

Rock Island Chocolate Company, Inc.: Building a Social Networking Strategy

“Look at this! What should we do about it?” exclaimed Seymour Burris, Jr., the President and CEO of the Rock Island Chocolate Company (RICC), as he walked into the office of his Director of Information Systems, Charlie Tunista, on Tuesday morning.

Burris handed a piece of paper to Charlie. (See Exhibit 1.) “One of my kids found this on the Internet last night. It’s horrible! It says all kinds of nasty things about Rock Island . . . and me! This could be very harmful for our company, especially when we are trying to raise our next round of venture capital funding.”

Charlie read the document and found that it was the latest entry in a blog about RICC. As he thought about the nature of the contents, he guessed that it had to have been generated by a former employee as it contained some non-public information about the company.

“I want you to find out how much negative stuff about our company is out there. And while you are looking at how to handle this blog problem, what do you think about all this social media that I have been hearing about—especially Facebook and Twitter? Should we be doing something in this area? I’d like to have some ideas for dealing with the blog problem, as well as preliminary ideas

about a RICC social media strategy, for discussion at our management meeting next Monday,” said Burris.

“Will do, boss,” replied Charlie, having no idea what he was going to do or what he thought the strategy for RICC should be. Charlie knew that he had his work cut out for him, including catching up with what others companies were doing about social networking. (Exhibit 2 contains some background information on the social networking industry.)

The Rock Island Chocolate Company

Seymour Burris, Jr., founded RICC in 1997 while working at the local U.S. Army facility in Rock Island, Illinois. Initially, the company operated a small specialty retail store in a formerly vacant building in a small strip center near downtown Rock Island. Seymour worked part-time in the store, while his wife, Lottie, worked full time at the store. Until 2000, they sold chocolates they purchased from distributors in Chicago and sold them loose or packaged them for special occasions. RICC was able to break even in 1998 on revenue of \$568,000. Business revenue grew to nearly \$700,000 in 1999.

In late 2000, Seymour received notice that he was the heir to a series of carefully guarded recipes for various

Belgian Chocolate Online, a division of Rock Island Chocolate Company

Wife orders chocolate and pays the expensive three-day express shipping with the caveat that, if we’re not there to sign for the package, it gets shipped back to the company at our expense. We stay home for five days waiting and nothing arrives. Wife then queries via e-mail. Response is it’s not their fault as the importer has delayed it. Wife responds suggesting they should have told us so we don’t sit home and wait. Their response is to cancel the order. Wife then asks to be notified when her money is returned to her bank.

Then she receives a snotty answer in a German language, which we understood. Wife sends back that if they want to do business in America, they should try using English. The manager comes back with “&%\$#@&” in German!

I wrote to the CEO of RICC and he said he’d investigate but never responded further.

If you like chocolate and you like being cursed out, then this is the company for you!

Ralph
Lehigh Valley, Florida
U.S.A.

EXHIBIT 1 Contents of a Blog about Rock Island Chocolate Company, Inc.

Copyright © 2010 by Stephen R. Nelson and Daniel W. DeHayes. This case study was prepared as the basis for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

In the 1980s, technology firms began to provide instant communication among “communities of interest” through subscription-based online services such as America Online. To implement these technologies, a subscriber installed a proprietary communication software package provided by the service provider on his or her personal computer. This package established the necessary communication sessions with the provider’s computer network and supported electronic communication, including e-mail. This business model was very difficult to sustain as the service provider had the responsibility of providing end user support for its proprietary software in a constantly changing environment of PC hardware, software, and operating system combinations.

The advent of the Internet did little to resolve these issues, but in an effort to make the Internet easier to use, the Web browser was developed. Dozens of early browsers were created by the early 1990s, and the first commercially viable browser was Netscape Navigator. By 1999, Navigator was overtaken by Microsoft’s Internet Explorer, which had a significant advantage because it was distributed with Windows. The browser simplified the user interface and created a standard platform for content, freeing service providers from the ongoing support cost of maintaining a proprietary communication software package. By 1997, with the power of Web browsers and the growing content on the Internet, the Internet reached an estimated 120 million users. That number had grown to over 1.7 billion users by 2009.

