model Innovation

RIMANTAS GATAUTIS, ELENA VITKAUSKAITĖ & MARK DE REUVER

Abstract Development of information communication technologies brings increasingly more opportunities for optimising various processes and activities of organisations. In the case of platforms, such as Facebook and Google, it is especially relevant to small and medium-sized enterprises. SMEs can adopt ready-to-use information communication technology solutions provided by those platforms for different aspects of their business. The paper aims to find out how SMEs use possibilities of such platforms to innovate business models. Two cases of Lithuanian SMEs are analysed to check the theoretical assumptions summarised in the paper. The case analysis indicates, that use of the platforms contributes to reaching (new) target customers, making adjustments to value propositions, maintaining customer relationships, channels, and thus becoming key resources and supporting key activities, therefore become key partners.

Keywords: • Platform • Business model innovation • Facebook • Google •

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1 Introduction

The development of information communication technologies brought various opportunities and prospects for small and medium enterprises. Very often SMEs are described as slower adopters of innovative information communication technology solutions (Gatautis & Vitkauskaitė, 2009) in comparison to large companies, which have capacity and possibilities to develop and adopt the latest ICT-based innovations. Such situation is caused by the lack of knowledge, strategic forecast, and finances.

Facing such situation, SMEs tend to use information communication technology solutions, which can be provided by third parties and third parties take care of the solutions. Such solutions might be provided on various platforms, which offer new opportunities for SMEs.

Recently a growing discussion about platforms, their development, and their business models has been observed. These discussions as well as related research address how platform business models might be developed and how successful platform business models are run. However, SMEs usually act as users of the platforms in order to fulfil their needs and gain an advantage in the market.

The success of the company is determined by defining and implementing the business model that allows understanding the key aspects of the success. In order to sustain long-term advantages, SMEs should innovate their business models in response to the changing market conditions, i.e. find new ways to expand their value propositions, find new markets and segments. Use of platforms provides various options for SMEs. According to researchers, companies need to consider platforms such as Google, Facebook, Amazon, Apple (Simon, 2011; FaberNovel, 2014, Miguel & Casado, 2016).

Our research aims to contribute to understanding how SMEs use platform possibilities to innovate business models and how these decisions are made. SMEs make strategic decision to deploy various platforms as they provide different opportunities, e.g. Google and Apple help to reach customers, Facebook to develop relations, Amazon to use more effective services. The research presented in the paper aims to understand how SMEs evaluate platform possibilities, how the needed functionality of the platform is selected, how SMEs change the business model and how SMEs assess the success of business model change.

The four platforms (GAFA – Google, Apple, Facebook, and Amazon) in particular become important partners in business to consumer markets as GAFA takes about 55 percent of user digital life (FaberNovel, 2014). The phenomenon, when new companies appear online by using only the infrastructure of GAFA are also observed. In this paper, we contribute to the research body by analysing the use of Google and Facebook products for business model innovation among Lithuanian SMEs.

2 Business Implications of Digital Platforms

The term “platform” has been attracting the attention of practitioners and researchers in the last decade. The term became so popular that practitioners and researchers started using a new term “platform economy” (Accenture, 2016).

Initially, the term “platform” was defined as “digital infrastructure (hardware and/or software) on which different applications can be run, or (by wider definition) allowing for a finite and clearly defined set of uses” (Andersson Schwarz, 2015). Techopedia (2017) suggests the following definition: “a platform is a group of technologies that are used as a base upon which other applications, processes or technologies are developed.” This approach is clearly related to the technical point of view as key characteristics of platform refer to hardware/software aspect and clearly defined set of action. Such definition addresses Google or Facebook platforms at the beginning of their activities as Google served as search engine allowing users to find information, while Facebook served as communication tool providing an attractive and simple way to socialise.

