



Social Media ROI

ROI Strategies



Geoff Sharp

Sharp Search Technologies

www.SharpST.com

July 1, 2011



Table of Contents

Table of Contents

TABLE OF CONTENTS	2
EXECUTIVE SUMMARY	3
INTRODUCTION	4
SOCIAL MEDIA ASSESSMENT, ROI GOALS AND TARGETS	6
ROI VARIABLES	7
MEASUREMENT	9
WEB AND INTERNET TRAFFIC:	9
COMMUNITY AND USER SENTIMENT MEASURING:.....	10
CALCULATIONS	11
ROI FROM A FINANCIAL PERSPECTIVE.....	11
DEVELOPING A HIGH IMPACT ROI STRATEGY	12
EXAMPLES OF DIFFERENT CALCULATIONS	13
SIMPLE CALCULATION	13
SUPPORT MODEL - ACHIEVING 191 % COST TAKEOUT SAVINGS ROI – IN CUSTOMER SUPPORT.....	14
ACHIEVING OVER 500% ROI IN THE MARKETING DEPARTMENT	15
OVER 300% ROI IN THE SALES ORGANIZATION.....	15
TYPICAL COST SAVINGS ACHIEVED THROUGH A MAJOR PROJECT	16
CONCLUSIONS	17
ABOUT THE AUTHOR	18
ENDNOTES	19
SOCIAL MEDIA RELATED METRICS ACROSS THE CORPORATION	19



Executive Summary

Corporations are now leveraging social media for their bottom line and are shifting their budgets from traditional marketing to social business. This paper is written for business professionals who understand financial measures and need to apply ROI analysis to social media. Some of these ideas in this paper derive from the Social Business Consulting Group ([SOBIZCO](#)) with which we are affiliated.

Creating a high impact ROI strategy involves the whole company and all market facing departments. It includes conducting a thorough assessment and plan for working with customers to create and manage a comprehensive social business environment. Value elements for social media exist across the organization including, corporate planning, legal, marketing and sales, customer services, product development and operations.

ROI measurement will use two types of variables, those that represent increased sales and asset value and those variables that represent cost takeout. Measured data derives from several sources : traditional financial reporting systems, e.g. quarterly sales and profits; and social media and Internet related data, e.g. web traffic, landing page clicks. While measuring cost savings is straightforward the attribution of revenue increases to social business can be more indirect.

A basic algorithm for calculating ROI can be represented by:

$$\text{ROI \%} = \frac{(\text{Incremental Revenue Contribution} + \text{Cost Savings} - \text{SM Expenses})}{\text{SM Expenses}} * 100 \%$$

The actual formulas will vary by function and industry, e.g. cost savings through using social media for customer services, increased sales through social programs. A number of examples illustrate the variation in application and measure.

Introduction

Measuring social media ROI requires clear objectives and applies not just to marketing but also to the multitude of corporate wide activities in all market facing departments. This includes improved customer relationships with word of mouth advocacy, more accurate market intelligence, customer driven product development and improved customer service with lowered costs.

The basic goal of a social media strategy is to develop customer advocacy with reach to a community of prospects resulting in increased sales and improved lifetime value of a customer. This is essentially different from traditional direct marketing and sales where incremental sales can be linked directly to investment, e.g. purchases per ad, sales quota per salesperson, etc. Thus, measuring the ROI of social media involves evaluating a number of *indirect and direct variables* over a period of time necessary to develop the engaged customer community.



As an example, if Company A sells house paint, traditionally it could run advertising campaigns, hire a direct sales force, and create a channel of retail resellers. The costs are direct and can be measured. However, using social media, in order to create a customer community of advocates, Company A will create services for not only house painting but with advice for interior design, seasonal design variations, etc. that appeal over time to customers and keep them engaged. This could include creating a blog with useful advice on house painting and design, managing a Facebook fan page with design games which is fun and engaging for fans, providing community managers who will post commentary on



Internet groups, creating social media programs for channel partners, running promotional timed discounts using Twitter, and so forth.

These methods have already been proven successful for enterprising businesses that have leveraged them, e.g. zappos.com

We list many of the specific variables that can apply across the corporation to measure the success of social media programs. Simply put, social media ROI can be represented by the formula below:

$$\text{ROI \%} = \frac{\text{Incremental Revenue Contribution} + \text{Cost Savings} - \text{SM Expenses}}{\text{SM Expenses}} * 100 \%$$

SM Expenses

Where:

- Incremental Revenue Contribution = Increased revenues * Contribution Margin
- Cost Savings = reduced costs and expenses
- SM Expenses = social media expenses, including labor and tools

Our goal is to provide the framework and tools to evaluate a unique and individual business environment for the purpose of social media ROI measurement and projection. This will help management evaluate and make an investment decision to budget specific social media programs across the corporation.