The creation of Web browsers in the 1990s made it easy to *access* content on the Internet. However, it was still a relatively complex task, particularly for novice users, to *create* content on the Internet. Social networking technologies allow users to easily create and share their own content on the Internet in lieu of creating a Web site. Facebook, a very successful example which was launched in 2004, allows one to create a profile; add photos; invite people to become “friends” and connect; and carry out microblogging—short, yet frequent, posts about whatever interests the user. Facebook gained over 100 million users in 2009 alone—a 145 percent growth rate within one year. According to co-founder, CEO, and President Mark Zuckerberg, Facebook achieved 500 million users on July 21, 2010 (Zuckerberg, 2010).

In addition to Facebook, there are several other popular social networking sites. MySpace, launched in 2003, is similar to Facebook although it has a focus on music; it includes MySpace Music, a joint venture with music labels. MySpace tends to be dominated by high schoolers. MySpace became the most popular social networking site in 2006 and stayed in the lead until 2008, when it was overtaken by Facebook. DoubleClick Ad Planner by Google estimated that MySpace had 65 million unique visitors in June 2010, compared to Facebook’s 540 million. Despite this disparity, MySpace still appears to be the third ranking social network. Moving into the number two spot is Twitter, an easy-to-use microblogging service preferred by a youthful user base. Twitter was launched in 2006, and now claims 190 million users (Schonfeld, 2010). That figure might be high, as DoubleClick Ad Planner by Google estimated that Twitter had 99 million unique visitors in June 2010; another source, ComScore, estimated that Twitter had 83.6 million unique visitors in May 2010 (Schonfeld, 2010). Twitter microblogs, known as tweets, are text-only messages of up to 140 characters that are posted on the author’s Twitter page and delivered to the author’s subscribers, known as followers.

LinkedIn, another popular social networking site, is used more heavily by business professionals seeking business networking opportunities—including searching for jobs and seeking employees. LinkedIn, founded in 2003, had over 70 million members around the world as of May 2010 (LinkedIn, 2010). Other popular social networks include Flixster, which focuses on movies, allowing users to share movie reviews and ratings with friends, providing movie clips and trailers, and hosting photos of actors; Tagged, which is all about games; and Classmates, which helps members find, connect, and keep in touch with friends and acquaintances from elementary school, high school, college, work, and the United States military.

In January 2009, Compete.com—a Web traffic analysis service—listed the top 25 social networks in terms of monthly visits. Facebook ranked number one, with almost 1.2 billion visits, followed by MySpace with 810 million visits and Twitter with 54 million visits. Flixster was number four with 53 million visits, Tagged was number five with nearly 40 million visits, and Classmates was number six with 35 million visits (Kazeniak, 2009). In the time that has passed since that set of rankings, Facebook has continued to grow rapidly, MySpace has actually fallen slightly, and Twitter usage has exploded to take over the number two spot by most measures.

EXHIBIT 2 The Social Networking Industry

versions of chocolates made in the Belgian style—very rich, very creamy, and sweeter than most other European or American-made chocolates. He was able to work with a baker in Rockford, Illinois, to produce several small runs of his new type of chocolates. The first batches sold quickly, and in a few months Burris found that there was a

growing demand for Belgian chocolates among the residents of the Quad Cities.¹

Starting in 2001, RICC began to ramp up the manufacturing of its own brand of specialty chocolates, using the formulas he had inherited. Burris purchased some equipment and leased manufacturing space in the same retail complex as the store. The purchases were financed via a 5-year loan from Quad Cities Bank and Trust and two angel investors. He next obtained licenses to use

¹ The Quad Cities area in the mid-Mississippi Valley includes the cities of Rock Island and Moline, Illinois, and Davenport and Bettendorf, Iowa.

university logos from four local and regional universities on boxes of chocolates, which added additional products that were sold in the store and via the Internet to individuals and companies all over the world.

In 2002, RICC began to wholesale its line of chocolates to gift basket companies, coffee shops, gourmet food stores, and other specialty candy stores throughout the country. Revenue grew steadily from 2002 until achieving a level of \$10,600,000 with nearly \$2,000,000 in profit in 2009. Burris was the recipient of the Entrepreneur of the Year award at his alma mater in 2009. Burris was convinced that his company had developed something special with its line of Belgian chocolates and set his sights on achieving a \$20,000,000 company by 2014.

