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ROI OF SOCIAL MEDIA: MYTHS, TRUTHS AND HOW TO MEASURE

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Chapter 1
WONDERING ABOUT THE ROI OF SOCIAL MEDIA?

If you have downloaded this ebook you probably want to know how your social media initiative could or is providing value to your organization. And you might have heard a range of things on social networks, on webinars or at conferences questioning why you would calculate the return on investment (ROI) of social media.

Would you calculate the ROI of a phone?
Would you calculate the ROI of your mom?
Would you calculate ROI of your pants?

And you might have also heard that social media ROI can't be calculated, but you can track things. Or that the ROI of social media is that you will be in business in 5 years, or that social media ROI is that your customer satisfaction score went up 5 points because of your online community.

And while some of these statements might make you chuckle and others might seem like they are true, they don't really help you in a business meeting with peers and executives who want real business answers.

If you are a skeptic about social media, it may seem like an unstructured stream of consciousness. Why would you dive into something that seems immeasurable? And without a way to obtain benchmarks, how could you tell when something works? How could you track the progress and gather the right metrics or do more of the right things? And how do you know when to stop doing the wrong things? How could you articulate the business case for social media?

If you are on the front lines doing social media, you may be witnessing your customers making purchase decisions based on what other customers write in reviews or clicking on your deal links in Twitter. You may be seeing that the sentiment towards your brand went from being pretty negative, to now more favorable because you are reaching out to unhappy customers and making things right. You might be gaining share of voice online over your competitors or seeing that customer advocacy for the brand is building online with key influencers and brand advocates.

Whether you fall into the first or second group, the issue of justifying the business case for social media is the B-I-G question. How would you justify what you want to try or are currently doing? How do you ask for a budget for people, process and technology? How do you speak intelligently about a field where people are comparing the ROI of wearing your pants to the ROI of social media?

Chapter 2
MARKETERS ARE UNSURE HOW TO CALCULATE SOCIAL MEDIA ROI

The fact is there is an ROI of your mom, a phone and wearing your pants. There is an ROI of anything that provides value. However, how one would calculate social media ROI is not always obvious. A study by Lenskold Group assessed social media ROI measurement best practices compared to traditional marketing ROI measurement. This study found less than 20% of marketers feel they can measure social media ROI (see Figure 1).

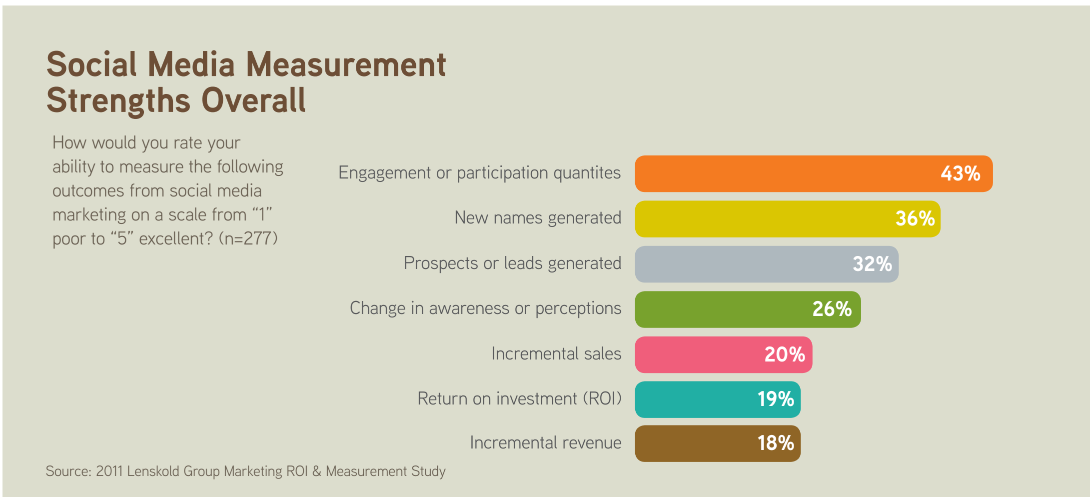

***Figure 1**. Less Than 20% Of Marketers Can Calculate the ROI of Social Media.*

Marketers for whom measuring social media is a high priority (55%), said the reasons why measurement is a priority (see Figure 2) are because:

- 65% need to improve effectiveness
- 59% need to improve integration with other marketing
- 48% feel pressure to report quantified outcomes

Figure 2 also shows, for marketers who cite measuring social media as a low priority (45%), the study found that:

- 41% are still experimenting with social media
- 19% don't have defined metrics or objectives
- 18% currently have very low social media budgets

