Chapter 3: Tallying the Bottom Line

In This Chapter

- **✓** Estimating the cost of customer acquisition
- ✓ Figuring sales metrics and revenue
- Managing and converting leads
- Breaking even
- Calculating return on investment (ROI)

3 ook VIII, Chapter 2 deals with performance metrics as parameters of success; in this chapter, we deal with business metrics to determine whether you see a return on investment (ROI) in your social media marketing channels. In other words, let's get to the bottom line!

By definition, the business metric ROI involves revenues. Alas, becoming famous online isn't a traditional part of ROI; it might have a public relations value and affect business results, but in and of itself, fame doesn't make you rich. This chapter starts by examining the cost of acquiring new customers, tracking sales, and managing leads. After you reach the break-even point on your investment, you can (in the best of all worlds) start toting up the profits and then calculate your ROI.

To get the most from this chapter, review your business plan and financial projections. You may find that you need to adjust some of your data collection efforts to ensure that you have the information for these analyses.



If numbers make your head spin, ask your bookkeeper or accountant for assistance in tracking important business metrics from your financial statements. That person can ensure that you acquire the right data, set up spreadsheets to calculate key metrics, and provide regular reports — and then teach you how to interpret them.

Don't participate in social media marketing for its own sake, or just because everyone else is doing it. Make the business case for yourself.

Preparing to Calculate Return on Investment

To calculate ROI, you have to recognize both costs and revenue related to your social media activities; neither is transparent, even without distinguishing marketing channels.

Surprisingly, the key determinant in tracking cost of sales, and therefore ROI, is most likely to be your sales process, which matters more than whether you sell to other businesses (B2B) or consumers (B2C) or whether you offer products or services.



The sales cycle (length of time from prospect identification to customer sale) affects the timeline for calculating ROI. If a B2B sale for an expensive long-term contract or product takes two years, expecting a return on your investment within a month is pointless.

For a pure-play (e-commerce only) enterprise selling products from an online store, the ROI calculation detailed in this chapter is fairly standard. However, ROI becomes more complicated if your Web site generates leads that you must follow up offline, if you must pull customers from a Web presence into a brick-and-mortar storefront (or sometimes "bricks-and-clicks"), or if you sell different products or services in different channels. You can find resource sites that relate to these issues and other business metrics in the nearby table.



Include the business metrics you intend to monitor in the Business Goals section of your Social Media Marketing Plan, found in Book I, Chapter 2, and the frequency of review on your Social Media Activity Calendar discussed in Book I, Chapter 3.

Site Name	URL	What You Can Do
ClickZ	www.clickz.com/ _imgs/calculator/ Optimization_ Calculator_WEB.swf	Use the ROI tool online to cal- culate ROI for Web and socia media sites
Frogloop.com	www.frogloop.com/ social-network- calculator	Download or calculate online your social media ROI
Harvard Business School Toolkit	http://hbswk.hbs.edu/ archive/1262.html	Use the break-even analysis tool

Site Name	URL	What You Can Do	
Harvard Business School Toolkit	http://hbswk.hbs.edu/ archive/1436.html	Calculate lifetime customer value	
Interactive Insight Group	http://www.inter activeinsights group.com/blog1/ social-media-metrics- superlist-measurement- roi-key-statistics- resources/	Scan annotated super-list of dozens of articles on social media ROI and measurement	
MarketingProfs	www.marketingprofs. com/charts/2010/3620/ social-mobile-video- marketing-roi-tough- to-measure	Review surveys from marketers about social media ROI; must log in	
Olivier Blanchard Basics Of Social Media ROI	www.slideshare.net/ thebrandbuilder/ olivier-blanchard- basics-of-social- media-roi	View an entertaining slide- show introduction to ROI	
Online Marketing for Local Businesses	http://online marketinglocal.com/ calculator/customer- acquisition-costs.php	Calculate the cost of customer acquisition	
Panalysis	<pre>www.panalysis.com/ sales_target_ calculator/index.php</pre>	Forecast online sales	
Shop.org	www.shop.org/web/ guest/research andindustryinfo	Peruse reports about research, consumer data, and the state of retailing online (SORO)	
SearchCRM.com	http://searchcrm. techtarget.com	Find information about customer relationship management (CRM)	
Whatis.com	http://whatis.tech target.com	Search a dictionary and an encyclopedia of business terms	
ZenCart	www.zencartoptimiza- tion.com/2010/02/11/ how-to-track-your- social-media-roi-in- google-analytics	Find directions for implement ing ROI in Google Analytics	