In January 2010, Burris presented the business plan for RICC to the Quad Cities Venture Capital Club, a membership organization of about 50 people interested in raising capital for growth or investing in promising smaller companies. Burris was somewhat surprised that several venture firm representatives came up to the podium after his talk and asked for a copy of the RICC business plan. Over the next few weeks, Burris hosted visits by four venture firms at RICC's headquarters, showing them the retail store and the manufacturing operation. Each of the company representatives encouraged Burris to think even bigger than creating a \$20 million company. They each stressed that his firm should be able to reach at least \$50 million in revenue if the marketing and brand-building of RICC were done correctly.

The Specialty Chocolate Industry

A chocolate manufacturer buys and roasts cocoa beans and grinds them into chocolate. There are lots of chocolatiers who make confections from bulk chocolate, but there are very few chocolate manufacturers as the process is difficult, costly, and requires specialized equipment and knowledge.

Many chocolate manufacturers differentiate their product by the method they use for extracting the cacao "butter" or fats from the beans. The traditional method was boiling the chocolate and skimming off the fats. Coenraad Van Houten invented and patented a press in 1828, later used and perfected by Domenico Ghirardelli in San Francisco. The Swiss had the idea of mixing milk with the chocolate, but they found it impossible to do until they started the process by removing nearly all of the water from the milk. Milk chocolate was created in 1875 by using Henri Nestlé's "condensed" milk.

The specialty, or "fine," chocolate industry includes many firms from the giant Ghirardelli to tiny Kailua Chocolate Co. on the Big Island of Hawaii. Like breweries in

the past, historically they have been bounded by geography in terms of distribution and brand awareness. The industry is broadly believed to exceed \$2.5 billion in annual sales in the United States alone. Industry trade publications estimate that the segment is growing by 10 to 20 percent each year as young professionals are attracted to designer confections in much the same way as happened with wine, bread, olive oil, tea, and coffee during the first decade of this century.

The term "fine chocolate" literally refers to the fineness of the cacao and sugar particles within the chocolate. Any manufacturer of fine chocolate should have the necessary machinery to refine chocolate until it has a very smooth texture—something that can objectively be referred to as "fine."

Specialty chocolate manufacturers are usually small shops. They focus on obtaining the best cacao beans they can find, often dealing directly with small growers. Then they process the chocolate using specialized machinery, chosen specifically for the task, in order to create a unique taste. The most successful ones are able to communicate the special flavor of their products to the chocolate-loving public by pointing out the uniqueness of their products and the relevance of their approach to chocolate.

Charlie's Investigation

Charlie began his investigation on what to do about the blog and social networking strategy later in the morning with a phone call to a former undergraduate classmate. "What's the big deal?" said Russ Nelson, the IT director of a local specialty popcorn company. Russ went on:

Rock Island and Every-Kernel Popcorn already have Web sites. Customers can read about our products and even order them online. RICC is a small company. Why spend the money for potentially nothing in return? Social networking is fine for communicating with your old college roommates or building a network in case you need to change jobs, but I don't see the value for a company with only a few million in revenue. As a matter of fact, I have blocked access by our employees to the social media sites like Facebook at work. We don't want them wasting time like that on the company's dime.

And the disgruntled guy will soon get tired. You could have your attorney go after him, but why go to the expense . . . just let it go away.

We had the same problem with a former employee as I think every company who is in business today has had. She created a blog and griped for about three weeks. When no one else chimed in, she

stopped posting more gripes. This stuff happens because it is cheap to create a blog and blow off steam. But if there isn't a lot of reaction from others, the blog dies a quick death.

As Calvin Coolidge, a 20th century President of the United States, used to say, "If you see a big problem coming at you, the best solution is to wait—usually the problem goes away before it is a big deal." At least that is what I think he said.

Charlie commented,

OK, Russ. That is one option. But what if the blog continues and gathers a following? What if this guy builds a Facebook page and starts to build a friends list? What if. . . ? As you know, the downturn in the economy has had an impact on our company. We have had to lay off about 25 percent of our employees over the last year. They may be upset enough to add to the blog or start a new one. What then?

"Well," responded Russ. "Then you've got a bigger problem. Good luck with it."

In the afternoon, Charlie looked for information about corporate strategies for social networking on the Internet. In his reading, he found that most business firms had been slow to react to social networking. In a 2009 survey, less than half the top 100 e-tailers had a social networking presence. At the same time, other articles reported that over two-thirds of online shoppers say they use social media sites. In one survey in 2008, over 50 percent of consumers reported that they also participate in social media Web sites as a "friend," "follower," or "subscriber" to at least one retailer.