However, due to the development of technologies and more active role of platforms in the digital economy, the new term “platform company” appeared. The term aimed to describe company offering a platform or several platforms aiming “to provide marketplaces, distribution of media content, and/or coordination of activities” (Andersson Schwarz, 2015). This definition demonstrated managerial approach emphasising functionality which platforms were offering as a key value proposition. Ballon (2009) even suggested the term “platformisation” referring to new societal trend when companies are developing and offering platforms, and new platform-based business models appear.

Platform phenomenon became popular and new term “platform economy” appeared. According to Kenney and Zysman (2015), platform economy is “one in which tools and frameworks based upon the power of the internet will frame and channel our economic and social lives.” Authors identify four essential elements that ensure the functioning of platform economy: infrastructure, training and skills, social protection, and regulatory transition.

The growing importance of platforms was also addressed during World Economic Forum 2016 by outlining the importance of platforms for companies and organisations, naming disruption of economic activities, lower market entrance barriers, and in some cases changes to the logic of value creation, capture and transfer to market (World Economic Forum, 2016).

As companies face new challenges in adopting platforms these challenges mainly refer to functionalities platforms offer. Companies using platforms (assets developed by other companies) can dedicate more focus for business development and business differentiation. As platforms act mainly as facilitators, companies need to understand how

to adopt platforms in their daily activities and how to measure the value platforms bring to their business.

The growing number of platforms also indicates the differences between the platforms. Some platforms are oriented to reach consumers (e.g. Google), some facilitate communication and provide services (e.g. Facebook), some facilitate trade (e.g. Amazon). In many cases, platforms act as facilitators enabling companies to enhance value proposition and optimise their activities, but the value for both parties (companies and users) are created through orchestration.

Platforms also might be described as “frameworks that permit collaborators – users, peers, providers – to undertake a range of activities, often creating de facto standards, forming entire ecosystems for value creation and capture” (Kenney & Zysman, 2015). Gawer and Henderson (2007) suggested an approach to defining a product as a platform. According to Gawer and Henderson (2007), a product is a platform when “it is one component or a subsystem of an evolving technological system, when it is functionally interdependent with most of the other components in the system, and when end-user demand is for the overall system, so that there is no demand for components when they are isolated from the overall system.” Platforms might be described by several important components (Hagel, 2015):

A governance structure, including a set of protocols that determine who can participate, what roles they might play, how they might interact, and how disputes get resolved. An additional set of protocols or standards is typically designed to facilitate connection, coordination, and collaboration.

There are different platforms such as Intel, Microsoft, Cisco. Faber Novel (2014) suggest four main platforms: Google, Amazon, Facebook, and Apple. Accenture (2016) names several platforms in various areas: Fiat (connected car), Kaiser Permanente (digital health), Disney (MagicBands), Caterpillar (connected machines), Schneider Electric (smart cities, buildings, and homes), Walgreens (retail pharmacy), Goldman Sachs (customer analytics), Bank of New York Mellon (financial services), McCormick/Vivanda (FlavorPrint), Houghton Mifflin Harcourt (education).

Venkatraman et al. (2014) outline several important platform characteristics which create implications of innovations for SMEs, namely scale, scope, and speed. Besides these characteristics, platforms challenge SMEs operational, dynamic and improvisational capabilities and lead to internal changes within the company. As platforms play a major role in value creation, capture and transfer, platforms became a major factor affecting the business model design of companies.

The business model concept became popular in last decade, and many researchers deeply investigate this area. The business model can be defined as “description of how an organisation or network of organisations intends to create and capture value from offering

a service to its customers” (Bouwman et al., 2008). Despite growing popularity, business model research area attracts academic exploration as according to Teece (2010), this area resides somewhere between economics and business strategy and more elaborated research is needed. The related area is business model innovation, which according to Spieth et al. (2014), remains “a slippery construct to study” (Casadesus-Masanell & Zhu, 2013). Within our research context, it is considered that platforms bring new opportunities for value creation and capture, and companies need to rethink their business model logic. This refers to business model innovation concept, which can be defined as “changes in business logic that are new to the firm, yet not necessarily new to the world, and have to result in observable changes in the practices of a BM” (Bouwman et al., 2008).

