CHAPTER FOURTEEN

Return on Investment

We've told you about a few companies that have achieved a notable return on investment (ROI) from their social marketing initiatives. They include Indium Corporation, whose blog-driven search strategy yielded a sixfold increase in leads in just one quarter, and Clickable, whose Gurus drove a 400 percent 1-year growth in billings.

These numbers are impressive, but in our experience, they're more the exception than the rule. In conversations with hundreds of marketers over the past few years, we've observed that few of them closely track the ROI of their social marketing programs. In fact, many of the most successful marketers we've met aren't that concerned with ROI at all. Rather, they invest in social marketing because they believe that the intangible benefits—customer engagement, market awareness, continuous feedback, and professional development—are good for any company, regardless of the financial impact. They measure like crazy, and some of the most common criteria they use are referenced in Figure 14.1, but they rarely translate the benefits of engagement into hard dollar figures.

Most of these early adopters work for companies with adaptive, change-oriented management. That's good if you can get it, but the reality is that most top executives are still wary about social marketing.

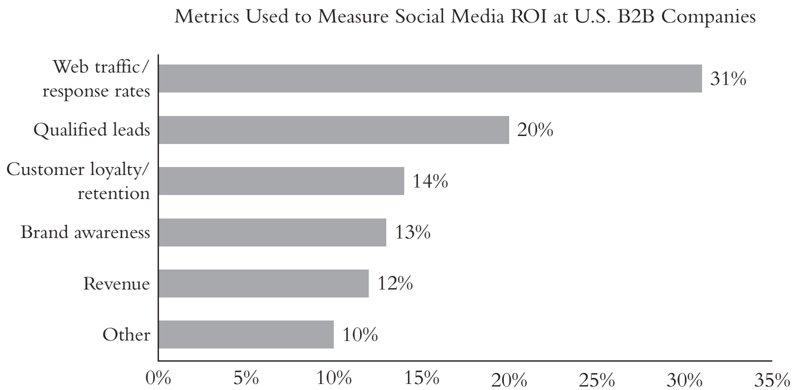

Figure 14.1 Metrics Used to Measure Social Media ROI.
Source: Visible Technologies & Sirius Decisions via eMarketer.

ROI is typically the number one or two most cited concern we hear from the people who work for these companies.

We're conflicted about the whole ROI debate. On one hand, we believe that businesses should make decisions based on sound reasoning rather than vague promises or impulse. ROI analysis enforces rigor that leads to better decisions. On the other hand, we believe ROI objections are often used to *avoid* decisions that executives don't want to make for other reasons, such as fear of losing control. Few people want to admit that they're afraid, so they fall back on convenient stalling tactics, of which ROI is a primary one.

The reality is that businesses make decisions without applying hard ROI criteria all the time. What's the return on landscaping, an expensive conference room table, or free bagels on Fridays? It may be possible to calculate a payback through extensive customer perception or employee satisfaction analysis, but why bother? We know these investments make people feel better. If your employees feel better, they do a better job and your customers have a better experience doing business with you.

In his book *How*, author Dov Seidman argues that in a world where information flows freely and technology connects us instantly around the globe, success no longer lies in what we do. Now, it's "how we do what we do" that matters most. "Sustainable advantage," Seidman

writes "lies in the realm of how." The ROI of how may be intangible, but doing the right thing is not without value. "Transparent and honest practices" is the single most important factor in assessing your corporate reputation, according to the 2010 Edelman Trust Barometer. For public companies, corporate reputation results in positive goodwill, expressed as a line item on the balance sheet. By the same measure, negative goodwill is recognized as a liability. If your social marketing exploits are successful, the resulting goodwill will increase your stock price and even serve as a justification for your firm to demand premium pricing. Still, many managers struggle to connect the dots. Caught in the weeds, they look for short term ways to measure their marketing investments.

Furthermore, much of the money that business-to-business (B2B) marketers have poured into direct-mail campaigns, trade show exhibitions, and trade print advertising for the past 50 years have shown questionable returns. The only reason we make these investments is that these practices are established and businesses are accustomed to them. "ROI calculations don't work well for social media, and they don't work well for marketing in general," says Benjamin Ellis, a serial entrepreneur based in the United Kingdom who now specializes in social marketing.