After Charlie finished reviewing articles on the Internet, he called RICC's Vice President of Marketing, Will Rush, and invited him to lunch the next day. During their meeting, Charlie shared the blog entry with Will and asked him for his opinion on whether RICC should build a strategy for social networking. Will responded to the questions by asking,

Did you read about Einstein Bagels? They set up a Facebook page and offered to give away a free bagel and a smear to any new friends that hooked up. They had 250,000 takers in the first 24 hours. It seems to me that going after new customers via social media could really help us promote our brand. We need a Facebook page, we need to tweet, we can even twit if that will help.

There are a lot of people and companies outside of the Quad Cities who have heard about our

chocolates. I think we could turn them into regular customers with some additional exposure. By using the social media, we could also attack the corporate market for specialty items for use at parties and other special occasions. I think you and I should jointly propose a strategy to Burris to enter the social media arena. We need to attack the matter rather than run from it.

Charlie appreciated Will's view on the matter, but he was worried about the cost of a full-blown social networking strategy for RICC. His reading earlier revealed that another specialty consumer products company estimated that its initial investment for hiring a large accounting company to design and implement a social networking strategy was over \$100,000, with annual recurring costs estimated at over \$100,000. He wondered how to come up with ways to justify anything close to that level of expense, especially when Burris primarily wanted the blog his kids had seen to go away.

When Charlie arrived home that evening, he decided to ask his wife, Alba, what she thought. Alba was a consultant for a regional consulting firm that dealt largely with midsize companies. Charlie asked, "What have you seen midsize companies—especially companies in both the retail and manufacturing levels in the channel—implement with regard to a corporate strategy for social networking?" Alba thought for a moment and responded,

Well, it depends. There are some midsize companies that just don't think that the benefits of doing anything in the social networking arena are worth the costs. Be aware that the initial cost is not the only cost of this venture—there are also significant ongoing costs. With only one retail location, some of the value of being aggressive in the social networking area goes away—after all, providing coupons via Twitter or Facebook will help increase *store* traffic only among "followers" or "friends" in the Rock Island area. But *Internet* traffic can certainly be positively impacted by such coupons or offers.

But then there are other midsize firms that believe participating actively in Facebook or other sites is absolutely essential to help build the brand and drive sales. RICC could introduce new products or explain the benefits of the Belgian style of chocolates. These sites have the possibility of building a "buzz" about the company. And with RICC's special focus on the Belgian process for making chocolates, your company could develop a big following. No one else in the country is quite so focused. I think people would want

to learn about your products—particularly about the new ones—and about special offers. Companies also aggressively track what is happening on blogs and social media sites regarding their company and take steps to deal with negative comments about the firm. They also track what is happening to competitors, and sometime may even help extend negative views about other companies—although that seems ill-advised. But these firms see social media as a way to gather business intelligence.

There are also some firms that participate in social networking but are more passive about it. They post new products to social media sites but they don't assign anyone to track what is being said on an all-the-time basis. They don't generate special content; they just copy what is on their Web site and post it on the social media sites. In other words, they put their toes in the water but don't go all the way in.

Remember that your boss may not have the appetite for moving into social networking. You will have to do a good job reviewing the information on the Internet to see how any effort in this arena will generate a return on the investment for RICC and its owners.

Goals for Social Networking

The next evening, Charlie attended his MBA class in IT management at the local university. He decided to bring up the issue he was dealing with during the class discussion. He described what happened over the last few days and then started the discussion by saying,

We could just deal with the blogger by replying on the blog and suggesting that the blogger talk with us directly, offline, to resolve his issues. But we have the chance to work with the marketing department at RICC to propose a strategy for the company to get into social networking. There is no clear answer, but we certainly need to consider it. What do you think?

The instructor in the class, Irene Castle, answered first by responding,

Charlie, it would seem that you should first identify exactly what your company wants to achieve via a social networking strategy. From what I have read, there are four reasons why a company might engage in such an effort: helping employees deal with customer service, building brand awareness and increasing sales, helping customers and busi-

ness partners, and conducting online market research.