3 Research Framework

There are many approaches to business model analysis. One of the most popular approaches widely accepted by practitioners is Business Model Canvas (Osterwalder & Pigneur, 2010). This approach defines key components of the business model: value proposition, customer segments, channels, customer relations, key activities, key resources, and key partners. As a consequence, decisions regarding these components result in revenue streams and cost structure.

In our research, we decided to address two important platforms, namely Facebook and Google. Facebook is easily identified as a platform and companies might obtain various services through “one-stop shop” approach. Google situation is different as Google offers several different services and use of these services causes some confusion for SMEs. SMEs are interested in using such products as AdWords, increasing their position in Google search listing (SEO), use a Google Drive.

The comparison between traditional business versus opportunities of Facebook and Google platforms for business model innovation is presented in Table 1.

Table 1: Google and Facebook platforms opportunities for business model innovation

Business model component	Traditional	Google platform	Facebook platform
Customer segments	SMEs serve mass market (no segmentation) or apply geographic, demographic or psychographic segmentation criteria, rarely behavioural criteria.	Most of Google products are based on interest in a certain topic, therefore, enabling segmentation based on the interest of potential customers. Good opportunities to reach niche markets.	Segments might be targeted based on demographic, geographic, and behavioural criteria, as well as interests. Good opportunities to reach niche markets.
Value propositions	Entirely up to the company	Change value proposition based on better understanding of customer needs. New value proposition for business (AdSense).	Enhance value proposition through: Change value proposition based on better understanding of consumer needs. Provision of additional information.
Channels	Different physical channels, such as traditional media points of sale, agents, website, e-shop.	Might serves as the main channel for attracting consumers attention. Mainly for raise awareness and evaluation of alternatives.	Channel for attracting consumer attention and delivering additional value. Might serve for purchase, delivery and after sale services.
Customer relationships	Personal service Self-service (e-shop)	Trigger to initiate interactions with customers	Personal service (e.g. after sale service) Community / Social support
Key resources	Infrastructure Materials Knowledge/HR	Google tools for business (e.g. Drive, Mail)	Information on customers and their social behaviour

Business model component	Traditional	Google platform	Facebook platform
Key activities	Production or service provision Sales Marketing/advertising	Collecting of information about customer needs (CRM) Marketing and advertising	Additional value delivery Relations management Marketing and advertising Sales activities
Partners	Recourse suppliers, infrastructure providers, intermediaries	Might serve as supporting service supplier	Might serve as one of main service providers

Platform adoption is strongly driven by the spread of ICT and many new start-ups adopt platforms for the benefits platforms are offering. Considering such situation, many entrepreneurial SMEs also move towards platform adoption, as this should give them the opportunity to run the business more efficiently.

Research method. An analysis of several cases of Lithuanian SMEs using Facebook or Google in their activities was carried out. No distinction was made if SMEs use a platform by themselves or are they supported by business consultants. We believe, that even if SMEs use consultant services they understand benefits of platforms well enough as SMEs invest in the utilisation of the platform.

We tried to identify SMEs using Facebook or Google platform. In many cases, we found it complicated as SMEs tend to use both of them, but we identified cases there one platform is key platform and use of the second platform is limited, and therefore the role of the specific platform is more expressed.

Interviews were carried out with SME representatives that are most knowledgeable about the use of a given platform within their organisation. Additionally, an observation of actual use of a platform was carried out where possible (e.g. observation of a Facebook page).

4 Empirical Findings

4.1 Case 1. Use of Facebook Platform

UAB *Socialinis institutas*, and more specifically their brand *ačiū pačiū*, was identified as SME case with the use of Facebook platform for business model innovation. Interview was carried out with the marketing manager of the company (direct quotes from the

interview are used in case description thereafter). Observation results of the Facebook page of the brand were also used for this case description.