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Accounting for Customers Acquired Online

The cost of customer acquisition (CCA) refers to the marketing, advertising, support and other types of expenses, required to convert a prospect into a customer. CCA usually excludes the cost of a sales force (salary, commissions) or payments to affiliates. Some companies carefully segregate promotional expenses, such as loyalty programs, that relate to branding or customer retention. As long as you apply your definition consistently, you're okay.

If your goal in social media marketing is branding or improving relationships with existing customers, CCA may be a bit misleading, but it's still worth tracking for comparison purposes.

The definition of your customers and the cost of acquiring them depends on the nature of your business. For instance, if you have a purely advertisingsupported, Web-only business, visitors to your site may not even purchase anything. They simply show up, or perhaps register to download some information online. Your real customers are advertisers. However, a similar business that's only partially supported by advertising may need to treat those same registrants as leads who might later purchase services or pay for subscriptions.



The easiest way to define your customers is to figure out who pays you money.

Comparing the costs of customer acquisition

You may want to delineate CCA for several different revenue streams or marketing channels: consumers versus businesses; products versus services (for example, software and support contracts); online sales versus offline sales; consumers versus advertisers. Compare each one against the average CCA for your company overall. The formula is simple:

cost of customer acquisition = marketing cost ÷ number of leads

Be careful! This formula can be misleading if you calculate it over too short a timeframe. The CCA may be too high during quarters that you undertake a new activity or special promotion (such as early Christmas sales or the introduction of a new product or service) and too low during quarters when actual spending is down but you reap benefits from an earlier investment in social media.



Calculate your CCA over six months to a year to smooth out unique events. Alternatively, compute rolling averages to create a better picture of what's going on.

In Figure 3-1, Rapport Online ranks the return on investment, defined as costeffectiveness in generating leads, for a variety of online marketing tactics. The lowest ROI appears at the bottom of the cube and the highest at the top.

Figure 3-1: The social media would fit near the top of the ROI scale for Internet marketing tactics.



Courtesy Rapport Online Inc., ROI-web.com

Social media marketing runs the gamut of "rapport building" options, because it involves some or all of these techniques. On this scale, most social media channels would probably fall between customer referral and SEO or between SEO and PR/link building, depending on the type and aggressiveness of your effort in a particular marketing channel. Traditional offline media, by contrast, would have a lower ROI than banner advertising.



As with performance metrics, business metrics such as CCA and ROI aren't perfect. If you track everything consistently, however, you can at least compare results by marketing channel to help you make informed business decisions.

If you garner leads online but close your sales and collect payments offline, you can frame CCA as the cost of lead acquisition, recognizing that you may need to add costs for staff, collateral, demos, travel, and other items to convert a lead.

For a rough idea of your cost of customer acquisition, complete the spread-sheet shown in Figure 3-2, which is adapted from the spreadsheet at www. forentrepreneurs.com. For start-up costs, include the labor expense, contractors for content development, and any other hard costs related to your social media activities. Or, try the CCA calculator at http://onlinemarketinglocal.com/calculator/customer-acquisition-costs.php, substituting social media costs for Web expenses.

To put things in perspective, remember that the traditional business school model for offline marketing teaches that the CCA is roughly equivalent to the profit on the amount a customer spends during the first year.

