



**Research work of the E-Commerce Institute Cologne**

# **Social Commerce**

**– Origin and meaning –**

**Version 4.0  
12. October 2021**

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This working paper of the E-Commerce Institute Cologne is produced in close cooperation with the company "Digital Pixelpark GmbH" and would not have been possible without the diverse input of this company.



The following persons in particular are involved in this project on the part of Digitas Pixelpark:

**Olav Waschkie**  
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The research results and findings presented were mainly obtained in lectures and during the supervision of Master's theses, case studies, and project work at "Hochschule Fresenius - University of Applied Sciences" in Cologne in the summer semester 2021 and winter semester 2021/22, as well as through our own research work.



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## 1. Origin and development

The world of electronic commerce (e-commerce) has grown considerably in importance and developed at great speed in recent years. This rapid development relates not only to the constantly growing sales volume of e-commerce, which has been further accelerated in particular by the Corona pandemic, but also to the different facets and manifestations in which e-commerce presents itself today.

The field of "social commerce" (s-commerce) represents a particularly relevant area of e-commerce, as it builds on the now tried and tested functionality of e-commerce while also combining these powerful approaches with the enormous dynamism of social media management. This significant combination offers the respective market participants a multitude of new opportunities in the areas of marketing and sales, as well as major challenges in the conceptual and IT realization of the approach pursued in the implementation of the s-commerce strategy. Both areas are considered in detail and critically examined in this paper.

### 1.1 Traditional value chain

The classical subdivision of the processes in an enterprise into the three large ranges "procurement - production - paragraph" was refined by Michal E. Porter in the 80's by the more detailed view of the creation-of-value chain. This is explained in more detail in the first chapter of the research work.

Michael Porter has defined in this traditional value chain, which interrelated business activities of the operational goods production process are listed (see figure 1 below). Thereby the margin of an enterprise depends equally on the different primary activities as well as the support activities. The model is represented as follows:

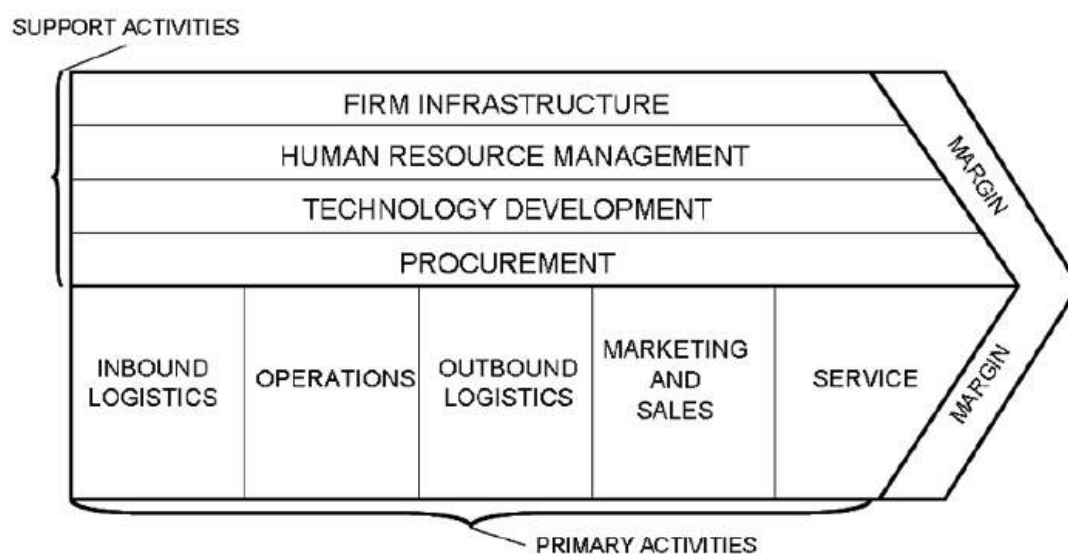


Fig. 1: Traditional value chain  
(Source: Gabler Wirtschaftslexikon [2021], n.p.)

## 1.2 Sub-processes

The value chain is created with the aim of increasing the efficiency of processes and the competitiveness in companies. For this purpose, all activities of a company are broken down in detail into their individual components. The form of presentation illustrated above facilitates overall analyses of companies and comparisons of the various individual areas. The value chain of companies is fundamentally described from the complete manufacturing process to the distribution of the products. This basic model was developed by the US economist Michael Porter.

The value chain model graphically represents these corporate activities. It is divided into primary and supporting activities. Primary activities include all activities that are directly related to the creation of the product or service.

The first phase of primary activities is described by inbound logistics, before the production of goods or services begins. After production, outbound logistics starts, where goods are placed so that they can be quickly shipped from the warehouse - accordingly, the storage and delivery of the finished product send to customers. The next step in the value chain is marketing & sales - in the form of various online and offline activities and the eventual sale of goods or services. The last step in the chain is service or customer support for customers. Here, companies can be available to customers by phone, email, or social media accounts, who are asking questions about products, filing complaints, and requesting product returns.

The supporting activities form the condition for the execution of the primary activities. The supporting activities Porter ranks are: the enterprise infrastructure, the technology development, and the procurement, which concerns less product procurement, but rather around a supply of machines and equipment. Also included is human resource management, the management of the workforce, which is essential. This includes training, hiring, or firing of employees. Technology development activities include the further development of products and production processes. On the right side of the model is the margin. This represents the added value created during the production of the good or service.