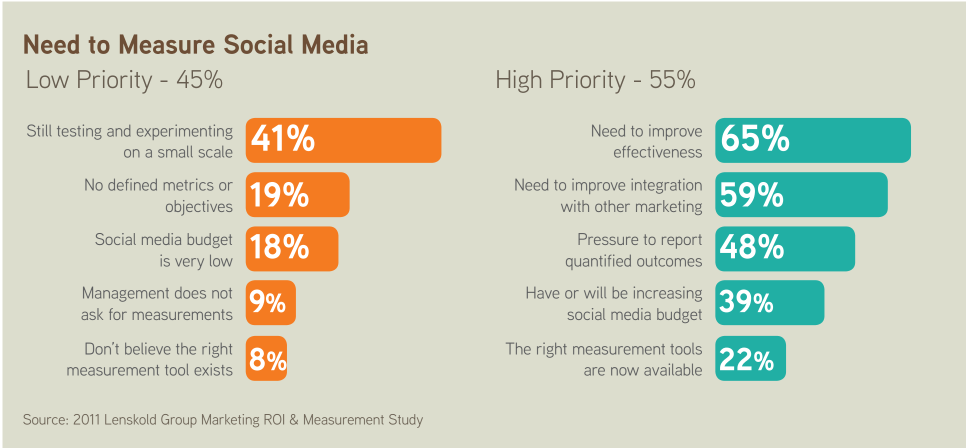

Figure 2*. Forty-eight of Marketers Feel Pressure to Report Qualified Outcomes of Social Media.*

Chapter 3:
WHAT'S SHIFTING THE NEED FOR SOCIAL MEDIA ROI NOW

The Early Majority is Asking for Social Media ROI

The truth is that you can calculate the ROI of social media. Why have many brands implemented social media without knowing the ROI? Business professionals are often asked to justify the business case for an initiative. Social media however, quickly gained momentum, and for the most part, was executed without any ROI analysis. Interesting, right? So why now is the topic becoming more prevalent?

If you are wondering why a major shift in how business gets done—i.e., social media—was implemented without extensive ROI analysis, some of the clues can be uncovered by looking at the driving forces that affect the adoption of a new technology or business innovation. To explore this, we'll apply the technology adoption theories created by Roger's Diffusion Theory and Geoffrey Moore's to social media adoption (see Figure 5).

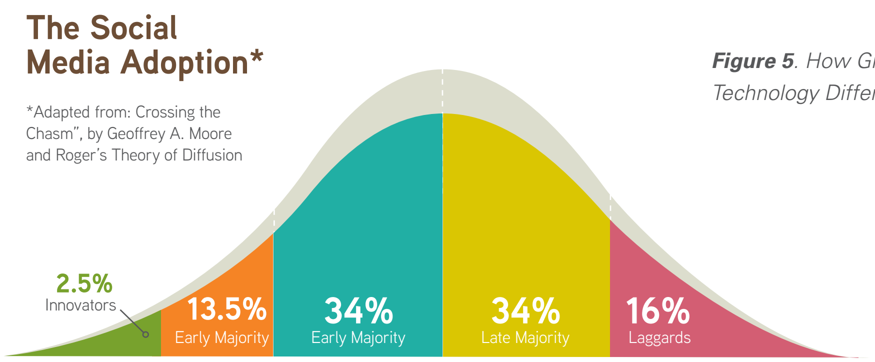

***Figure 5**. How Groups of People Adopt Technology Differently Over Time.*

Here's how each individual group is defined according to Roger's Diffusion Theory.

- **The Innovators:** They are the smallest group, but the first to adopt a new technology. They tend to be the type of people who camp overnight at the Apple store to get the newest tech product. They buy products and try things before all the bugs are worked out of them. They don't mind that everything isn't figured out. In fact, they like to give feedback and be part of the development of a new field or product. It's what makes them tick. These are the people saying, "What's the ROI of your pants?" To them, a new technology is so obviously valuable that a calculation is not necessary.
- **The Early Adopters:** If the technology proves to be interesting to the Innovators, the second smallest group, the Early Adopters, jump on board. Innovators are natural risk takers. They are enthusiasts and, like kindling, they help start the fire in any new field. As visionaries, they are looking for a breakthrough for the future direction of business. This is the group that is saying, "The ROI of Social Media is that you will be in business in 5 years." To them it's that clear that without it, you'd go out of business.