Because you generally see most of your profits from future sales to that customer, you must also understand the *lifetime customer value* (how much and how often a customer will buy), not just the revenue from an initial sale. The better the customers, the more it's worth spending to acquire them. Harvard Business School offers an online calculator for determining lifetime customer value at http://hbswk.hbs.edu/archive/1436.html.

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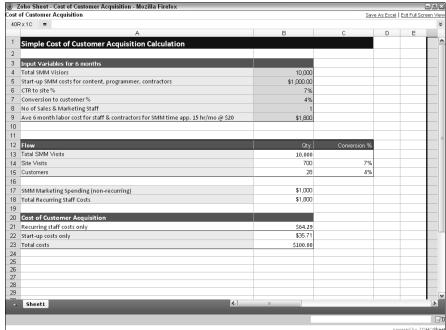


Figure 3-2: Compare CCA for social media marketing with the average CCA across your entire business.

Courtesy www.forentrepreneurs.com



Don't make the mistake that CDNOW Online made during the dot-com bubble. It spent about \$40 to acquire each new customer but saw only \$25 in lifetime customer value. The more customers CDNOW acquired, the more money it lost. Obviously, that business model isn't a helpful one to emulate.

In its *State of Retailing Online 2009* report for Shop.org, Forrester Research estimated that the cost of acquiring an online customer is now about half the cost of acquiring an offline customer. However, as shown from the earlier calculations in Figure 3-2, *half* doesn't mean *cheap*.



Try to keep the total cost of marketing by any method to 6 to 11 percent of your revenues. Remember, customer acquisition is only part of your total marketing budget; allow for customer retention and branding expenses as well. Small businesses (under 100 employees), new companies, and new products usually need to spend toward the high end of the scale on marketing initially — perhaps even more. By comparison, mature, well-branded product lines and companies with a large revenue stream can spend a lower percentage on marketing.

Obviously, anything that can reduce marketing costs offers a benefit. See whether your calculation bears out that cost level for your investment in social media. CCA may go down over time as brand recognition and word of mouth kick in.

One is silver and the other gold

You might remember the words to that old Girl Scout song: "Make new friends but keep the old; one is silver and the other gold"? To retain customers, apply that philosophy to your policy of customer satisfaction. That may mean anything from sending holiday greetings to establishing a loyalty program with discounts for repeat buyers; from entering repeat customers into a special sweepstakes to offering a coupon on their next purchase when they sign up for a newsletter.

The Chief Marketing Officer Council has estimated that "acquiring new customers can cost five times more than satisfying and retaining current customers." In case you needed it, the CMO Council's statement gives you a significant financial reason to listen to customers' concerns, complaints, product ideas, and desires.

While you lavish time and attention on social marketing to fill the top of your funnel with new prospects, don't forget its value for improving relationships with current customers and nurturing their engagement with your brand.



Selling a product to an existing customer is almost always less expensive to attend to than to acquire a new one.

Establishing Key Performance Indicators for Sales

If you track ROI, at some point you must track revenue and profits as business metrics. Otherwise, there's no ROI to compute.

If you sell online, your storefront should provide ways for you to slice and dice sales to obtain crucial data. However, if your sales come from services, from a brick-and-mortar store, or from large contractual purchases, you probably need to obtain revenue statistics from financial or other external records to plug into your ROI calculation.



If you manage a bricks-and-clicks operation, you may want to integrate your online and offline operations by selecting e-commerce software from the vendor who provides the *point-of-sales (POS)* package for your cash registers. That software may already be integrated with your inventory control and accounting packages.

Just as with performance metrics, you should be able to acquire certain key performance indicators (KPI) for sales by using storefront statistics:

- ◆ Determine how often customers buy (number of transactions per month); how many new customers you acquire (reach); and how much they spend per transaction (yield).
- ◆ Look for sales reports by average dollar amount as well as by number of sales. Plugging average numbers into an ROI calculation is easier, and the results are close enough as long as the inputs are consistent.