All competition-relevant information and interrelationships are thus represented in the model, creating an optimal basis for further analysis.

Thus, the question "What insights does the value chain provide into the performance of a company?" can be answered. This is because the basic assumption is that increasing competitiveness is only possible by optimizing all of a company's activities. The value chain therefore makes it possible to answer questions about specific sub-areas (support and primary activities) or questions about the company as a whole.

Furthermore, the model can be used to determine which activities are the company's core competencies. For example, the core competencies can be in marketing and sales through clever presentation in advertising and social media channels.

The value chain is primarily used because it provides an in-depth matching business analysis. Moreover, it combines pure analysis with strategy development. In contrast, however, the value chain methodology is relatively complex and costly. In addition, the interpretation of the results is initially only a first consideration and therefore requires further thought.

## 2. Classification of Electronic Business

Increasing digitization and the associated possibilities of information transmission led to further progress in the consideration of processes in companies.

The general growth in technological change and - in particular - the growing importance of information and communications technology, as well as the expansion and networking of electronic or digital data paths, were necessary prerequisites for a new dimension of economic interaction - electronic commerce on electronic data paths.

Electronic business - often also referred to as e-business - consists of various components that need to be explained, just like the network economy. For a uniform understanding of the subject area presented here, the following classification of the central concepts is therefore made.

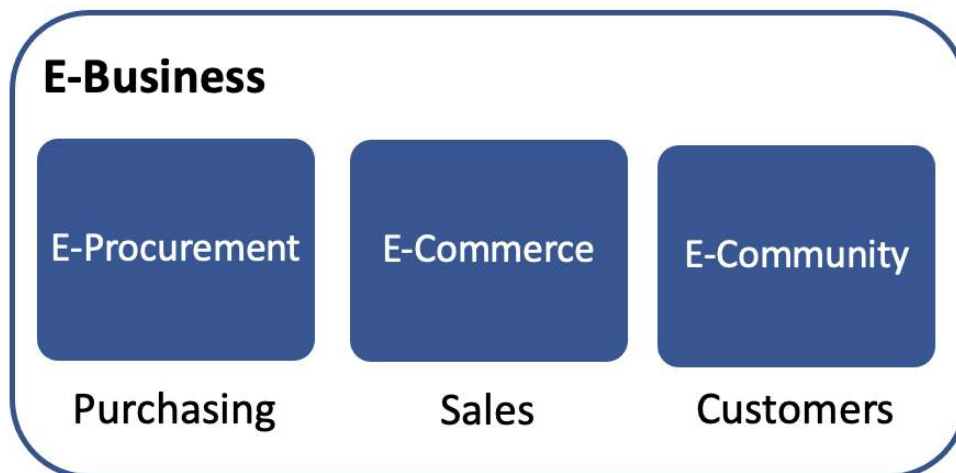


Fig. 2: Classification of the central elements of electronic business

(Source: Own representation. There are different views on the classification. See Kollmann [2021], o. p.)

### 2.1 E-Procurement

Electronic procurement (e-procurement) enables the electronic purchase of products and services by a company via digital networks. This involves the integration of innovative information and communication technologies to support and handle operational and strategic tasks in the procurement area.<sup>1</sup>

### 2.2 E-Commerce

E-commerce enables the electronic sale, i.e. the conclusion of digital sales contracts, of products or services by a company via digitally connected networks.<sup>2</sup>

<sup>1</sup> Kollmann [2021], n. p.

<sup>2</sup> Große-Holtforth/Geibel/Kracht [2020], p. 5.

## 2.3 E-Community

An electronic community (e-community) enables electronic contact between people or institutions via digital networks. Innovative information and communication technologies are thus integrated both to support the exchange of data and knowledge and to prepare transaction-relevant decisions.

Content marketing in particular plays a central role here, influencing the attitude of the addressees regarding the company's goals by means of strategic measures relating to the creation and dissemination of relevant content.<sup>3</sup>

## 2.4 Digital value chain

After Porter describes the traditional value chain, there are also approaches for digitally shaped value chains based on the electronic business approach. For a systematic analysis of a future-oriented company that wants to be successful in the area of e-commerce, it is essential to examine the individual elements of the value chain. The following model describes the digital value chain:

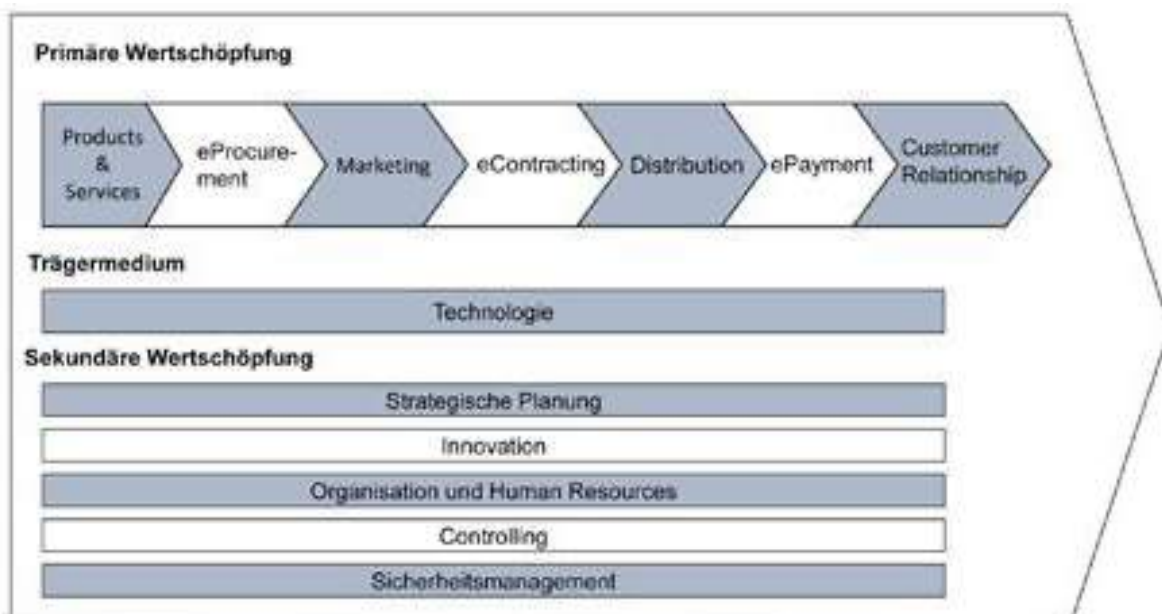


Fig. 3: Digital value chain  
(Source: Nutrion [2021], o. p.)

### Value chain:

The illustration of the digital value chain presented above shows the different, classic elements of e-commerce companies. These can be divided into three main areas.

<sup>3</sup> Römmelt [2021], p. 19.



**i. Primary value added**

This consists of seven stages. New values are generated in each of the stages listed. Therefore, each of the stages has a share in the success of the company. After purchasing products and / or services, the company adds value, e.g. by refinement or by compilation (assortment), and thus generates the value added.

**ii. Digital carrier medium**

Technology is the central component in e-commerce companies and a basic prerequisite for value creation. Strategically wrong decisions can limit the entrepreneurial flexibility and thus cause great damage. In addition to various technical tools, for modern online store operators are particularly an inventory management system, the online store and marketplaces to use.

**iii. Secondary value added**

If the secondary value chain is considered, values are created here that do not directly generate sales but are nevertheless of central importance for the company. This is because fundamental structures and strategies for growth and sales are generated here. Management and planning of the company, business development, company organization, security management, finance and controlling are indispensable for a company with a digital focus or sales channel. Inadequate know-how and erroneous decisions ultimately lead to a loss of profitability.<sup>4</sup>

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<sup>4</sup> Nutrion [2021], n. p.

### 3. Social Commerce

Recently, the field of e-commerce has grown significantly in scope and importance.<sup>5</sup> Driven in particular by the underlying conditions of the Corona pandemic, the number of digitally generated sales increased, as did the various forms of e-commerce.

A special form of e-commerce is "social commerce" (s-commerce) is a new answer to the question of how products are found, seen, and selected by the consumer and how they subsequently reach the end user. The key differentiator is thus the underlying sales channel. The concentration of distribution and sales on social media channels represents an impressive commercial evolution. Social commerce is thus neither a new form of advertising nor a single step within the customer journey.<sup>6</sup>

With s-commerce, the user experience more closely mimics the physical shopping world compared to previous e-commerce. The interactions between people, personal recommendations, and direct feedback simulate the shopping experience of the real world and stimulate the sales process.<sup>7</sup>

#### 3.1 Definition of Social Commerce

Until now there is no uniform definition that has yet been established for the new, promising field of social commerce. Only a few articles and papers on the subject of social commerce can be found in the literature to date, and these also have different perspectives on the new field and therefore lead to different approaches. The existing definitions all cover only parts of social commerce and do not cover its full scope. A generally valid definition of social commerce is therefore imperative and is intensively demanded by the market.

In order to create a stable basis for further explanations, the authors have developed a holistic social commerce model that combines all the relevant areas and characteristics. This makes it possible to clearly describe the research area under investigation and to clearly delineate its content. To this end, three successive and complementary stages in the definition of social commerce and a corresponding graphical representation were developed: social commerce "in the narrower sense (i.n.S.)," "social commerce in the broader sense (i.b.S.)," and "social commerce in the comprehensive sense (i.c.S.)".

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<sup>5</sup> On the importance of e-commerce see Große Holtforth/Geibel/Kracht [2020].

<sup>6</sup> Roschmann [2021], p. 31.

<sup>7</sup> Richter [2021], p. 20 f.

### Three layer definition of Social Commerce:

1. Social commerce in a narrower sense (i.n.S.)

Social commerce is a full funnel communication, marketing, and sales strategy for products and services fueled by personalization, inspiration, and direct interaction, using social media platforms.

2. Social commerce in a broader sense (i.b.S.)

Social commerce is a full funnel communication, marketing, and sales strategy for products and services fueled by personalization, inspiration, and direct interaction, using social media platforms, as well as the creation or usage of an e-community and the implementation of technical infrastructure.

3. Social commerce in a comprehensive sense (i.c.S.)

Social commerce is a full funnel communication, marketing, and sales strategy for products and services fueled by personalization, inspiration, and direct interaction, using social media platforms as well as the creation or usage of an e-community, and the implementation of technical infrastructure, enabling, and empowering integrated digital commerce and omni-channel approaches.