- **The Early Majority:** This is one of the largest groups of people who work in companies. They have a "wait and see" attitude towards new things. They want proof something is really viable. These pragmatic buyers want to buy from the undisputed market leader. They want more concrete information about what they should do next and why. They are the ones asking, "What's the ROI of social media?" On the other hand, they are loyal once they become "sold" on an idea. Often they become evangelists and influence others through WOM channels, especially the Late Majority.
- **The Late Majority:** If the Early Majority adopts, they provide the proof the Late Majority needs to consider the new technology.
- **The Laggards:** This group may never adopt a new technology.

The reason social media ROI is coming into prevalence now is because we are in the third phase, or wave, of social media ROI. The first two waves were driven by the Innovators and Early Adopters. They don't need business cases or ROI to adopt something.

The next group to adopt social media? The Early Majority. And what do they need to adopt something new? Proof. Business cases and ROI. The Early Majority is driving the quest for social media measurement and ROI.

Understand your brand's adoption strategy to get budget approval. Look at Figure 5 to identify your own spot in the tech adoption curve. Are you in the Innovators or Early Adopters group? Or are you part of the Early or Late Majority? It's important to know your own point of view because it will influence how you approach asking for budget and resources for social media. How about your executives or your direct report? Where are they on this curve?

Let's say you are an Innovator and want to get a social media budget approved. Your boss falls into the Early Majority group. When they ask, "What's the ROI? Where's your business case?" and you respond with, "What's the ROI of your pants?" you won't get your budget approved. If you are addressing people in the Innovators and Early Adopters group, then stress, "being cutting edge, out of the box and leading the pack," in your pitch.

It's helpful to note that most people you will need to convince about social media are in the Early Majority. Understanding that they don't see things the way you do will help you reframe your budget request with more concrete use cases, metrics and structure. Gear your pitch to your audience.

Forces That Drove Social Media Initiatives Before ROI

There are a number of forces that drive a brand's involvement in social media. Some brands had executives ask, "So what are we doing about Facebook and Twitter?" Often times the leadership wasn't sure what they wanted, but they knew their competitors were doing something, so they had to join the party. This meant that there wasn't any real business analysis; it just happened because the boss said so.

Then there are the companies that had to react to unplanned social media PR disasters. The immediate, negative public attention drove the decisions—so the need for a short-term business case or to calculate the ROI was averted by knowing an untamed disaster could cost much more. But once the disaster has been averted, these types of brands are looking beyond crisis management to justify their expenditures in social media. Here are some examples:

Domino's Pizza Employee's Handling of Food

Domino's Pizza employees posted a video of poor food handling on YouTube (see Figure 6). The video quickly went viral on social media channels and was seen by millions of people. The story was picked up by major media outlets. This hurt Domino's reputation and sales decreased significantly after the crisis.

***Figure 6**. Video of Domino's Pizza Employee Showing Poor Food Handling*

The Gap Logo Change

The Gap launched a new logo. The social media response was negative, fast and furious. After less than two weeks the Gap changes back to the old logo. The company is then roundly criticized for being indecisive and out of touch.

United Airlines Breaks Guitars

Dave Carroll's guitar was damaged on a United Airlines flight. Dave posted a YouTube video about his customer service experience with United Airlines (See Figure 7). That resulted in the media, including CNN, picking up the story.

***Figure 8**. Video of Dave Carroll's United Breaks Guitars Video.*

Some brands are proactive and coordinated about social media, meaning they actively pursued social media as a part of their cultural DNA. Brands like Zappos, Intuit, iRobot and American Express fall into the category of proactive types of early adopters and innovators. They didn't have the business case, but forged new ground in social media regardless. When the leaders of Zappos started the company, they didn't have money for marketing and sales. They adopted social media proactively because the leadership based the growth of the company on great Customer Service. The leadership intuitively knew that social media could be used to gain customer and press advocacy. They used positive word of mouth to go from a $0 to a $1 billion company in ten years. But this is not the norm.

Others had people who, without permission or budgets, lead the charge for social media as individuals. In this case, most of the company had not bought into social media. Brands like Comcast and JetBlue had individual employee innovators and early adopters, who took it upon themselves to initiate social media programs. These types of people did so before they got permission from upper management or a formal budget.

Consider if your brand is more on the proactive or reactive side of social media. This will help you understand what the driving forces are within your organization and within individual functional departments. Realizing that some groups are approaching social media without measurement and others are dead set on it, can help you traverse the political waters and lead your organization to better social media outcomes.