What's the ROI of a satisfied customer who may or may not pay more for your product or sing your praises to others? It's hard to say, but that doesn't stop some world-class companies from spending lavishly on customer satisfaction. EMC Corporation has been known to charter jets to fly technicians across the country in the middle of the night to take care of a customer whose computers are down. Do you suppose the storage giant conducts an ROI analysis before making the decision to fly commercial versus private? Of course not. EMC is a premium-priced provider whose philosophy is to always go the extra mile to take care of the customer. In the aggregate, the company may be able to justify its practices in the form of higher customer satisfaction and repeat sales, but we doubt the support manager who charters the midnight express is required to justify each added expense in the short term.

That said, we understand the ROI justification is a hurdle many marketers must clear to get their social programs off the ground. We believe that many social marketing programs *can* be justified, but the process requires discipline and careful documentation. After all, the

Internet is the most measurable medium ever invented. If you can isolate variables, establish correlations, and apply a little creativity, it's remarkable what you can do. In this chapter, we suggest some approaches.

Defining ROI

A lot of marketers would probably like to be in Susan Popper's shoes. The vice president of marketing communications at SAP was recently asked by *BtoB* magazine how she is measuring ROI on marketing efforts. Her response: "When [our target audiences come] to our site, they watch the videos and they are engaging with the content on the site. Our impression-to-visit ratio (as measured by click-through rates) doubled this year versus last year." That's an impressive *result*, but it isn't a *return*. To compute ROI, you need to think in financial terms.

According to Wikipedia, ROI is "the ratio of money gained or lost (whether realized or unrealized) on an investment relative to the amount of money invested." There are two important variables in this equation: return and investment. There's also a third vital term: money.

Return is payoff as measured in revenue generated or costs avoided. There are other ways to measure results (for example, improvement in customer satisfaction scores), but unless those outputs can be measured financially, they really don't qualify as considerations in ROI. We believe many of these intangibles actually can be translated into financial terms, and we'll cover that later in this chapter.

But for now, let's look at a couple of basic examples. A simple one is an ROI analysis of the impact of hiring a new sales representative. Let's say the new rep carries a fully loaded cost of $100,000 and delivers $2 million in incremental annual sales revenue at a 10 percent net profit. In that case, the first-year ROI of hiring the salesperson is 100 percent, expressed as profit divided by investment:

Cost of sales rep	$100,000
Revenue generated by rep	$2,000,000
Profit margin	10 percent
Net profit	$200,000
ROI [(net profit − cost)/cost]	100 percent

We can apply the same type of analysis to cost avoidance. That's what Pitney Bowes did when a 2007 postal service rate increase prompted 430,000 calls from customers. The mailing service provider launched an online forum to deflect some of the most common questions and tracked 40,000 visits in 6 weeks. Pitney Bowes was able to correlate savings in call center costs and estimate that the forum more than paid for its first-year costs in just a short time.

Let's say we implement a customer self-service portal as a way to reduce support costs. We assume that the portal will require half of one full-time equivalent (FTE) employee to administer, that the fully loaded cost of that employee is $70,000 and that the portal will enable the company to eliminate one support position at a fully loaded cost of $70,000. Let's further assume that efficiencies will enable us to reduce administrative support costs to one-quarter an FTE the second year and 10 percent the third year. At the same time, the value generated by the community will enable us to cut an additional one-half customer support position each year.

Here's what the analysis would look like:

Year	Item	Annual	Cumulative
1	Administrative costs	$35,000	$35,000
	Savings	$70,000	$70,000
	ROI	100 percent	100 percent
2	Administrative costs	$17,500	$52,500
	Savings	$105,000	$175,000
	ROI	500 percent	233 percent
3	Administrative costs	$7,000	$59,500
	Savings	$140,000	$315,000
	ROI	1900 percent	429 percent

The portal looks like a good investment, yielding a positive first-year ROI and blowout value in the third year. The cumulative value is also very strong. Even if our annual savings estimates are off by 50 percent, we'd still get nearly a 10-fold return on operating costs in year 3.