### 3.2 Graphical representation of social commerce

In the authors' understanding, the three interconnected stages in the field of social commerce must be viewed holistically in order to grasp and adequately describe the growing functionality and complexity of this rapidly developing area. In the comprehensive presentation of the third stage of the social commerce model, it takes the visual form of a "Mickey Mouse" by including the two important areas of "digital commerce" and "omni-channel sales" with its many connections and interfaces to social commerce.

According to the definition in the narrower sense, i.e., the core of the illustration presented earlier, is "Social commerce is a full funnel communication, marketing and sales strategy for products and services fueled by personalization, inspiration, and direct interaction, using social media platforms."

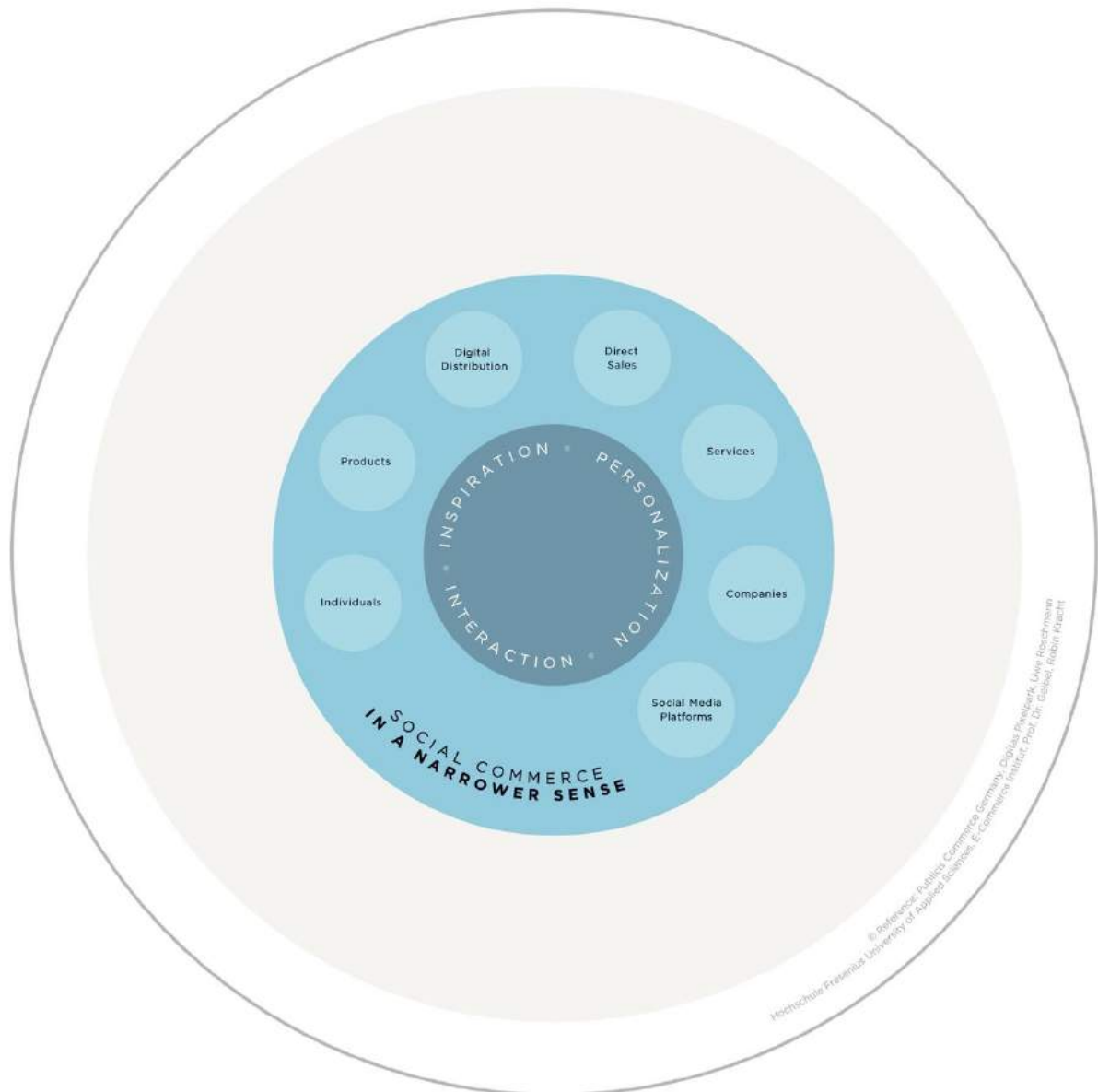


Fig. 4: Social Commerce Model in a narrower sense  
(Source: Own representation)

Here, both the customer approach (sales) as part of the customer journey and the entire sales process (sales), including credit checks and payment processing on or via the relevant social platform itself (on-platform or via social plug-in), are the focus of consideration. In this context, a large number of different products and services are offered by companies (frequently B2C, less frequently B2B) or individuals (frequently C2C, less frequently C2B) who use established social media platforms such as Facebook, Instagram, Twitter, LinkedIn, YouTube, TikTok, Pinterest, or Snapchat (as of October 2021). In the future, additional platforms will be added regularly and incrementally supplement the offering.