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- ◆ You should be able to request order totals for any specified timeframe so that you can track sales tied to promotions, marketing activities, and sale announcements.
- ◆ Look for the capability to sort sales by new and repeat customers, to allow for future, personalized offers and to distinguish numbers for CCA.
- ◆ Your sales statistics should include a conversion funnel. Try to trace the path upstream so that you can identify sales initiated from social media.
- ◆ Check that data can be exported to a spreadsheet.
- Make sure that you can collect statistics on the use of promotion codes by number and dollar value so that you can decide which promotions are the most successful.
- ✦ Having store reports that break down sales by product is helpful. Sometimes called a *product tree*, this report shows which products are selling by SKU and category.

Table 3-1 lists some storefront options that integrate with social media and offer sales analytics. Unfortunately, not all third-party storefront solutions offer ideal tracking. Many storefront solutions use Google Analytics, shown in Figure 3-3, to track transactions.

Name	URL	Type of Sales Stats Available Google Analytics or e-commerce used	
Google E-Commerce Tracking	http://code.google.com/ apis/analytics/docs/ tracking/gaTracking Ecommerce.html		
ProductCart	www.earlyimpact.com	Google Analytics integra- tion; can track social media widgets as affiliates	
Mercantec	www.mercantec.com	Google Analytics e-commerce tracking and statistics	
Wishpot	www.wishpot.com/ social-commerce	View and click tracking or profile pages and synced social networks; can iden tify user demographics	



If you created alternative SKUs for products sold by way of social media for tracking purposes, be sure to merge them into the same category of your product tree. Using multiple SKUs isn't recommended if your storefront solution includes inventory control.



Figure 3-3: Ubercart obtains its e-commerce statistics from Google Analytics.

Figure 3-4:

forecasting

calculator

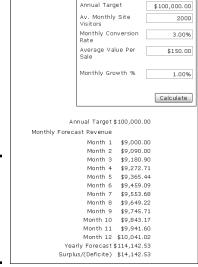
Panalysis.

Sales

from

Courtesy Prima LLC

You can input the numbers from your sales metrics into a sales calculator to forecast unit sales needed to meet your goals. Figure 3-4 shows a calculator from Panalysis at www.panalysis.com/sales_target_calculator/index.php.



Courtesy Panalysis.com

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Tracking leads

Often, your social media or Web presence generates leads instead of, or in addition to, sales. If your sales process dictates that some or all sales are closed offline, you need a way to track leads from initiation to conversion. Marketing Sherpa, a marketing research firm, tracks the process of tracking leads from the initial acquisition of customers' names or e-mail addresses from sales. Percentages given are for each step compared to the original number of visitors. See Figure 3-5.

Customer Relationship Management (CRM) software helps you track prospects, qualified leads, and customers in an organized way. A simple database might allow different managers, salespeople, and support personnel to share a client's concerns or track its steps within the selling cycle.

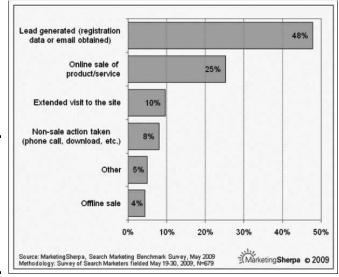


Figure 3-5: A typical progression from tracking leads to converting a buyer.

Source: MarketingSherpa.com

The process of CRM and lead management may also include qualifying and nurturing leads, managing marketing campaigns, building relationships, and providing service, all while helping to maximize profits. You can find a list of some lead monitoring and CRM software options in Table 3-2.



Though often thought of as the province of B2B companies offering high-ticket items with a long sales cycle, lead-tracking tools can help you segment existing and prospective customers, improve the percentage of leads that turn into clients, and build brand loyalty.