These are two simple examples, but they both require confident forecasting based on accurate historical data. For many companies, that's

far from simple. In the case of the sales rep, we must be able to predict with reasonable certainty that the person can generate $2 million in incremental business in year 1. There are a lot of factors underlying that assumption. For example, we assume predictable growth in the overall market and in our growth rate relative to the market. We must be confident that there is $2 million in new business out there to find. In niche B2B markets with a small number of potential customers, that assumption may be optimistic. And then there are unforeseen circumstances: the bankruptcy of a major competitor could move that revenue goal higher, whereas the emergence of new competition might force us to trim our forecasts.

There are also nuances of calculating net present value, inflation, opportunity cost, return on capital, and other fine points of finance that we won't try to cover here for the sake of simplicity. ROI calculations are rarely a precise science to begin with.

Good ROI analysis almost always requires accurate historical information, which few companies have, in our experience. Capturing and analyzing historical data requires time and discipline. It's easy to cast aside analytical tasks when everyone is focused on generating revenue. However, you can't forecast the future without understanding the past. Historical data also sets a baseline for measuring change. That change can then be measured and compared against actions that may have caused it. If you can correlate action to impact, then you can calculate ROI.

In Figure 14.2, lead activity appears to correlate positively with traffic to a company blog. The positive correlation is indicated by the change from baseline, which appears to correspond with the upward movement in blog traffic. Even then, a definitive correlation can't be established until other factors are eliminated from consideration, such as a promotion or a new advertising campaign, but in many scenarios, these indefinite correlations are sufficient.

Identifying correlations can be a time-consuming process, requiring new variables to be introduced independently of one another so that change can be isolated. However, you don't necessarily have to test only one variable at a time. With split testing, you can try two different experiments, each targeting a different segment of your customer base.

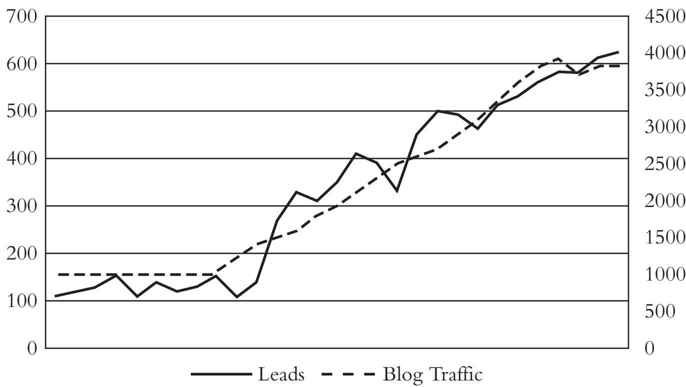

Figure 14.2 Positive Correlation.

Suppose you license e-mail marketing services to customers on a subscription basis. For the past three years, your renewal rate has been about 40 percent annually, so you can reasonably expect that trend to continue. This gives you a baseline from which to test new tactics.

You're going to try out two new incentives this year to increase renewal rates. One provides a 10 percent discount on the annual fee to each customer that renews more than one month ahead of deadline. The other provides access to six customer-only educational webcasts during the next 12 months for all customers who renew, regardless of timing. Each eligible customer gets one incentive or the other. This should give you a sound indication of ROI because you can compare your results against historical data.

It turns out that both programs are equally successful in boosting renewal rates, but the webcast promotion has a better ROI (see table on the next page). That's because 40 percent of the renewing customers who were offered the discount renewed before the one-month deadline, which incurred a higher discount obligation. Not only was the webcast promotion more cost-effective, but it carried a predictable cost of about $1,500 per webcast, compared with the variable cost of the discount. The webcast is probably the smarter incentive to offer.

This example presupposes that the company has good data about past renewals, but many companies lack the systems to capture complete data in the first place. A good customer relationship management (CRM) system is essential. Many excellent solutions are now

	Historic	With 10 percent discount	With webcast
Expiring customers	100	100	100
Average annual revenue per customer	$5,000	$5,000	$5,000
Renewal rate	40 percent	60 percent	60 percent
Profit margin	20 percent	20 percent	20 percent
Profit from renewing customers	$40,000	$60,000	$60,000
Incremental profit from incentive	N/A	$20,000	$20,000
Cost of incentive	N/A	$12,000	$9,000
ROI	N/A	67 percent	122 percent

available on a software-as-a-service basis today, including Salesforce .com, RightNow Technologies, and NetSuite. You can find a complete directory at Saas-showplace.com. But choosing the tool isn't nearly as important as knowing how to put it to work.