The diverse social media platforms have different characteristics, so that the basic requirements must be defined both in technical terms and in terms of the behavior of social

groups - the users of these platforms. This establishes the second stage of the social commerce definition, i.e., that in the broader sense:

“Social commerce is a full funnel communication, marketing and sales strategy for products and services fueled by personalization, inspiration, and direct interaction, using social media platforms as well as the creation or usage of an e-community and the implementation of technical infrastructure.”

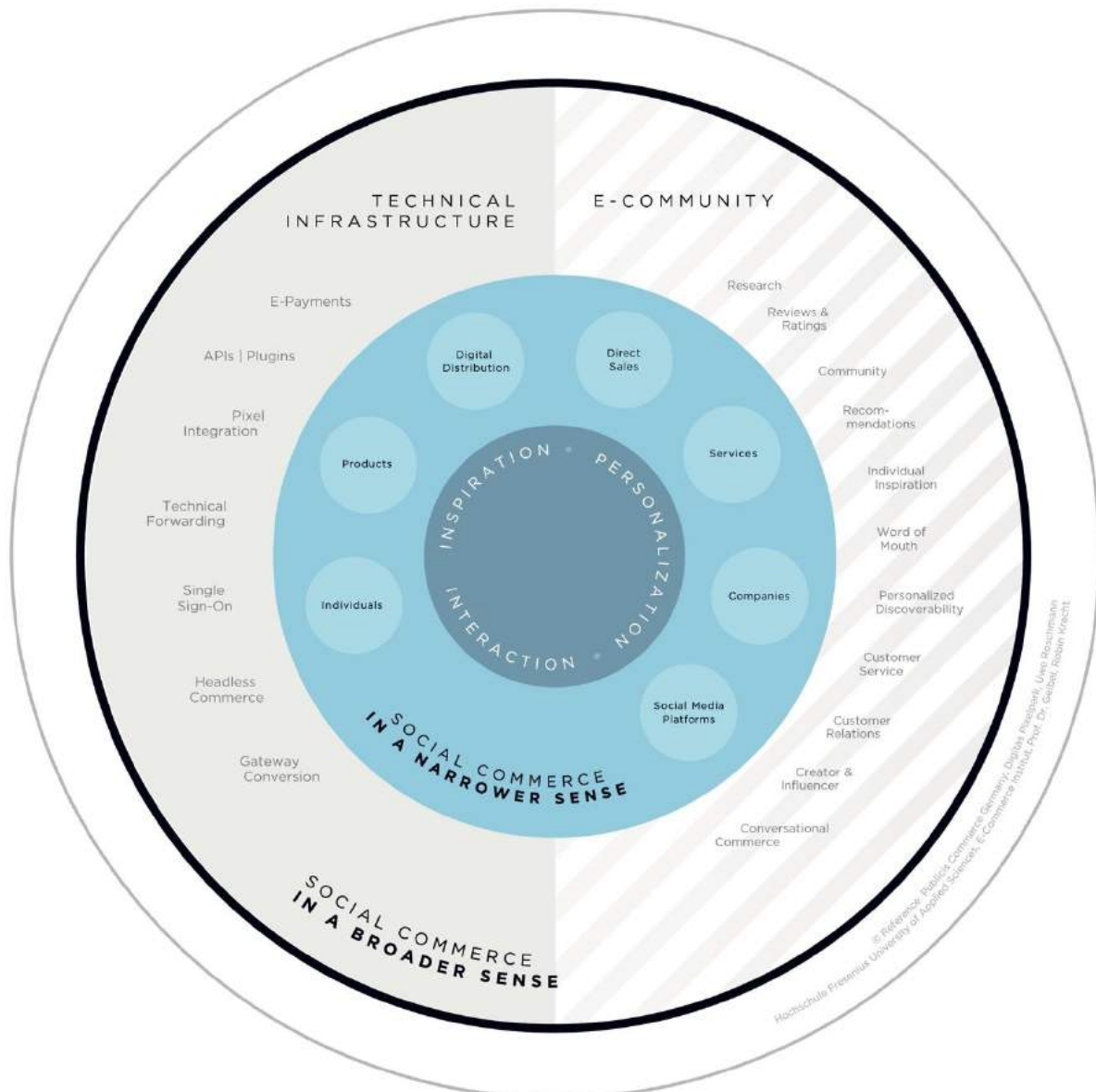


Fig. 5: Social Commerce Model in a broader sense  
(Source: Own representation)

The technical infrastructure describes any form of interfaces with social media platforms and enables a smooth sales process. The implementation of "Application Programming Interface" (API) and social commerce plug-ins is a prerequisite so that different systems can be connected with each other (e.g., the website incl. merchandise management system with the company's internal social media profile) and technical forwarding functions smoothly. These integrations are also described by the discipline of "headless commerce", i.e. the technical

independence of store backend and user front end, connected by APIs and thus flexible and infinitely scalable, including across all social platforms. Social commerce plug-ins can also be integrated directly into familiar web store solutions so that customers can, for example, "like" or "unlike" products or follow other users. This is also accompanied by e-payment methods, i.e. online payment for products and services. Once Facebook has introduced "check-out" on its platforms in Germany and Europe, at the latest, this possibility of "seamless transaction" will have a massive impact on the shopping behavior of customers and also on the sales behavior of companies - on the social platforms and via corresponding plug-ins and interfaces. Single sign-on will also make things more convenient for the user. This means that they only have to log in once and can use all the services and platforms of a company or seller without having to log in again at every step. The access data is stored in the web client.