Let's talk about these four reasons. First, customer service employees can benefit from the use of microblogging, as well as messaging and chatting technologies built into some of the social media (such as Facebook). Combined with instant messaging, these approaches help those employees who need to respond to inquiries from customers get in immediate contact with subject matter experts so as to get the right answer right now. These technologies seem perfect for sharing links, sharing status, and getting answers. You could empower your employees to monitor existing blogs and respond to questions and product issues as they are found.

Another student in class, Sarah Hayes, spoke up at this point by asking,

Professor Castle, could I respond on the building brand awareness matter? At our company, we have used a social networking strategy to create an online profile on Facebook in order to establish a personality. We ask questions of the community, comment on users' content or profile entries, post links to threads that would be helpful, offer promotions and talk about new products and features, and even share short videos about product production. Our CEO is convinced that these activities have contributed to our revenue growth over the last two years. We spend lots of employee time but he is convinced that it is worth it.

Castle responded by saying, "Thanks, Sarah. I appreciate those ideas. Do you know if your CEO has data that prove that social networking provides a return on the investment? Have you had any problems caused by the privacy policies of Facebook?"

Sarah said, "Not that I am aware of, but let me ask him."

Castle continued,

For your business partners, social networking can provide them with better, more convenient access to sales support and product experts. These sites have been used for product introductions and project management, and they could really support new retailers by giving them the opportunity to talk online with some of the company senior management. Having such access makes your channel partners feel like they are really part of the company.

Finally, online market research using social media is a way to enhance the company's product development work. When RICC introduces a new type of chocolate, you could ask for customer reactions to the new product via a tweet or on your Facebook site. Or you could even offer a coupon for money off on the customer's next box of RICC chocolates if they complete a survey about the new product they have tried.

Let me add one more related point. While they are not, strictly speaking, social networking applications, you might want to consider mobile applications. Mobile applications, as in "we have an app for that," represent the most rapidly growing field of information technology. No one wants to have access to information only from their desktop. It takes some more work, but you could build applications that are accessible from any smartphone or mobile device. These would include not only store locators, but applications that can support the shopping and consuming experience. As an example, we were on a trip last week and wanted to find some lobster to eat for lunch in Boothbay Harbor, Maine. Rather than trying to find the Lobsterman's Cooperative by stopping and asking people, Google Earth was able to show us the way and provided over a dozen comments about the place.

Charlie thanked everyone for their ideas. After class was over, he spent the rest of the evening looking at some of the social media platforms and what other midsize firms have been doing on these platforms.

Time to Decide

When Charlie came into the office Friday morning after his 6 A.M. exercise program, he knew it was time for a decision. What should he propose in his response to

President Burris? How should he respond to the blog issue? What should he suggest in terms of a strategy for building a presence in the social networking arena? Should it be a "wait-and-see" strategy (since research is just beginning to appear), an experimental strategy at very little cost, or an aggressive strategy?

Charlie knew that doing anything in social networking would require a resource commitment, not just in IT budget dollars but in people resources. Among other tasks, he needed to get back with Will Rush on developing a preliminary social networking proposal. Marketing's input and cooperation was absolutely required if the initiative was going to be successful. Lots of other people in the firm would also need to be involved if the decision was to go ahead. Charlie also knew that to participate fully would require RICC to be timely in its communications and frequent in its updates and offers, and that would mean additional staffing. These investments, both initial and ongoing, would have to be justified. Charlie figured that he had better get some ideas down—he had a lot to accomplish before Monday's management meeting.

References

- Kazeniak, Andy. 2009. "Social networks: Facebook takes over top spot, Twitter climbs." *Compete.com* Web site, blog.compete.com/2009/02/09/facebook-myspace-twitter-social-network/ (February 9).
- LinkedIn. 2010. "Frequently asked questions." LinkedIn Web site, www.press.linkedin.com/faq (July).
- Schonfeld, Erick. 2010. "Costolo: Twitter now has 190 million users tweeting 65 million times a day." *TechCrunch* Web site, techcrunch.com/2010/06/08/twitter-190-million-users/ (June 8).
- Zee. 2010. "Twitter vs. MySpace vs. Facebook [Chart]." *The Next Web (TNW)* Web site, www.thenextweb.com/socialmedia/2010/01/27/twitter-myspace-facebook-chart/ (January 27).
- Zuckerberg, Mark. 2010. "500 million stories." *The Facebook Blog*, blog.facebook.com/blog.php?post=409753352130 (July 21).