UAB *Socialinis institutas* is a socially responsible company that produces and sells toys for children. All products are handmade and produced from natural materials. The company focuses not only on offering high-quality products but also at reducing social exclusion by providing employment to socially vulnerable people with physical disabilities. Over 60% of employees are disabled people. Those employees sew the toys and carry out other sewing assignments as the company takes orders for various sewing services, such as sewing tablecloths and other items.

The company is developing its toy brand *ačiū pačiū*, and expects that in future the brand toys will become the main product of the company, and there will be no need to take orders for other sewing services.

For online marketing, the company uses an e-shop <http://www.aciupaciu.lt> (in Lithuanian), e-catalogue, and Facebook page (<https://www.facebook.com/aciupaciu/>). They also plan to start using the Instagram account. The company also writes articles, but rarely.

The primary reason to start using Facebook was the fact that Facebook was the cheapest and easiest to use way to reach the target customers of the business. At the beginning of the business it was important that the means used would allow reaching customers without larger investments.

The other important reason was the responsiveness of the customers, as “it is significantly easier to communicate with them here and now”. It was noticed by the company, that customers nowadays find it simpler and more convenient to write a Facebook message than to write an e-mail. That was important to the company, as they want to be accessible to customers, have personal communication with them, and to have the opportunity to offer personalised products. Facebook provided a platform enabling that kind of communication. Compared to other social media platforms, activity on Facebook achieves the highest engagement from followers.

Key features of the Facebook used by the company are: the Facebook page of the brand, instant messaging function, paid advertising options (boosting of the posts, ads for driving leads to the website, carousel ads). Facebook page is administered by an external agency, while the company itself maintains the content.

How platform affects business model innovation? First of all use of Facebook enables the company to reach its *target customers*. In fact, company representative claims that “if not Facebook, I do not know how else we would have reached the customers at that moment when we needed that.” Facebook enabled the company to reach new customers as well.

The company was targeting people from Lithuania. However, they soon discovered getting orders from abroad as well.

Facebook is also used as a source for modifying the product, namely the core of the *value proposition*. Personalised and customised products are offered to customers based on personal communications with them via Facebook messenger. Also, the company uses feedback from their Facebook community to make decisions regarding the products (e.g. asking an opinion about colours of products, or about other features). The latter option is rarely used, however. The communication with the community on Facebook helped the company to understand that customers prefer simple products and designs. “Whenever we placed a more unusual or interesting offer and expected people to prefer it, they would surprise us by choosing more simple and basic option. That helped us to provide more relevant products to our customers.”

Facebook page is used as one of the main *channels* to raise awareness of the products, by introducing and promoting novelties. Advertising possibilities are used for this, e.g. every post is boosted for few days by targeting target customers of the brand. As mentioned, it is also the main channel to communicate with customers. Therefore, to provide post-sales support as well (e.g. “if a customer found out that a piece of child’s clothing she bought does not fit the child, we usually resolve the issue very fast and easy by communicating on Facebook. Another example if a customer is not sure how to wash a toy he bought, we easily provide him with the information”).

Facebook is also a crucial platform for maintaining *relationships* with customers. The messenger is used for personal service, to chat with customers, answer their questions, to find out their requests and preferences. Community (close to 15 000 fans, as of March 2017) relations are also maintained on Facebook page of the brand.

4.2 Case 2. Use of Google Platform

The company *Transer* was identified as SME case with the use of Google platform for business model innovation. Interview was carried out with one of co-owners of the company (direct quotes from the interview are used in case description thereafter).

The company *Transer* offers translation services for technical text (<http://www.transer.net>). The company is SME and have five persons directly involved in company activities. There is an extensive partner network as the company hires different interpreters for specific tasks. The company revenues reach about 100K euro per year in the last three years, and according to company CEO, revenues are stabilised. There is no specific reason why Google platform was selected, but the decision is based on a variety of information available in newspapers and journals about Google benefits for business. The first attempt to use Google platform was in 2010 trying to reach a larger number of customers via PPC advertising (Google AdWords). However, this initiative was not successful for several reasons. First of all, the company lacked knowledge and

skills to manage PPC campaigns effectively. The second reason refers to competitor behaviour as competitors intentionally were clicking on company advertising and company advertising did not attract visitors to the website.