When considering the social group or e-community (see definition in section 2.3), on the one hand a user or user group must be intensively supported and maintained before, during and after the purchase. On the other hand, these users should ideally represent free brand ambassadors for the company through high customer satisfaction and make recommendations directly to their circle of acquaintances.

The definition area "social group" is the clearest demarcation of social commerce versus other e-commerce. It is not for nothing that the terms "discovery commerce" and "community commerce" are often used in connection with social commerce as fundamental subareas or "conversational commerce" as the transaction and customer care channel that is set up, as well as the associated subdisciplines and concrete social commerce mechanisms such as "live video shopping". Beyond the technical interfaces, see also "Technical Infrastructure" in figure 5, social commerce primarily uses the strength of "social", i.e. of social networks and their mechanics. Social commerce thus creates a fundamentally new way of shopping and discovery. Shopping becomes "always on" through social commerce. Instead of customers going in search of products by themselves at a certain (need) point in time, conversely, products and brands discover their customers via social commerce - at any time. Personalization, inspiration, and interaction are the decisive keys here. The unique selling points of social commerce are discoverability and the social recommendation character that automatically goes along with "E-Community", see figure 5. Social commerce enables companies to address (potential) customers in a personalized manner according to their needs, wishes, and interests, and to provide inspiration even if a (potential) customer is not actively looking for something. For example, through one's own peer group on a social network, a user's circle of friends, as well as people, brands, or companies that a user follows, or also through creators/influencers, a purchase process can be started at any time through an individually initiated discovery and also completed directly with the same thumb movement or click. For larger and technically advanced companies, through the corresponding technical direct connection (e.g., conversion APIs or, as soon as available in Germany and Europe, e.g., Facebook Check-out), see also "Technical Infrastructure" in figure 5. For smaller companies, for example, through corresponding direct onward linking to their

own stores or to live video shopping events. However, it is not only likes, followers, and creators/influencers that make up the "discoverability" of social commerce; the algorithms, machine learning and AI of social networks can also provide users with ever new suggestions that are relevant to the individual user and let them discover new brands, products, and services. This paradigm shift "products and brands find people" instead of "people find products (that they are looking for)", the individual possibility of discovery and the possibility for advertising companies to use this "discoverability" in a scalable way and to use it specifically for their own communication, is a core definition point of social commerce.

In addition, positive ratings across all channels (e.g. Google) are important for companies to exude more trust and reliability. This applies to all companies selling products or services, B2C as well as B2B, even if no online sales are offered, but exclusively "brick & mortar" sales space. Reviews, ratings, and recommendations from a social community mean that everyone depends on social commerce to send the right messages and signals to the target groups and to be able to carry them out further – therefore, we talk about community commerce here in particular. Social commerce is therefore also relevant for companies that do not sell online at all. When carrying out social commerce sales processes, it is possible either to draw on an existing community (e.g., advertising by creators/influencers, bundled measures using micro-influencers, e.g., fans of the brand in question) or to build up a new community. However, it should be noted here that building a new community involves a lot of time and effort. For this reason, this is a common approach, especially for longer-term plans (e.g., continuous sales of products via the company's own social media channel).

Social commerce offers direct access for companies to (potential) customers, thus the opportunity for a real dialog for direct contact. Via the social platforms themselves or via messenger programs such as WhatsApp, companies and brands can get very close to their customers, talk to them individually and engage with them personally. This gives CRM and dialog marketing a whole new relevance, both organizationally in customer care via "conversational commerce" and technically using chatbots and AI to increase the efficiency of this very customer care. This not only enables personalized addressing and, if necessary, offers, but also the research possibility for companies to obtain opinions and suggestions for improvement directly from the most decisive of all target groups, namely the (potential) customers, and on this basis to improve the offer, their brand, their products, or services accordingly and to adapt them more precisely to the target group needs. Algorithms and machine learning are therefore indispensable cornerstones of social commerce.

In addition, it must be possible to easily search for the products or services. This should also function across platforms, i.e., online via various social media platforms and the World Wide Web, but also enable a connection to the offline community (where are the stores and where can the product be purchased or tested?). If this transition succeeds, the third stage of the presented social commerce definition is reached, social commerce in the comprehensive sense.

