DECODING Location Based Marketing:

A check-in on "check-ins"

Usage rates for social location platforms are relatively low – a truth that holds even when looking only at young social media users. But there are signs this could possibly change, and pockets of relatively high usage where population density is high in the U.S. More importantly, a core feature of many social location platforms – "checking in" – points towards a remarkable opportunity for companies to both deepen customer relationships and prove ROI by reversing a long-term trend of increasing anonymity in real-world shopping experiences. In the summer of 2011, DECODE commissioned a study of young mobile devices users in Canada that includes insights into what does, and could, motivate them to "check in." Our key findings include that discounts and loyalty points rule; sharing with friends doesn't matter; and offering enhanced service could be a key growth opportunity.

By: Denis Hancock
Lead Strategist, DECODE
Denis@decode.net
@denisbhancock

Introduction

A relatively small subset of the population uses social location platforms like Yelp and FourSquare. This truth is evident even when focusing only on young (15 – 34 year old) social media users, and holds in each of the U.S., U.K. and Canada, as we verified in our 2010 study DECODING Digital Friends. However, one particularly interesting element emerged when we dug further into these usage patterns. In the U.S., the population density of where one lives plays a significant factor in determining usage rates of both Yelp and FourSquare (and to a slightly lesser extent, Twitter); in contrast, it has almost no impact on usage rates of platforms like Facebook and YouTube.

Within our sample of young social media users, adoption rates for Facebook were about 90% - which held remarkably consistent whether respondents lived in small towns, large towns, big cities or major cities. YouTube was very similar, with only a slight uptick is usage in places of higher population. The steadiness of these responses makes the differences that followed particularly interesting.

In major cities, Facebook was approximately two, three, and four times more popular than Twitter, Yelp and FourSquare (respectively), demonstrating Facebook's dominance, but showing definite signs of strength for the other platforms. In small towns, the similar relative popularity numbers were three, eleven, and fourteen (see Figure 1), demonstrating far greater dominance for Facebook, and the almost non-existence of the latter two platforms in the lives of small town social media users. Large towns and big cities fall in-between, in a way that creates a clear trend line.

Figure 1. Relative usage rates of Facebook vs. other social platforms – small towns vs. big cities
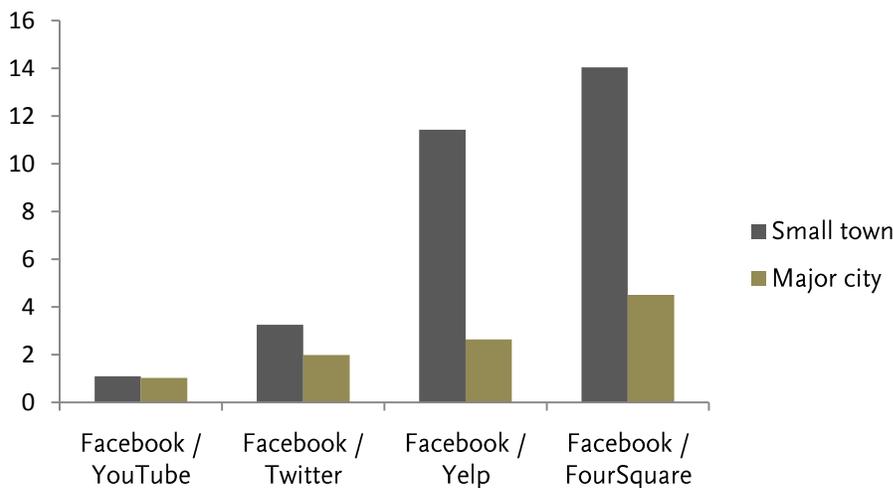
One implication for companies targeting young, urban consumers is that the importance of such platforms might be far higher than they think, particularly if the usage data they focus on includes a relatively large sample of people living in towns. But what it could mean for the future is far more important.