The second attempt to use Google products was much more successful. This time it was decided to use Google Drive and Google Documents in order to save costs and make internal operations more efficient. According to the company owner, the ability to use documentation in a more comfortable way was the reason to start. “I use two separate computers – one in the office and another one at home. Typically, in a rush, I forget the documents, and it means I cannot access them because documents are on another computer. By using Google Drive/Documents, I can access all documents from any computer.”

The next step in using Google platforms was to use Google Documents on various cooperation tasks. “As we realised we can all use the same document, we started using this solution for implementing some activities.” After successful use of Google Documents, the company decided to replace CRM system with Google Documents.

The attempt was made to share information through Google Documents with partners/interpreters, but it was not successful. Interpreters preferred to call or send email, but not use online documents.

How platform affects business model innovation? The company used Google platform for several business model innovations, but only one of attempts was successful.

The first attempt was to reach new segments and *new customers* using Google AdWords, but the lack of knowledge did not result in a desirable outcome. The attempt to use AdWords lasted just for several months.

Second attempt related to the optimisation of internal operations and affected *key resources* and *key activities*. The Google platform improved internal operations and became part of company infrastructure. As a consequence, the company decreased costs around 500 euro per year. Those are not significant savings, but company CEO considers them as important ones.

5 Discussion

From the theoretical research, assumptions were made on the contribution of Facebook and Google platforms on business model innovations. Based on interviews with SME representatives we might state that the impact of Facebook is easily recognised and valued by SMEs as Facebook acts as one-stop-shop. It is more complicated to determine the impact of Google products from SMEs perspective as Google offers various services which might be used by different departments. Facebook platform is perceived as a marketing tool mainly, and in the case of Google, only some features are related to the

marketing function. Some of Google tools (Documents, Drive) are used entirely for companies internal operations.

From case studies, we observe that platforms are used for reaching (new) target segments. In the case of Facebook, this associated with a “typical feature” of modern brand and company successfully maintains its presence on Facebook. From the perspective of Google platform, AdWords were used to reach target segment. However, the company did not manage to do it appropriately as lacked skills to use AdWords.

We also find out that companies can successfully use Facebook platform as communication tool allowing to customise value propositions. Facebook messenger plays a major role in getting information about small details of a product (such as colour, shape). Therefore, Facebook Messenger plays an important role in building customer relations.

We also observed that platforms (especially Facebook) might act as one of the main channels ensuring information flow and communication between company and target segment.

As Google platform offers features targeted towards various activities of companies these features are used to make companies performance more efficient. We observed a case then Google Documents are used for operation coordination and customer relationship management, so the impact of Google platform on key activities is significant.

None of the companies referred to platforms as partners, but it is evident that both platforms (Facebook and Google) play an important role as partners (namely providers of services and infrastructure suppliers) in activities of companies.

6 Conclusion

Platforms play a greater role in SMEs activities as they give new opportunities for SMEs to innovate in the context of a business model. SMEs typically approach the four main platforms – Google, Apple, Facebook, and Amazon. Some platforms act as one-stop-shop offering different functionalities (Facebook, Amazon), some platforms offer features that are distributed (Google, Apple).

Platforms can bring opportunities for innovation in all business model components. Target customers affected through reaching (new) customers. Value proposition through offering customisation. Channels through acting as the main channel for raising awareness and post-sale support. Customer relations by ensuring personal and real-time communication. Key activities and key resources through functionality and tools provided. As a result, those platforms might even become key partners.

Analysis of the use of Facebook and Google in Lithuania SMEs indicate adoption of the platforms for a few of business model innovations. Facebook and Google platforms were used to reach (new) target customers. Facebook was also used for customisation of value proposition, as a channel and for customer relations development. Meanwhile, Google products were used for innovation of the key activities component.

None of the companies recognised platforms becoming important partners, but platforms role as key partners was observed.

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