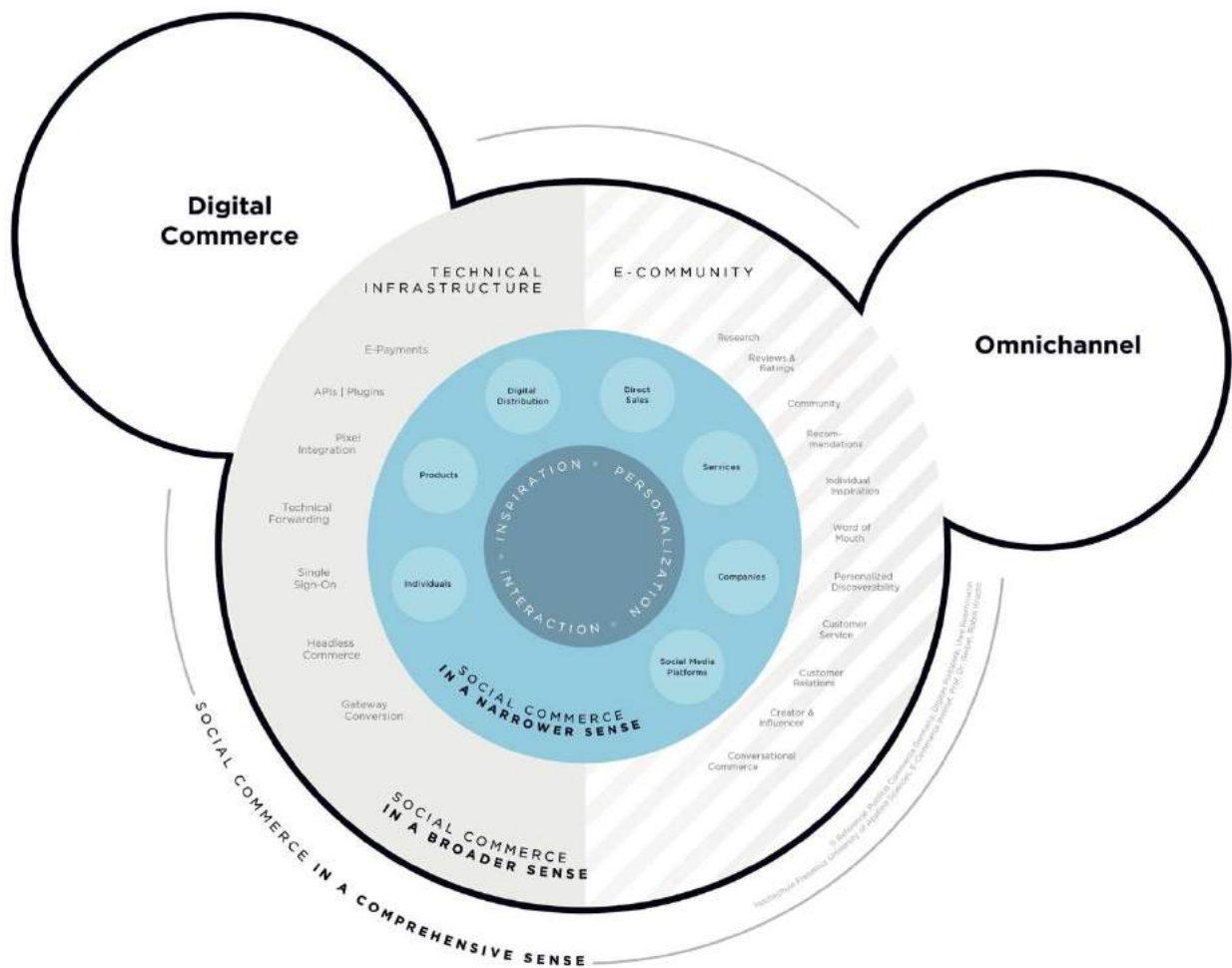


Fig. 6: Social Commerce Model in a comprehensive sense (Source: Own representation)

When differentiating between e-commerce, omni-channel and social commerce, there are not only some common features, such as the same range of functions in terms of content, but also significant distinguishing features. These become particularly clear with regard to the selected distribution channels.

Omni-channel is the most distinct from the other two, as the purchase contract can also be concluded in a stationary store and the goods can also be handed over directly. Thus, in this case, the approach or the offer of social commerce is to create the initialization of the purchase - or a further customer touchpoint within the customer journey - which then led to the conclusion of the purchase in the stationary area.

The situation is different with e-commerce, which can be divided into the area of "social commerce" on the one hand and the area of "digital commerce" on the other. In digital commerce, products and services are sold via the World Wide Web using websites or online stores, while social commerce uses social media platforms as sales channels. Social commerce in the comprehensive sense is therefore understood to mean "a full funnel communication, marketing and sales strategy for products and services fueled by personalization, inspiration,



and direct interaction, using social media platforms as well as the creation or usage of an e-community and the implementation of technical infrastructure, enabling and empowering integrated digital commerce and omni-channel approaches.”

## 4. Characteristics of social commerce

For a better understanding of this novel and important research area of social commerce, the special opportunities associated with it and also the special challenges of social commerce are highlighted below.

### 4.1 Opportunities of social commerce

The use of social commerce offers a wide range of opportunities and possibilities that offer considerable potential, especially with a view to Generation X, Y and Z.

The characteristics listed below are necessary prerequisites for a successful strategy and implementation of social commerce.

Trust (in product, company and especially in brand ambassadors)
Recommendation Marketing - Influencer
Direct linking to product purchase
High inspirational power to buy products
Word of mouth
Ease of use
Immediate conversion
Uncomplicated buying process

Tab. 1: Opportunities of social commerce.

(Source: Own representation)

### 4.2 Challenges of Social Commerce

The field of social commerce cannot be viewed in an exclusively positive light. This is because there are also challenges in this subject area which make implementation more difficult and require special expertise.

In addition, a look at data sovereignty is also indispensable, because the social commerce approach allows the powerful social media platforms to collect further customer data and further expand digital customer profiles. The behavior of online users, especially with regard to purchasing activities and preferences, can thus be tracked even better.