Effective CRM requires discipline to capture every customer contact from initial web site visit through sale and continuing with ongoing support. That means involving more than just the sales force in the process. To calculate the ROI on social marketing, you need to understand every dimension of the customer relationship, beginning with the action that creates the first contact. It's not enough to begin tracking when the lead is generated. Marketing should have the systems in place to identify the action that created the lead, whether that's a search query, e-mail link, customer referral, or some other event. Most CRM systems are good at tracking customer activity after leads come in. The difficult job for marketing is figuring out the sequence of events that brought them there.

We can't emphasize this enough: being able to predict the future means knowing a lot about the past. If you can't establish effective baseline expectations, then your forecasts are little more than educated guesses. To do ROI right, you need to track every customer contact, not just interactions with the sales force.

Metrics

Web analytics today deliver unprecedented insight about online interactions. The basic features of the free Google Analytics service match the capabilities of products that cost thousands of dollars just a few years ago. Premium services like Webtrends build in sophisticated behavioral analysis and sentiment analysis and can track offsite activity such as a prospect's comments on Twitter or use of a mobile application. They can even trigger customized e-mails or tweets when a person's behavior matches certain predefined patterns.

With all this rich data now available, it's remarkable how many marketers still use only the basic metrics of traffic and unique visitors to measure success. We're not big fans of these measurements; it's easy to generate spikes of valueless traffic by posting celebrity photos or top 10 lists, for example. In Chapter 11, we listed some common metrics you can use and how they relate to different business goals. We think richer measures such as referring keywords, top content, bounce rate, average time spent on site, pages per visit, and content analysis yield more actionable insight that will only get better.

The best way to select relevant metrics is to work backward. Start with sales trends, match them to web activity, and look for the metrics that correlate most closely. Those are the metrics that are most meaningful to you. For example, if an increase in session time spent on the site appears to correlate with registrations for a webcast, then that indicates that webcasts resonate with the audience.

You also shouldn't confine metrics to those that can be measured online. One of the most popular indications of customer satisfaction is the Net Promoter Score (NPS), introduced in 2003 by Fred Reichheld of Bain & Company. Obtaining an NPS requires asking customers a single question on a 0-to-10 rating scale: "How likely is it that you would recommend our company to a friend or colleague?" This simple tactic has been adopted by big B2B companies like General Electric and American Express as a key performance indicator. While the score doesn't relate directly to revenue, it appears to have a positive correlation.

You can also choose to monitor classic metrics that have nothing to do with the Internet. These include press mentions, speaking

invitations, and performance on customer satisfaction surveys. Metrics also vary by objective. For example, the success of a blog set up to generate leads may be measured by inquiries, time spent on the site, and repeat visitors, whereas one targeted at search optimization may be evaluated based on keyword rankings and inbound links.

Whether a correlation to revenue can be clearly established is unimportant. What matters is that the stakeholders at the company agree that a correlation exists and that values can be assigned to it. In other words, if everyone can agree that page views indicate a desired financial outcome, then that's a good starting metric for evaluating ROI. One thing you absolutely need to know, however, is how people reach your site. Unique URLs are a way to measure that. We're astonished at how many e-mails we still get from brand-name companies that don't make use of this simple tactic, which enables a marketer to specify a web address that is unique to the e-mail, tweet, wall post, or any other message. Unique URLs use a simple server redirect function to identify the source of an incoming click. They look like this: http://mycompany.23.com/public/?q=ulink&fn=Link&ssid=5155. Everything after the question mark is a unique tracking code that tells where the visitor came from. The URL Builder tool within Google Analytics can be used to easily generate unique tracking codes.

Unique URLs enable your analytics software to track inbound traffic from each source separately so you can determine the ROI of each social marketing channel. Without unique URLs, visits are simply classified as "direct traffic," meaning that the source could be a forwarded e-mail, bookmark, or an address typed into the browser. There isn't much you can do with that.