Alternative hypotheses on the future of social location platforms

The data referenced above, and other analysis, pointed towards two particularly interesting, and competing, hypotheses. The first is that urban youths in the U.S. are to social location platforms what university students were to Facebook - the early adopters who proved to be leading indicators of how other people would use the platform. Evidence pointing in this direction would include that major urban areas are clearly where such platforms have focused their early development efforts, and that the relative usage data (progressively lower relative popularity of YouTube, Twitter, Yelp, and FourSquare) points towards a possible "maturity curve" where platform usage evolves over time.

The alternative hypothesis is that social location platforms will be a mostly urban opportunity, due to value being a function of choice. The argument here would be that platforms like Yelp and FourSquare are far more useful in places where friends could be at (say) any of a 500 restaurants or bars, than in a place where they might only have three to choose from. Similarly, review sites like Yelp are more useful if you have a large and constantly changing set of options. In this scenario, marketing strategies for big-city consumers would have to diverge farther from those designed to reach their counterparts living in towns. Moreover, as we detailed below, the amount of information brands can leverage in relation to big city customers – which can provide the foundation for deeper and more profitable relationships – could eventually be far greater than what they have for other customer groups.

Which (if either) direction the world might go is a debatable point – and could have an large impact on the scope of the opportunity tied to social location marketing. At the center of it all is the act of "checking in," and how it connects to improving customer relationships.

Why it matters: the connection between "checking in" and better customer relationships

In addition to usage differences, DECODE's survey data pointed towards behavioral differences in relation to how purchase decisions are made. For example, those living in big cities are much more likely to indicate their purchase decisions were influenced by recommendations received by "friends of friends" than their small town counterparts, to a degree that can't be explained by the relatively minimal difference in the sizes of their online social networks (see Figure 2). This has implications for assumptions people may have related to the relationship between customer loyalty and word of mouth marketing – particularly that people only act on recommendations from people they know well.

Figure 2. Broader networks influence purchase decisions in major cities
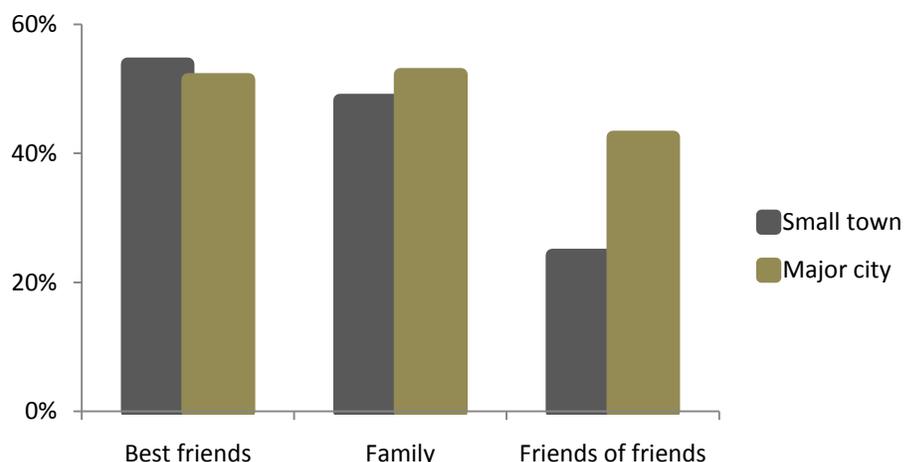
Note: The x-axis represents the source of recommendations people receive digitally. The y-axis represents the percentage that reported each source impacted their purchase decisions with these recommendations. Social media users in major cities were almost 2x as likely to report being influenced by "friends of friends" than those in small towns. By way of comparison, their total number of Facebook connections was only 1.2x greater.