Also note that there are interdepartmental struggles for who should lead the social customer interactions. Each department, whether it's PR, Marketing or Customer Service all have good reasons why they might feel they should lead an organization's social media initiatives. The truth is that all departments have key roles to play in this burgeoning field. Try to foster a collaborative point of view on working with other departments. It may not be easy at first, but it does affect the customer experience. Here's a video on how social media benefits the whole company, which could be the beginning of a discussion around a collaborative approach.

Chapter 4:
WHAT YOU NEED TO KNOW TO CALCULATE THE ROI OF SOCIAL MEDIA

Set Your Social Media Strategy, Business Goals and Objectives

In business you are responsible for some expected outcomes, as well as for determining the strategy for driving those outcomes. This is also true for social media initiatives. Here's a video on building a business case for social media.

The metrics you need to evaluate the success of social media are specific to your organization. That's part of the reason why there isn't just one answer for how and what to measure in social media. Each organization has specific, measurable goals and objectives they have to hit. Example business goals are typically:

- Increase brand awareness
- Drive leads in the pipeline
- Drive traffic to website
- Reduce customer service cost
- Improve customer satisfaction
- Improve customer retention and loyalty
- Increase sales

You can apply the SMART Methodology (Specific, Measurable, Actionable, Realistic, and Timed) to social media objectives. If your organization doesn't usually measure objectives, then that's the place to start. Then you can develop a plan to measure social media objectives. Solid measurement programs require testing and evaluating the same data over time. Sharing those results with other departments is also helpful. Most companies are just starting down this path.

Typical social media business goals:

- Determine what customers and prospects are saying about your company via social media monitoring
- Gather competitive intelligence
- Engage with customers and prospects online
- Build thought leadership through sharing relevant content
- Maximize reach of content and messaging in social channels
- Support existing sales and marketing campaigns
- Support recruiting and retention efforts
- Build a customer community to provide support and advocacy

To be successful at social media you have to determine why you are doing it. What strategic goals and objectives are you trying to reach? Often people are at a loss for what objectives social media can help with, so they are not sure how to align their regular business goals with social media initiatives.

To begin thinking about how social media can help you reach your objectives, consider:

- What you could do with direct, continuous feedback from customers?
- How could you use increased online advocacy, traffic, word-of-mouth?
- How would customers helping other customers be advantageous?
- If you could reach more of your targeted audiences, how would that be helpful?

Collect Social Media Data, Metrics and KPIs

Many people mistake social media data, metrics and Key Performance Indicators (KPIs) for ROI. We'll go through ROI in the next section. Metrics and data are not ROI. Metrics are how you show a positive or negative change in your business. Some things go up, some things go down. Metrics are numbers that describe which business indicators go up or down.

But metrics alone won't show your company's return on its investment. To get to ROI, you have to take the metrics and turn them into business benefits. To see the type of metrics we mean, see the Social Media Measurement ebook for more detailed information. You'll need a combination of tracked data and outcome data that is not directly linked to your social media program (such as total sales).

For Marketers

Lead and customer data is stored in a company's Customer Relationship Management (CRM) System. To get at the data, it's helpful to get the help of a business analyst and maybe your friends in the IT department. They can help with the technology that allows one software system to send data to another one. You'll also need website analytics data and marketing automation data to get a complete picture of your marketing efforts.

Use tools that can help you:

- Segment website traffic by referral source
- Set cookies on a customer's web browser
- Store leads and customer data

For PR Professionals

Look at communications measures that describe the quantity, quality, impact, cost and efficiency of communications programs. The impact of your PR program metrics are comprised of the business results you achieved including increased awareness, reputation, engagement, leads, sales, loyalty or advocacy. These metrics might be:

- Online engagement
- Website registrations/downloads
- Average engagement time
- Online sales/donation volume
- Sales/revenue growth
- Market share
- Earned Media Value vs. PR Spend
- Lead Value vs. PR Spend

For Customer Service Professionals

Customer Service Professionals might look at reducing call center costs. They would look at the cost of an agent, the number of calls per hour and then how many calls can an online community deflects.

Here's a video to take a deeper look at this calculation. Metrics you'd need:

- Average Handle Time
- First Call Resolution Rate
- Agent salary
- Number of agents
- Number of posts in your community

Collect data before and after the social media initiative. Many people conduct social media programs not realizing that they need to have an idea of what the data looked like before they implemented social media. It's sometimes possible to go backwards and figure out the "before" metrics. It is preferable to start by benchmarking with the business metrics and then measure the changes to the business based on adding social media to the mix.

Also when you are reporting metrics or data, make sure you know your audience. Executives at the CEO, CFO or C-level want to know strategic, bottom-line business results, such as increased sales or decreased costs. People in positions like managers or directors want to know more tactically driven metrics like the number of posts, number of retweets, etc.