Table 3-2	Lead Monitoring and CRM Software				
Name	URL	What You Can Do	Cost		
BatchBook	www.batchblue. com	Integrate social media with CRM	Free 30-day trial or as many as 200 contacts; starts at \$9.95 per month		
HubSpot	www.hubspot.com	Manage inbound leads	Free 7-day trial, starts at \$250 per month		
LEADS Explorer	www.leads explorer.com	See who's visiting your Web site	Free 30-day trial; starts at \$34 per month		
Splendid CRM	www.splendid crm.com/ Products/ SplendidCRM Community/ tabid/71/ Default.aspx	Install open source CRM software	Free core version; fee starts at \$10 per user per month		
Zoho CRM	www.zoho.com/ crm/index.html	Implement cus- tomer relationship management software	Free for 3 users; starts at \$12 per user per month		

Figure 3-6 shows the distribution of leads and sales respectively with analytical tools provided by HubSpot. Note how the distribution of leads by marketing channels differs from the ultimate distribution of sales.



You can export your Google Analytics results to a spreadsheet and create a similar graphical display.

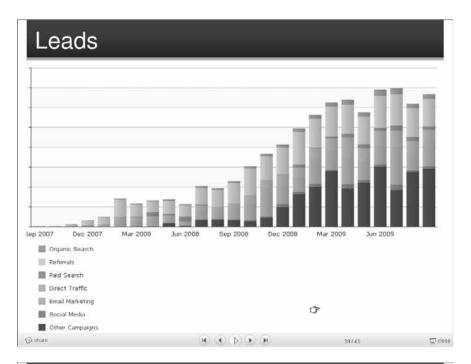
Understanding Other Common Business Metrics

Your bookkeeper or accountant can help you compute and track other business measurements to ensure that your business turns a profit. You may want to pay particular attention to estimating your break-even point and your profit margin.

Break-even point

Computing the *break-even point* (the number of sales needed for revenues received to equal total costs) helps determine when a product or product line will become profitable. After a product reaches break-even, sales start to contribute to profits.

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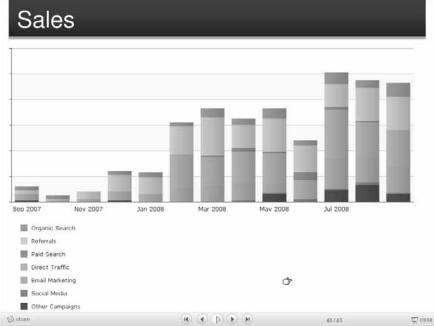


Figure 3-6:
HubSpot
offers lead
monitoring
software
that
displays the
distribution
of leads and
sales by
originating
marketing
channel.

Courtesy HubSpot® www.HubSpot.com

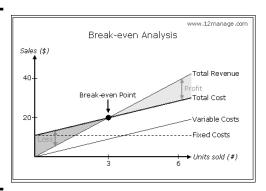
To calculate the break-even point, first you need to figure out the *cost of goods* or *average variable costs* (costs such as materials, shipping, or commission that vary with the number of units sold) and your *fixed costs* (charges such as rent or insurance that are the same each month regardless of how much business you do). Then plug the amounts into these two formulas:

```
revenues - cost of goods (variable) = gross margin
fixed costs ÷ gross margin = break-even point (in unit sales)
```

Figure 3-7 shows this relationship. This graph of the break-even point shows fixed costs (the flat horizontal line) to variable costs (the diagonal line) to plot total costs. After revenues surpass the break-even point, each sale contributes to profits (the shaded area on the right).

The break-even analysis tool from the Harvard Business School Toolkit (http://hbswk.hbs.edu/archive/1262.html) can also help calculate your break-even point.

Figure 3-7:
The breakeven point
to plot
total costs.
Each sale
contributes
to profits
(the shaded
area on the
right).



Profit margin

Net profit margin is defined as earnings (profits) divided by revenues. If you have \$10,000 in revenues and \$1,500 in profits, your profit margin is 15 percent. Don't confuse your net profit margin with the gross margin (refer to Figure 3-7).

Revenue versus profit

One of the most common errors in marketing is to stop analyzing results when you count the cash in the drawer. If you don't believe this statement, check out the CDNOW example from the earlier section "Comparing the costs of customer acquisition."

You can easily be seduced by growing revenues, but it's profit that matters. Profit determines your return on investment, replenishes your resources for growth, and rewards you for taking risks.