But more important is the core behavior tied to FourSquare, and newer platforms like Facebook Places – the simple act of "checking in." This process includes the revelation of one's identity, and does so prior to any purchase decisions that might be made (as opposed to payment methods or loyalty programs, where identity may be revealed once a purchase is complete). This subtle change points towards the opportunity to impact purchase decisions at the point of maximum impact – and forge deeper, more profitable relationships with customers. In doing so, it could reverse a multi-decade trend of de-personalizing the retail shopping experience.

Reversing the trend toward anonymity in "real world" shopping experiences

The long-term trend in the "real world" retail shopping experience has been a movement away from personalized service (think: mom & pop shops) to anonymous transactions (think: big box stores). A key reason this trend has taken hold relates to keeping costs low, which is the key driver of how many consumers make their purchase decisions. Pursuing economies of scale, and relatively low wages (and the accompanying high turnover rates) for front line staff, are both a part of this development.

Online, the trend in relation to anonymity has been in the exact opposite direction, at an accelerated rate. Early on, many focused on the anonymous nature of the web, most famously captured by the New Yorker cartoon caption "online, nobody knows you are a dog." But over time, particularly because of platforms like Facebook, an ever-larger group of people are volunteering ever more information about themselves, and various analytical tools can learn that much more about them. Because of this data, the

trend of personalization – on everything from book recommendations to the advertisements one sees – continues to develop online.

Web-enabled mobile devices have the potential to be the conduits between these two worlds – bringing personalized service back to the real-world shopping experience. And because the consumer data is held in a server (or "the cloud") instead of mom or pop's head, it can be used in a way that doesn't necessarily impair economies of scale, or require a substantial change to the employee base. Moreover, it can be analyzed to potentially figure things out that mom or pop never could.

Within this world of possibility, the act of "checking in" is crucial - it's much harder to personalize something for someone if you don't know who they are.

Pursuing the elusive ROI of social marketing

Marketers focused on "social" platforms are under increasing pressure to prove ROI, and for many it remains a struggle. But to keep this in perspective, many marketers have long struggled to prove their ROI. More importantly, proof requires data that links action to consequence – and the type of data that could potentially be created and integrated around social location platforms points towards a future where an accurate ROI measurement is a very achievable goal.

In this future scenario, when a person "checks in," you definitely know when they arrived at a certain location. You might know quite a bit about them (think: social CRM), possibly including information they received prior to arrival. And if payments through mobile devices are to become pervasive, they might just use the same device they "checked in" with to make their purchase – or at least to collect loyalty points. That combination of information, scaled across a customer base, is of obvious value in determining ROI, as it speaks to who, when, where, and what.

True, many issues have to be sorted out for that data to all be connected together – hence the frequent appearance of "may," "might," and "possibly" above. But the fact that it could puts this form of marketing in better stead than many other methods, where the data is often limited, difficult to connect with other data, or simply doesn't exist. And it might help explain to skeptical senior executives why social location initiatives could prove compelling.

Why do – and might – young people "check in"?

In the summer of 2011 we commissioned a survey (DECODING Mobile Consumers) in Canada that provides some interesting insights into a number of issues and opportunities around location-based marketing, including what does – or might (for people that don't do so today) – get people to "check in".

All (500+) respondents were in the 15 – 34 age bracket, and were mobile device users. Key findings include:

- Discounts and coupons dominate
- Sharing with friends doesn't matter
- Offering enhanced service may be an opportunity

Below, we summarize some of these initial findings, and provide examples of key differences that exist based on gender, and current usage of social location platforms.

What interests young people in "checking in"

Early adopters of social location platforms are not only a small segment of the population, their motivations may not be representative of what the rest of the market is interested in. In turn, within our survey we worded the question around "checking in" in a way that even someone unaware of what it was could respond. We also framed it in a way that made clear that the process involved sharing information about oneself with a business, as this information exchange is critical to the opportunity of influencing decisions at the point of impact. Finally, we allowed respondents to choose up to 3 options from a list of 7 (plus an exclusive "none of the above" option), in order to get a clearer read on what respondents were *most* interested in. This creates the possibility that actual interest levels in each option are actually higher (i.e. some people might be interested in everything).