Know What ROI Is and Isn't

ROI is not metrics, but you need metrics to measure business value of an initiative, whether it's driven by social media or not. The equation goes like this:

$$\textbf{ROI} = \frac{\textbf{Benefits - Costs}}{\textbf{Costs}} \textbf{ x 100 = Percentage Return on the Investment}$$

ROI calculations are based on coming up with numbers for the benefit that the social media program brought to the company and the costs or investment associated with that program.

In the example at the beginning of the ebook, people said things like, "ROI for an online community is that their customer service satisfaction scores went up 15 points." The change in customer service satisfaction of 15 points is a metric.

ROI in this case would look at the benefits of the online community with a higher customer satisfaction rating provided to the business. Those benefits could be a reduction in the amount spent on customer service agents. That number can be calculated by looking at the number of calls, the cost per call times, or the number of deflected calls. The costs would be determined by calculating the cost of the social media program. This would include the people involved, the money spent on processes like marketing and the cost of the technology, meaning the software and implementation.

Know How to Calculate the ROI of Social Media

Here's an example of how social media ROI can be calculated. The Journey to Atlantis ride at Sea World San Antonio developed a social media campaign that led to a large increase in revenue—every marketer's dream! Sea World wanted to launch its new Journey to Atlantis roller coaster with the help of online buzz from influential people in the roller coaster community. Did you even know there was a roller coaster community? The key to making that happen was to identify the top roller coaster enthusiast bloggers and forum participants. The strategy was to treat the roller coaster bloggers as VIPs.

With the audience firmly in mind, the team created content based on the social graph of this group—meaning their interests, attitudes, basis, motivations, etc. As the roller coaster was being built, the team documented the construction from start to finish with 11 videos and a 45-photo portfolio. These were posted on YouTube and Flickr. The bloggers could easily view this content, and if so motivated, could use it in their own posts. They were also used on Sea World's Coaster site, complete with multiple social media sharing options.

The American Coaster Enthusiasts Group was invited to attend the media launch, and be among the first to get to ride the new coaster (see Figure 8). The riders left positive comments on the YouTube videos. The results? The campaign received 50 links from unique websites, 30 of which were from roller coaster enthusiast sites.

Figure 8 *. American Coaster Enthusiasts get the first ride on Journey to Atlantis at Sea World San Antonio's Media Day.* *Source*

The ROI? To calculate ROI we need two things: the benefit of the campaign and the costs of the campaign:

$$\textbf{ROI} = \frac{\textbf{Benefits - Costs}}{\textbf{Costs}} \times 100 = \textbf{Percentage Return on the Investment}$$

Benefit

The Sea World team conducted a survey over two weekends to understand the effect of the online content. They asked two questions:

1) Did you come today to ride the Journey to Atlantis?
2) Where did you hear about the Journey to Atlantis?

Using a formula that applies a value to each visitor to the park (per person), they were able to determine that the group that said they heard about the ride from the Internet resulted in more than $2.6 million in revenue.

Costs

Now let's look at the costs. The estimate of the costs falls typically into three categories: people, process and technology:

- *People:* Number of people who worked on the campaign x amount of time they spent x their hourly rate
- *Process:* Costs for the creative, setting up the media day decorations, marketing materials
- *Technology:* Costs for the marketing system used for the campaign, costs for the cameras

The total costs for the campaign, for people, process and technology was $44,000.

$$\textbf{ROI} = \frac{\textbf{2,600,00 – 44,000}}{\textbf{44,000}} \times 100 = \textbf{5809\% ROI}$$

Which means that for each dollar spent, $58.09 if value was added to the bottom line. All from encouraging the right people to ride a new roller coaster.

Chapter 5:
GO FORTH AND MEASURE

As an industry, most people have not been measuring social media ROI. But because we are in the third wave of social media, this ebook has shown you how important it is that you start measuring. Especially if you want to convince your management that what you are doing has business value. You don't want to go to another meeting where the topic comes up and you can't answer those questions.

It's time for you to dive in, take the plunge and start crunching your own numbers. And in addition to providing your brand with valuable information, you can distinguish yourself as a thought leader – especially if you get really good at social media ROI. It takes being gutsy, tenacious and detail-oriented. But with practical experience and a little bit of discipline, you'll be a pro in no time.

As with any topic in social media, it requires that you learn something new. But that's not so scary when you have the metrics, measurements and a process. We've shown you what you need to get started, provided information on how to, so now go forth and measure!

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