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Determining Return on Investment

Return on investment (ROI) is a commonly used business metric that evaluates the profitability of an investment or effort compared to its original cost. This versatile metric is usually presented as a ratio or percentage (multiply the following equation by 100). The formula itself is deceptively simple:

```
ROI = (Gain from Investment - Cost of Investment)÷
   Cost of Investment
```

The devil is, as usual, in the details. The cost of an investment means more than cold, hard cash. Depending on the type of effort for which you're computing ROI, you may need to include the cost of labor (including your own!), subcontractors, fees, and advertising for an accurate picture. When calculating ROI for your entire business, be sure to include overhead, cost of goods, and cost of sales.

You can affect ROI positively by either increasing the return (revenues) or reducing costs. That's business in a nutshell.



Because the formula is flexible, be sure that you know what others mean when they talk about ROI.

You can calculate ROI for a particular marketing campaign or product or an entire year's worth of marketing expenses. Or, compare ROI among channels, comparing the net revenue returned from an investment in social media or SEO to paid advertising.



Run ROI calculations monthly, quarterly, or yearly, depending on the parameter you're trying to measure.

Try the interactive ROI calculator at www.clickz.com/_imgs/calculator/Optimization_Calculator_WEB.swf, also shown in Figure 3-8. You can modify this model for social media by treating Monthly Site Visits as social media visits; Success Events as click-throughs to your main site, and Value of Success Events as the value of a sale.

ROI may be expressed as a *rate of return* (how long it takes to earn back an investment). An annual ROI of 25 percent means that it takes four years to recover what you put in. Obviously, if an investment takes too long to earn out, your product — or your business — is at risk of failing in the meantime.



If your analysis predicts a negative ROI, or even a very low rate of return over an extended period, stop and think! Unless you have a specific tactical plan (such as using a product as a loss leader to draw traffic), look for an alternative effort with a better likelihood of success.

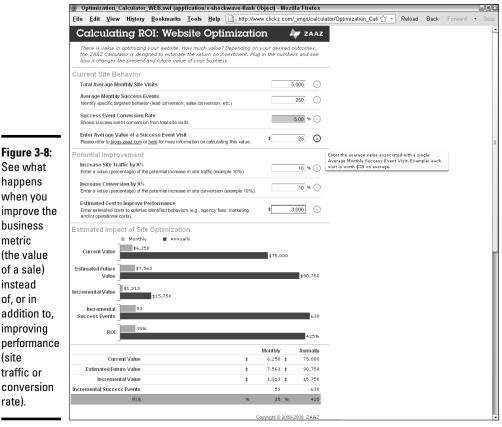


Figure 3-8:

See what happens

when you

metric

instead

of, or in

(site

rate).

traffic or

conversion

addition to, improving

(the value of a sale)

improve the business

Courtesy ZAAZ and ClickZ

Technically speaking, ROI is a business metric, involving the achievement of business goals, such as more clicks from social media that become sales, higher average value per sale, more repeat sales from existing customers, or reduced cost of customer acquisition.

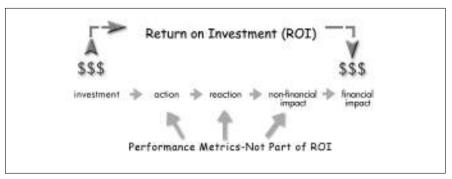
Many people try to calculate ROI for social media based on performance metrics such as increases in

- ◆ The amount of traffic to Web site or social media pages
- ♦ The number of online conversations that include a positive mention of your company
- ★ References to your company versus references to your competitors
- ◆ The number of people who join your social networks or bookmark your sites
- ♦ The number of people who post to your blog, comment on your Facebook wall, or retweet your comments

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These measurements may be worth monitoring, but they're only intermediate steps in the ROI process, as shown in Figure 3-9.

Figure 3-9:
This figure
illustrates
the
relationship
between
performance
metrics and
business
metrics for
ROI.