A simple example of how you might use this information is to measure traffic to a landing page and analyze the number of visitors who fill out a registration form according to the referring source. This would show you, for example, that registration rates are twice as high from a newsletter as from a tweet. The value of those registrants divided by the cost of the newsletter is an ROI metric. Unique URLs are also valuable for split testing; you can try out two different invitation messages in the same e-mail and use a different URL for each to measure response to different messages.

Putting It All Together

Let's apply all the factors we've described to two social marketing scenarios. First, we'll compare the ROI of webcasts to that of white papers. Start with historical data. What is the conversion rate of webcast viewers versus people who download a white paper? What is the lifetime value of an average customer? Compare the outputs and divide by costs to assess ROI:

$$\text{ROI} = \frac{\begin{array}{c}(((\text{audience} \times \text{conversion rate}) \times \text{average lifetime value}) \\ \times \text{profit margin}) - \text{cost of acquisition}\end{array}}{\text{cost of acquisition}}$$

Let's assume the following:

- The average lifetime value of a customer is $50,000 at a 10 percent profit margin.
- The average cost of delivering a webcast to 100 registered viewers is $3,000; viewers convert at a 2 percent rate.
- The average cost of delivering a white paper to 500 registrants is $10,000; registrants convert at a 1 percent rate.

Our ROI analysis looks like this:

	Webcast	**White paper**
Audience size	100	500
Conversion rate	2 percent	1 percent
Lifetime profitability	$10,000	$25,000
Cost of acquisition	$3,000	$10,000
ROI	233 percent	150 percent

The webcast ROI is superior, but not by much. Armed with this data, we might choose to promote the webcast more aggressively to leverage its stronger ROI. However, another option would be to focus on improving the white paper's conversion rate. In fact, doubling the rate would drive ROI to 400 percent, making this a potentially higher return action.

Let's look at one more example in which we use a blog for lead generation. We know that performance will be slow during the first few quarters until search engine traffic kicks in. Based on the experience of others, we believe that lead growth will improve steadily as traffic builds. We expect to be at 50 leads per month by the end of the first year and 160 leads per month by the end of the second year. Our historical data tells us that a lead is worth $100. We further estimate our editorial costs at $2,000 per quarter during the first year, doubling to $4,000 during the second. Here's our analysis of quarterly and cumulative ROI.

Quarter	Leads	Total Lead value	Cost	Quarterly ROI	Cumulative ROI
Y1Q1	10	$1,000	$2,000	−50 percent	−50 percent
Y1Q2	25	$2,500	$2,000	25 percent	−13 percent
Y1Q3	35	$3,500	$2,000	75 percent	17 percent
Y1Q4	50	$5,000	$2,000	150 percent	50 percent
Y2Q1	75	$7,500	$4,000	88 percent	63 percent
Y2Q2	100	$10,000	$4,000	150 percent	84 percent
Y2Q3	130	$13,000	$4,000	225 percent	113 percent
Y2Q4	160	$16,000	$4,000	300 percent	144 percent

This gives us a firm foundation to make the case for investing in the blog. If leads aren't coming in as quickly as we had estimated, we can adjust costs downward to improve ROI by setting up content-sharing arrangements.

Measuring Intangibles

The trickiest aspect of ROI analysis is accounting for intangibles. These include factors such as customer satisfaction, customer loyalty, brand reputation, and market influence. Many social marketing projects are justified for these reasons, but the outputs are never measured, either because it's not worth the effort or because the measurements aren't in place.

In fact, all of these outputs can be measured and have been for years using some of the following tests:

Value	**Measurement**
Customer satisfaction	Customer surveys, renewal rates, referrals, incremental business, testimonials, Net Promoter Score
Customer loyalty	Renewal rates, incremental business, response rates, event attendance, testimonials, Net Promoter Score
Customer engagement	Newsletter subscriptions, online community activity, response rates, event attendance, testimonials, feedback volume
Reputation	Market share research, awareness research, media citations, analyst research
Market influence	Market share research, lift studies, media/social media citations, speaking invitations, analyst research
Leadership	Attitudinal research, growth rate, media citations, copycat competitors

However, research statistics aren't sufficient. You have to find a way to translate these measurements into dollars and cents. That's where creativity comes in handy. Many of the metrics on the right can be mapped to business outcomes, but only if historical data are available to correlate with those changes.