Social Media Assessment, ROI Goals and Targets

It is important to get a roadmap of the current social media presence of your business. SOBIZCO calls this a Four Quadrant Assessment study that evaluates and reports on the current status in social media of your *Brand, Competition, Partners* and most importantly your *Customers*. Once this is established, the next step is to formulate a social media strategy and a social media plan of action. This will result in establishing clear goals and objectives for measuring ROI.

Another factor in determining your ROI goals is to examine the impact of value Elements Across the Corporation.

For example, the value of Social Media across the corporation by department can include following areas:

- Corporate strategic planning
- Legal issues and threats,
- H/R policy
- Recruiting
- Sales and Pipeline Management
- Inbound Marketing
- Customer Service costs saving
- Product Co-development

A more complete list is given in the endnotes:





ROI Variables

ROI measurement will use two types of variables, (a) ones that represent increased sales and asset value and (b) those variables that represent cost takeout. We list a representative sample below.

REVENUE and ASSEST VALUE ADDED VARIABLES:

VARIABLE CLASS	EXAMPLES
<u>Direct Variables</u> for Sales Linked to Social Media	<ul style="list-style-type: none"> • CTA landing page orders • Coupons or promotional action
<u>Indirect Variables</u> for Sales and Value Added	<ul style="list-style-type: none"> • Increased traffic, decreased bounce rate • Increased clicks, landing pages • Increased positive referrals, sentiment • Improved product development • Increased Goodwill – valuation • Goodwill – interesting thought – how companies who are pre-IPO or acquisition benefit by social reach/relevance/buzz in valuation calculations. What is role/opportunity?
<u>Direct Variables</u> for Revenue Related Cost Savings	<ul style="list-style-type: none"> • Decrease in customer service calls without decrease in customer satisfaction, decrease in complaints • Decrease in marketing collateral costs, e.g. hardcopy • Decrease in customer training costs
<u>Indirect Variables</u> for Revenue Related Cost Savings	<ul style="list-style-type: none"> • Decreased liability • Improved employee productivity
<u>Indirect Variables</u> for Product Development	<ul style="list-style-type: none"> • Improved product co-development with customers



COST TAKEOUT VARIABLES:

VARIABLE CLASS	EXAMPLES
<u>Direct Variables</u> for Cost Takeout	<ul style="list-style-type: none"> • Dedicated Staffing and staff project time • Software and Internet technologies, e.g. tools • Web site and Social Media platform costs
<u>Indirect Variables</u> for Cost Takeout	<ul style="list-style-type: none"> • Unmeasured staff time involvement • Support resources across the organization, e.g. legal, IT and facilities overhead



Measurement

Measuring data derive from two sources, (1) traditional financial reporting systems, e.g. quarterly sales and profits and (2) social media and Internet related data, e.g. web traffic, landing page clicks.

The list of measuring tools for social media is various and rapidly evolving. Recently many social media tools companies have been acquired resulting in consolidation and integration n of measuring tools into comprehensive marketing systems, e.g. Scoutlabs and Radian6. However, the number of new tools continues to grow. In another paper we will address some of the major tools. Some analysts also may want to look at measures for Key performance Indicators (KPI) that are more indirect cousins of financial measures of return.

Social Media and Internet measuring tools cover several areas, web and blog traffic, customer presence in social media, community clusters and user sentiment.

Web and Internet Traffic:

It is critical to track “traffic” on web sites, blogs and social media platforms. This can be done daily with weekly, monthly or quarterly reporting. It is important o know how many users have accessed your web site, your fan pages, how many are recurring users, how much time they spend, etc.

Typical data and reporting will include:

- Number of users per day and trend over time
- Number of new users
- Bounce rate (how many leave after one quick look)
- Usage by individual pages and inbound and outbound links
- Clicks on key “landing Pages”
- Number of new fans on social media, e.g. Facebook followers, Twitter followers
- Advertising campaign data, e.g. cost per click, cost per view, etc.

The measuring tools for traffic data are many and varied and include:

- Google Analytics
- Facebook, Twitter and LinkedIn specific data
- Various independent tools for detailed analysis including Quantcast

Community and User Sentiment Measuring:

A key aspect of social business marketing is to be able to measure and track market sentiment and most importantly to be able to “listen” to customers. A great number of tools exist for this purpose. Usually they have a “dashboard” showing different trends, data and graphics.