How the options were ranked by our respondents was:

1. Discounts / coupons
2. Loyalty points
3. "Skip the line"
4. VIP Service
5. Enter a contest
6. None of the above (exclusive)
7. Support a charity
8. Tell your friends

The ability to get immediate discounts (65%) and collect loyalty points (47%) were by far the most popular options; the opportunity to tell your friends where you are, or support a charity (11% each) were by far the least popular. This provides further evidence to indicate that what motivates behaviors on "social" platforms often isn't social at all (a trend that was also evident in our DECODING Digital Friends study), and in many ways have not changed very much at all from what has long been used to influence consumer purchase decisions. It also indicates altruism is very low on the priority list for young mobile phone users when shopping.

Following this line of logic, one might assume that contests would be highly ranked as well, as the possibility of winning a valuable prize has been frequently (and effectively) used to entice consumers to

do many things both on and offline. But instead it came fifth (at 25%), below two options representing forms of enhanced service - "skip the line" and "receive VIP service" (approximately 30% each).

Given that the ability to provide certain forms of enhanced service is an advantage real-world retailers clearly hold over most virtual ones, this points towards a potential (and generally untapped) opportunity many marketers could consider in relation to social location platforms. And it turns out there are certain segments of young mobile device users that are more interested in enhanced service than others.

Gender divide: loyalty points vs. VIP service

The ability to collect loyalty points was more popular than VIP service (or "skip the line") for both men and women. However, the relative popularity was quite different. Men were only about 10% more likely to be interested in loyalty points than VIP service, while women were 25% more likely. In other words, men reported a much higher interest level in enhanced service options than women (see Figure 3).

Figure 3. Gender divide – loyalty points vs. VIP service
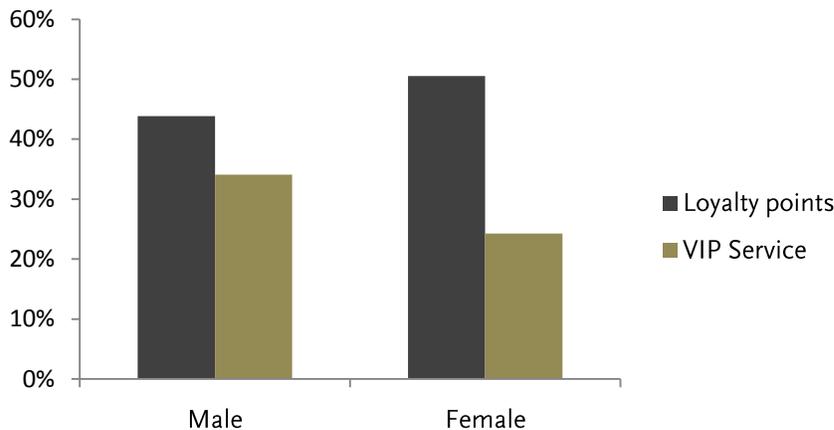
Part of the explanation is likely that women are simply more interested in loyalty programs in general. The survey data also indicates another explanation – women are more likely to be interested in contests than men (in fact, contests were ranked #3 for women, above both service options). This high level of interest in contests was also seen in our DECODING Digital Friends study of social media users, where not only were Canadian women far more interested in them than Canadian men, they were also far more interested in them than women from the U.S. and U.K.

Social location usage chasm: tell your friends vs. VIP service

As noted earlier, sharing with friends proved to be very low on the interest list in relation to "check ins." However, the relative popularity of this activity varied greatly based on current usage levels of social location platforms like FourSquare and Facebook Places. Among heavy and regular users of such platforms, sharing information with friends was cited by approximately 25% of the sample. Among light users, only 7% cited it.

