

Schumpeter | Too much buzz

Social media provides huge opportunities, but will bring huge problems



THE only area of business that seems to be recession-proof is social media. Industrial firms are battenning down the hatches. Banks are tossing thousands of workers overboard. But Facebook is looking to raise \$10 billion for a small fraction of its shares when it goes public in 2012.

A recent conference in Madrid, put on by the Bankinter Foundation of Innovation, captured the enthusiasm. The assembled cyber-gurus argued that “social technologies” that allow people to broadcast their ideas (eg, Twitter), or form connections (eg, LinkedIn), are some of the most powerful ever devised. They can be supersized quickly, linked together easily and spread by customers. And they can be accessed from almost anywhere. Two billion people are already online. E-commerce sales are \$8 trillion a year. So, the argument goes, this more “social” element to the internet is the next great revolution. Over-caffeinated cyber-champions talk of “empowerment” and “transparency”. But is all this as wonderful as it sounds? Or is it a new bubble in the making?

The great virtue of social technologies, say their boosters, is that they break down the barriers between companies and their customers. They allow firms to gather oodles of information: big companies now obsessively monitor social media to find out what their customers really think about them. Social media also allow companies to respond to complaints more quickly: firms as different as Chrysler and Best Buy employ “Twitter teams” to reply to whinging tweets.

More information ought to be useful, but only if companies can interpret it. And workers are already overloaded: 62% of them say that the quality of what they do is hampered because they cannot make sense of the data they already have, according to Capgemini, a consultancy. This will only get worse: the data deluge is expected to grow more than 40 times by 2020.

Responding quickly to bitter tweets sounds like a nifty way to soothe angry customers. But there is a risk that companies will concentrate on a handful of activists (who tweet a lot), while neglecting average customers (who don't). They may also ignore non-customers (who are the biggest potential source of growth) and the elderly (who seldom tweet). Many firms think that they can improve customer service by using social media to respond to complaints quickly. Really? It is already virtually impossible to

talk to a real person on the telephone. Will it be any easier online?

Undaunted, cyber-enthusiasts maintain that social technologies are shifting power from a few Goliaths to many Davids. Ordinary people can easily broadcast their opinions and extend their networks. Big firms have to adjust to this new reality or go under. (As the digerati put it: “All businesses will end up looking like the internet.”) But big firms can use social data to add to their already formidable influence over the consumer: Ford, PepsiCo and Southwest Airlines monitor postings on social-media sites to gauge the impact of their marketing campaigns and then adjust their pitch accordingly. And some of the most successful internet-savvy companies, such as Google and Microsoft, are as secretive about what they do as any old-line company.

The “Army of Davids” argument—to borrow a phrase from Glenn Reynolds, an American blogger—is often applied to politics. For example, Ilya Ponomarev, a member of the Russian Duma, argues that social media make it easier for protesters in Russia to organise. (Russians spend more time on the internet than western Europeans, not least because they have no faith in state television.) This is true, but the secret police in many countries are equally excited about technology. New tools allow them to eavesdrop retrospectively, and to trace networks of dissidents. During the Egyptian uprising the advantage was clearly on the side of the dissidents, since the Egyptian secret police were digital dullards. But this may not be the case in China, where the regime's online snoops are highly sophisticated.

Cyber-enthusiasts gush about the way social media help entrepreneurs. They have a point: disruptive technologies reconfigure old businesses and create new ones. Facebook could let companies aim their ads more accurately. Firms are starting to use internal social-networking tools, such as Yammer and Chatter, to encourage collaboration, discover talent and cut down on pointless e-mails. Youngsters are happy to embrace it, but older managers may be less keen. The use of social media within companies could be quite disruptive to traditional management techniques, particularly in strongly hierarchical firms.

Dreaming up new companies is not terribly difficult: at the conference Andreas Weigend, the founder of Social Data Lab, came up with the idea of “another person's hat”; a product that allows you to don the digital identity of, say, an Islamic fundamentalist and see what the world looks like through his eyes. This sounds neat, but some of the new social-media technologies have a clown-suit quality to them. They are amusing the first time, but rapidly become tedious.

A new medium: neither rare nor well-done

Most commentary on social media ignores an obvious truth—that the value of things is largely determined by their rarity. The more people tweet, the less attention people will pay to any individual tweet. The more people “friend” even passing acquaintances, the less meaning such connections have. As communication grows ever easier, the important thing is detecting whispers of useful information in a howling hurricane of noise. For speakers, the new world will be expensive. Companies will have to invest in ever more channels to capture the same number of ears. For listeners, it will be baffling. Everyone will need better filters—editors, analysts, middle managers and so on—to help them extract meaning from the blizzard of buzz. ■