Customer Sentiment data includes:

- Number of favorable mentions in blogs or forums
- Favorable comments from key influencers in a particular market segment
- Unfavorable mentions

Tools for measuring customer and community sentiment include:

- ECairn
- Radian6
- Alterian SM2,
- The full list is extensive and growing





Calculations

ROI from a financial perspective

The challenge for a CFO or Controller of a business is to determine the ROI of an investment in social media and new rules must be followed.

A basic algorithm for calculating ROI can be represented by:

$$\text{ROI \%} = \frac{(\text{Incremental Revenue Contribution} + \text{Cost Savings} - \text{SM Expenses})}{\text{SM Expenses}} * 100 \%$$

Where:

- Incremental Revenue Contribution = Increased revenues * Contribution Margin
- Cost Savings = reduced costs and expenses
- SM Expenses = social media expenses, including labor and tools

The challenge for a CFO or Controller of a business is to determine the ROI of an investment in social media and new rules must be followed.

Developing a high impact ROI strategy

Developing a social media program with high ROI involves the whole company, not just a few people or a single department. With adequate planning and implementation it is possible to achieve high ROI in excess of several hundred percent. Some of the steps required include:

As mentioned before, conduct a thorough assessment of the company social media presence including the Four Quadrant methods which assesses brand, customers, partners and competitors.

- Develop a strategy using the Strategy framework
- Understand and utilize effective social media monitoring
- Create an organizational plan
- Support the various departments
- Develop a presence plan and engagement programs
- Develop team guidance and structures
- Integrate business partners into the strategy
- Build the entire plan together with customers





Examples of Different Calculations

Calculating ROI will be relative to a specific business.

Again, ROI is calculated as :

$$\text{ROI \%} = \frac{(\text{Incremental Revenue Contribution} + \text{Cost Savings} - \text{SM Expenses})}{\text{SM Expenses}} * 100 \%$$

Some illustrative examples follow.

Simple Calculation

- Assume a business generates incremental new sales resulting from customers in specific social media groups and communities. It derives a contribution of \$4 million (33.3% contribution margin) from the incremental revenues of \$ 12 million.
- Assume the cost of the social media programs in managing and servicing these communities with support staff, technology and other resources is \$ 3 million.
- The resulting ROI = $((\$ 4 \text{ M} - \$ 3 \text{ M}) / \$ 3 \text{ M}) * 100 = 33\%$



Support Model - Achieving 191 % Cost Takeout Savings ROI – In Customer Support

Assume that through social media programs the customer services organization is reduced from 600 to 400 FTE (full time equivalent staff) while supporting an additional 5,000 active customers with a ratio of 100 customers per staff.

The cost savings amount is calculated by:

- Staff savings 200 FTE @ \$63,000 = \$12,600,000
- Support additional customers (5,000 / 100) = 50 FTE @ \$63,000 = \$3,150,000
- Total cost savings = \$15,750,000

Assume the following costs of:

- Investment in special incentive programs \$220,000
- Cost of social media assessment and strategy \$220,000
- Cost of systems and tools \$45,000
- Cost of training and education
 - \$80,000 consulting
 - \$345,000 staff time
- Cost of social media programs
 - Consulting \$220,000
 - Operations \$350,000 per month = \$4,200,000
- Total cost = \$ 220,000 + \$220,000 + \$45,000 + \$80,000 + \$345,000 + \$220,000 + \$4,200,000 = \$5,110,000

$$\text{ROI} = (\$15,750,000 - \$5,410,000) / \$5,410,000 * 100 = 191\%$$



Achieving over 500% ROI in the Marketing Department

Assume a transition from less attractive corporate generated content, e.g. adversarial mass mail marketing, to user generated content resulting in improved social media based customer advocacy.

- Reduce content creation and distribution cost by 50% from \$2 million to \$ 1 million
- Increase the reach threefold from 200,000 to 600,000
- PR, Advertising & Event budget \$20,000,000 (2% of \$1 billion revenues)
- Corporate generated content \$2,000,000 Actual reach 200,000 (1%)
- User generated content \$1,000,000 Actual reach 600,000
- Delta in reach \$2,000,000
- Cost of developing a strategy \$250,000
- Cost of systems and tools \$50,000
- Cost of education and training \$20,000+\$320,000

- ROI = 525%

Over 300% ROI in the Sales Organization

Assume a reduction in the outbound sales team from 200 to 170 and growing the reach from 22,000 per month to 25,000 per month. Assume increasing 100 daily cold calls with 5% contact rate to 250 cold calls with 10% contact rate.