Interestingly, much of where the interest shifted to was VIP service – cited by 29% of heavy users, but 43% of light users. Put another way, amongst heavy users "receiving VIP service" and "sharing with friends" were of almost equal interest (3% difference); amongst light users, there was a large gap (36%), in favor of VIP service (see Figure 4).

This provides some strong evidence that more service-related offerings might increase usage of the platform – and the ability to share with friends will not. Given that most major social location platforms have sharing with friends as a key and highly visible part of their value proposition, this latter point also might help explain why adoption remains relatively low.

Figure 4. Social location platform usage chasm: loyalty points vs. tell your friends
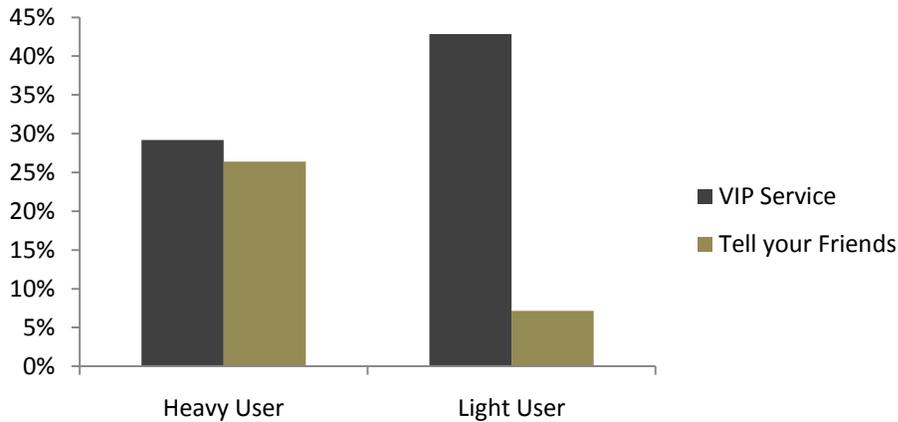
Conclusion

The long-term trend in the "real world" shopping experience has been a decline in personalized service, as most vividly represented by mom & pop shops being replaced by big box stores. Most people are simply anonymous consumers when in the process of making purchase decisions in this context. But at the same time, many brands dedicate an enormous amount of energy and resources trying to create and maintain "relationships" with their customers. They often fail – and a complete inability to connect at the point of maximum impact might be part of the problem.

Today, "checking in" is a rather niche activity for a sub-segment of people interested in using such platforms. But this shouldn't distract companies from the potential it holds. The act of "checking in" allows for the revelation of a customer's identity, before they make a purchase decision. With just a modicum of imagination, it's not hard to picture this revelation to be connected to fairly detailed customer data sets, messages that they have previously received, and what they eventually buy – all of which can provide the foundation for deeper and more profitable customer relationships.

Our survey data indicates that the ability to share location information with friends isn't what's going to draw people to these platforms. Instead, more traditional – and tangible – rewards, like coupons and

loyalty points, are of far higher interest. And when you dig a little into the data, there are signs that offering some enhanced service might be an effective method as well, particularly in relation to men and light (or non) users of social location platforms. This should be of particular to marketers that are reluctant to dilute their brand through regular discounting, as it could be a path to building true relationships with key customer segments – without sacrificing things like economies of scale.

About this report

Denis Hancock is a lead strategist for **DECODE**, a strategic consultancy focused on helping clients understand, engage, and influence young people. This report is based on **DECODING MOBILE CONSUMERS,** DECODE's June 2011 survey of 15-34 year old mobile device users in Canada, and is being distributed in partnership with the **Location Based Marketing Association (LBMA).** For more information related to this survey, previous studies like **DECODING DIGITAL FRIENDS** (2010), and upcoming studies like **DECODING DIGITAL CONNECTIONS** (late summer 2011) and the **LBMA / DECODE INTERNATIONAL LOCATION BASED MARKETING PROGRAM** (TBD), please contact Denis (denis@decode.net).

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