Building trust
Contacts to conduct affiliate marketing (especially with brand ambassadors)
Intensive use

Process knowledge / high level of know-how to carry out affiliate marketing
Data sovereignty - who owns the data, what data is stored, what happens with this data (resale?)
To what extent are GAFAs strengthened by this trend? What else can they do with the increasing power?
Will there be fewer and fewer online players because GAFA is buying up technology and promising companies directly? (See Facebook with WhatsApp and Instagram).
What is the danger for customers? Is the customer really the focus or are they only treated "well" until the purchase is completed?

Tab. 2: Challenges of social commerce.

(Source: Own representation)

## 5. Application examples

In the meantime, impressive examples of the application of s-commerce can be found sporadically in the literature, but especially in operational practice. These include:

### 5.1 Mr. Beast Burger

- Launched with a viral marketing campaign (300 eateries opened in one day).
- 22-year-old YouTuber is the face of restaurants - he has more than 70 million subscribers on YouTube with different Accounts
- Company's app reaches #1 on the app store charts, generating over \$15 million in sales within 48 hours.
- Very well-known partners (Robert Earl - Hard Rock Cafe and Planet Hollywood) help with infrastructure and organization
- Immense reach (celebrities share it).
- Low fixed costs (virtual restaurants, just for take-away and delivery).
- Connection with an app - there can be pre-ordered

### 5.2 Cluse

- Watch manufacturer
- Very successful on Instagram
- Many collaborations with well-known influencers (also in Germany)
- User-generated content is an overriding goal (purpose is distribution)

### 5.3 Under Armour

- Sports apparel
- Work with influencers and also run a lot of ads
- It is important to UA that the ads do not look like advertising. Therefore, the campaigns often feature people in action - so the end customer thinks at first glance

that he is looking at a normal photo and video. This is how he should then be made aware of the products.

## 6. Outlook

The field of social commerce has recently become increasingly important. Reasons for this include:

- Increasing internet & social media usage
- Mobile First Trend
- Generation Z
- Coronavirus pandemic
- Increased share of home office
- Functional expansion of social media platform
- Significant IT technical advancement in electronic purchasing processes.
- Virtual reality and augmented reality
- Technological progress in social media platforms (Pinterest visual search: the end customer takes a photo of a product and then the platform displays exactly that product and similar ones)
- Network expansion towards 5G
- Urbanization and optimization of the last mile (new last mile concepts - e.g. delivery by drone)

These aspects will be examined and presented in more detail in the next version of the Working Paper on Social Commerce. In addition, the trends will be prioritized and the effect of each trend on social commerce will be described.

### 6.1 Strategic checklist

For the successful implementation and realization of social commerce in the German market, companies and individuals must fulfill various strategic criteria. These must be continuously reviewed and measured (e.g., using Facebook Business Manager) and optimized and expanded in order to remain competitive. In the following, strategic characteristics are listed that are indispensable for successful implementation in one's own business areas. It is important to ensure that the criteria listed are in line with strategic corporate goals.

	Mr. Beast Burger	Cluse	Under Armour
Brand logo as profile picture			
Meaningful bio with icons & coupon code if applicable			
Designate head of social commerce to shorten coordination processes			
Don't use standard fonts - stand out from the crowd			
Share different content (images, videos, live videos, stories)			

Generate reach (with more than 10,000 followers, the swipe up feature is possible)			
Content should not just be about the company's product or service			
The content must be of high quality (high resolution of the shared content)			
Use uniform filters for the images or use different filters that have the same style so that the account is representative.			
Implement story highlights in the profile so followers can access more information directly.			
Perform actions that generate UGC (user-generated content).			
Establish own hashtags			

## 6.2 Technical checklist

In addition to the important strategic criteria, the technical criteria are a basic prerequisite as well as a basic building block for sustainable success in the area of social commerce. It is important to understand how the technology works and how to use it, and to have the know-how within the company to enable an increase in sales. The effort required for technical implementation also depends on the selected social media platform on which the offer is to be made available.

	Mr. Beast Burger	Cluse	Under Armour
Open a social media channel and turn it into a business profile			
Enter information about the company (address, phone number, e-mail, URL to the website)			
Use Linktree or similar (multiple links thereby possible, e.g. to press releases, podcasts, landing pages with special offers, etc.)			
Integrate Instagram Shopping (include products in the social commerce store).			
PCs and mobile devices must be technically up-to-date (updates)			
Include link to imprint (mandatory)			
Website, which is currently still necessary for the conclusion of the purchase, must			

function technically smoothly (purchase process, payment method, etc.)			
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### 6.3 Limitations and restrictions

- A very current topic, where it is not possible to foresee which additional functions and possibilities will occur in the next development steps - The direction for the future is currently not yet completely clear
- Legislative changes must be made in order not to block development, but also to protect users
- Only three application examples were considered, therefore only a low significance for the time being
- Since there is still no generally accepted definition of the term social commerce, the definition space itself was outlined and described in this work.
- The results are based on a first small survey and need to be further validated by a larger data set.

### 6.4 Future Research

- Increase the number of "case studies or application examples".
  - To check if the definition is generally valid
  - To have a higher comparability
- Examine different industries within social commerce (jewelry / clothes / food / services)
- Analyze individuals and companies separately

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