- Outbound sales team 220 \$13,200,000 reaching 22,000 contacts per month
- Outbound sales team 170 \$10,200,000 Reaching 25,000 contacts per month \$3,000,000
- Cost of strategy \$ 350,000
- Cost of systems and tools \$156,000
- Cost of programs \$ 100,000
- Cost of Education \$ 80,000 + \$686,000
- ROI 337%



Typical cost savings achieved through a major project

- Assume a \$1 B company
- Typical production costs 40% (\$400MM)
 - Save 1% (logistics & procurement = \$ 4MM)
- Cost of sales 30 % (\$300 MM)
 - Save 5 % , increase effectiveness through advocacy = \$15MM
- Marketing expenditure 3 % (\$30 MM)
 - Save 10% through social media = \$3 MM
- Support Cost 10% (\$50 MM)
 - Save 10% (joint support) \$10MM
- R&D costs 5% (\$50MM)
- Profitability 5 % (\$50MM)
 - Increase by 69% (social media) \$34,500,000 to \$84,500,000

CONCLUSIONS

Current investments in social media should provide an ROI above 100%. However we caution the reader of this document, that social media is becoming more and more mainstream and the best techniques and measures are being adapted by an increasing number of companies as part of their everyday business. As a result, the expected ROI may go well below the 100% mark in the future.

By bringing social media strategies in alignment with corporate strategies management can not only improve bottom line but also gain the advantage of an early warning system for learning about market trends and customer issues.

As social business grows improved methods for measuring ROI and KI will evolve. This will include new measures of direct and indirect variables for company performance as well as new benchmarks.

It will become increasingly necessary for financial management and for managers in general to gain a knowledge of how to measure the cost and benefit of social media programs across the company as well as in individual departments and programs.

*"Not everything that can be counted counts, and
not everything that counts can be counted."*

-Albert Einstein



About the Author

Geoff Sharp



Certified social media and content strategist. Geoff Sharp co-founded successful Internet search companies including Transium, acquired by Alta Vista, and Dialog, acquired by Knight-Ridder. He is a certified social media strategist and has developed effective social media programs for clients in the publishing, information technologies and hotel industries. Geoff has extensive experience in the information industry, product development and business development. He negotiated hundreds of database and partner licenses with major publishing firms including McGraw-Hill and Dun & Bradstreet. He also negotiated and managed large strategic investments for Knight-Ridder in Internet companies and served on the Boards of PLS, Individual, and RDS. Geoff has an M.A. in Mathematics from California State University at San Jose, and completed executive leadership programs at Lockheed, Knight-Ridder and Stanford University.

Contact : Geoff Sharp, Sharp Search Technologies

geoff@geoffsharp.com



<http://www.SharpST.com>



Endnotes

Social Media Related Metrics Across the Corporation

<ul style="list-style-type: none"> • EXECUTIVE – PLANNING 	<ul style="list-style-type: none"> ○ Quick evaluation of business environment ○ Increased leverage of top management ○ Protection against competition threats
<ul style="list-style-type: none"> • LEGAL, HR, ADMIN 	<ul style="list-style-type: none"> ○ Increased awareness of potential liabilities, trends ○ Improved employee awareness of company policies ○ Improved compliance with law and regulation ○ Improved employee recruiting and retention ○ Improved training and productivity ○ Lower cost of training <p>ADD Finance, Investor Relations, Investment Community/Analysts</p>
<ul style="list-style-type: none"> • MARKETING & SALES 	<ul style="list-style-type: none"> ○ Marcom - Increased P/R and reach, reduced cost of Marcom ○ Increased prospecting and pipeline ○ Improved customer relations management ○ Improved customer advocacy and referrals ○ Increased lifetime value of a customer ○ Reduced cost of direct sales and advertising
<ul style="list-style-type: none"> • CUSTOMER SERVICES 	<ul style="list-style-type: none"> ○ Improved customer training, FAQ, Problem Escalation and Resolution ○ Decreased cost of physical location training and materials
<ul style="list-style-type: none"> • PRODUCT DEVELOPMENT 	<ul style="list-style-type: none"> ○ Improved customer feedback on new product prototypes ○ Improved market research on desired products ○ Awareness of competitive trends ○ Improved awareness of industry technologies and trends
<ul style="list-style-type: none"> • IT 	
<ul style="list-style-type: none"> • SUPPLIERS / PARTNERS 	