Source: BrandBuilder, "Olivier Blanchard Basics Of Social Media Roi" www.slideshare.net/thebrand builder/olivier-blanchard-basics-of-social-media-roi (#35)

Here's how to calculate your return on investment:

 Establish baselines for what you want to measure before and after your effort.

For example, you may want to measure year-over-year growth.

2. Create activity timelines that display when specific social media marketing activities take place.

For example, when you start a blog or Twitter campaign.

- 3. Plot business metrics over time, particularly sales revenues, number of transactions, and net new customers.
- 4. Measure transactional precursors, such as positive versus negative mentions online, retail store traffic, or performance metrics.

For example, blog posts or site visits.

- 5. Line up the timelines for the various relevant activities and transactional (business) results.
- 6. Look for patterns in the data that suggest a relationship between business metrics and transactional precursors.
- 7. Prove those relationships.



Improvement in performance metrics doesn't necessarily produce better business results. The only two metrics that count toward ROI are whether your techniques reduce costs or improve revenue.

Crafty Chica does it all

Crafty Chica is an excellent example of a business that integrates multiple types of social media into an online identity strategy, with a really high return on investment.

The lifestyle Web site CraftyChica.com provides creative inspiration through crafts and writing and living a more artful life. Kathy Cano-Murillo, an artist, an author, and a newspaper columnist — and the owner and sole employee of Crafty Chica — posts hundreds of projects on her Web site so that other people can make them, too.

What started as hobby in May 2001 became a full-time enterprise in 2007 when iLoveToCreate.com, a Duncan Enterprises company, hired Murillo to turn Crafty Chica into a national brand and launch a retail product line. Murillo has since demonstrated her crafts on national TV shows, appeared in such high-profile publications as USA Today and The New York Times and on NPR on Weekend Edition Sunday, and authored seven craft books under the Crafty Chica label.

Crafty Chica targets creative women who incorporate art into their lives, with submarkets of crafters, do-it-yourselfers, Latinos, and teachers. That demographic, which closely matches that of social media users, is ideal for the multifaceted Web presence Murillo has embraced.

In addition to the CraftyChica.com Web site (shown in the nearby figure) and three others, you can find Murillo on multiple social media outlets: her blogs (http://thecraftychica.blogspot.com and www.chicawriter.com), Twitter (www.Twitter.com/craftychica), Facebook (www.Facebook.com/thecraftychica), MySpace (www.Myspace.com/

craftychica), YouTube (www.Youtube.com/craftychica), Flickr (www.flickr.com/craftychica), LinkedIn (www.linkedin.com/in/craftychica), Goodreads, and Amazon. "Each one is different," Murillo notes. "I fine-tune my activity to fit them. Even though [I may] duplicate info, I often reword it or give it a different presentation to fit that certain crowd."

An early adopter of social media, Murillo says, "I look at each of these social networking sites as a happening party that I have to go to and be seen [at]! The party doesn't come to you — you have to go to the party!"

All these services "expose my work and my brand to new people," she explains. "My business is about art, and art is about seeing," Murillo points out. "Many people don't want to read all the details; they just want to see the picture. I upload pictures of everything I make, as well as events I attend." She promotes her social media presence with links on her home page and in her blogs, which she also uses to describe other projects, such as her crafts cruise or new books.

"I often trade button ads with other sites [and] do a lot of cross-blogging." Ever aware of marketing, Murillo always takes a stack of postcards to all her events and crafts fairs. "I do contests, photo contests — anything to keep the content exciting!"

Murillo has some pointed advice to business users of social media. "Take it seriously, learn to improve your photo skills, and get involved in the community — so many new people to meet. Let your pictures tell your story and sell your brand!"

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(continued)

Craft Chica Web Sites

CraftyChica.com (primary site) ChicanoPopArt.com (her online store for

original fine art)

ChicaWriter.com (for her books) iLoveToCreate.com/craftychica.aspx

(online store for the Crafty Chica product line)



Courtesy www.craftychica.com