For example, you can calculate the business value of customer loyalty by comparing the revenue derived from customers at different longevity levels, such as more than five years, three to five years, and less than three years. Then look at the support and sales costs allocated to these same customers. You'll probably find that long-term customers are cheaper to support and have lower sales costs than newer customers. Comparing the ratio of revenue to expense for each longevity segment should give you an idea of where to invest.

What is the business value of reputation? There's a lot of research to support the notion that B2B customers weigh this factor heavily when making buying decisions. A simple telephone survey can identify which customers value reputation the most. You can then see

where they rank in order of value to your business. If they are near the top (and we believe they will be), then that is compelling evidence that investment in reputation pays off. You can also compare the average profitability of these customers versus those who don't value reputation as highly and see which has more investment upside.

You can even quantify, to some degree, factors that are almost impossible to measure. For example, suppose that a publicity campaign results in 5 million impressions in mainstream media. By conducting pre- and post-campaign "lift" studies, you can measure changes in awareness. Then drag out the record books or published industry averages to compare previous increases in awareness to corresponding changes in the business, such as lead quality and conversion times. You can quantify the value of those outputs to calculate ROI.

Once again, these analyses require accurate historical data. If you can't segment your customers according to criteria like these, the justification process is far more difficult. That doesn't mean it's impossible, though. Analyst estimates, industry averages, and ratios derived from analyzing your competitors and those in other industries may yield similar insights.

How does this all relate to social marketing? We believe it's critical. The ROI objection is the roadblock you're most likely to encounter in selling a social marketing initiative. You need to speak the language of your inquisitors. Social marketing has also introduced new cost variables into the business. For example, press tours used to be a standard tactic for increasing market awareness, but today a blog may do the same thing at a much lower cost. To understand the true value of these new tools, you need to have a baseline for comparing them against past practices. Get your Excel skills in order, because you're going to have some explaining to do.

THE VALUE OF FOLLOWERS

When marketers get up on stage to describe their social marketing successes these days, they invariably refer to follower and fan totals. On Twitter, follower counts have become a sort of merit badge, despite the fact that anyone can quickly run up that number by simply following people

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who automatically follow back. There are even paid services that help inflate follower totals.

What is the true value of a Twitter follower? There is no industry standard to calculate that number, but if you have the right metrics in place, you can do that for your own organization. Here's how:

Look at the total number of clicks to your site from Twitter in any given month and divide that by the number of tweets you posted that linked to your site. Using tracking codes makes this easier. The result gives you the average visits per tweet and retweet. Once you have this number in hand, you can look at the behavior of visitors who arrive from Twitter and compare it against those who find you from other sources. Look at page views per visit, time spent on the site, and visitor paths to identify what percentage of Twitter visitors become leads or customers. Using your standard qualifying metrics, you should be able to determine the average value of a Twitter visitor.

For example, if 1,000 visitors arrived from Twitter in a given month as a result of 20 tweets, that yields an average of 50 visits per tweet. If you know that 5 percent of Twitter visitors register for a download or newsletter and that the value of an average registrant is $50, then you can calculate that Twitter delivers $2,500 in business value, or an average of $125 per tweet. If you have 5,000 followers, then you can also calculate that an average follower is worth 2.5 cents.

This formula is overly simplistic, of course. Not all Twitter followers are created equal. If you want to dive deeper into the mechanics of influence, services like TweetReach.com and Twinfluence.com can calculate the total reach of your followers or tweets according to so-called second-order followers, or those who follow the people who follow you. These metrics can also be used to estimate the value of retweets by certain popular members.

This same approach may also be applied to finding the value of Facebook fans, LinkedIn connections, SlideShare followers, and the like. When they launched the 2011 Ford Explorer, the Ford Motor Company ran online display ads giving users the choice to click through to a Facebook Page or a destination landing page. According to Scott Monty, the automaker's digital and multimedia communications manager, unique visitors coming from the Facebook page were 30 percent more likely to take the intended on the landing page than visitors who clicked through from the display ad. Of course they were. They were more engaged. How's that for social marketing ROI?