



Previous Dilemma: The price of social media

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The buzz about social media marketing makes me think about the dilemma that social media poses to each and every business entity: What is the cost of participating versus the risk associated with not embracing social media marketing?

I've read many articles and reviewed many presentations that show social media may not have a true return on investment, but it provides a return on relationships. There must be some way of estimating results. How do I make a business case for social media without ROI numbers? Should I make an educated guess? Or should I just proceed and try to measure?

— Numbers cruncher

Summary of Advice Received

Social Media ROI Is Return on Relationships

Build broader, deeper and meaningful relationships with customers

by Meryl K. Evans, Editor, *Professional Services Journal*

In 2008, three out of four Americans used social media, according to Forrester's *The Growth of Social Technology Adoption*. This number is up from 56 percent in 2007. Nielsen's March 2009 report, *Global Faces and Networked Places*, states that two-thirds of the world's Internet population visit a social network or blogging site, and the sector now accounts for almost 10 percent of all Internet time.

Do you really want your company to miss out on social networking with data like this? No other outlet helps you reach this many people with little investment. Imagine the cost of sending a postcard to this many people when you factor in the cost of paper, printing and postage.

Whether you're trying to convince management to include social media in its strategy or decide if it's worth pursuing, consider the following.

- ▣ Review your business goals and target audience.
- ▣ Use the same process you do for other marketing efforts.
- ▣ Look for business case studies.
- ▣ Consider the cost of not participating.

Review your business goals and target audience

No business dives into anything without planning to identify goals and determining its target market. You need to know this before jumping into social media. "Having concrete goals and concrete baselines is crucial to calculating your return on investment," says Christine G Taylor, JTMarcCom. "So before you set out to measure and monitor your social media returns, have a clear idea of what you want to accomplish." You can't create a baseline for your new or changed social media strategy until you define these goals.

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Taylor says, "For example, if your goal is to increase social media mentions of your company, to measure the ROI of any actions toward that goal, know where you stand now. You can't evaluate the ROI accurately without a baseline."

She shares a formula for calculating ROI: "As a standard formula, ROI is pretty basic, $ROI = (X-Y)/Y$, where X is your final value and Y is your starting value. In other words, if you invest \$5 and get back \$20, your ROI is $(20-5)/5 = 3$ times your initial investment," she says.

Use the same process you do for other marketing efforts

You are measuring your current marketing efforts, right? Measuring social media isn't much different. "Social media, like any other Internet-related marketing campaign, is easy to measure. On the other hand, how do you measure the ROI of a press release? A trade show?

"Part of social media is definitely a similar 'overhead' expense, but through a combination of Google Analytics and targeted campaigns, there is no reason why you can't and shouldn't measure social media ROI," Neal Schaffer, Windmill Networking.

Here's a simple way to look at measuring ROI. "Cost of participating is the time investment, resources allocated and opportunity cost of working on another campaign," says Nick Shin.

You may look at the time you invest for employees to engage in other activities. Apply the same principle to social media. "A simple method for measuring ROI of social media is by quantifying the time you put in. That's your investment — what do you get in return? Of course, you can measure sales and profits, but you can also survey prospects and customers over time to see changes in their perceptions of your company and products," says Gaetan Giannini, professor at Cedar Crest College and author of *Marketing Public Relations: A Marketers Approach to PR and Social Media*.

Dave Ferrick, senior webmaster for Ipswitch WhatsUp Gold, provides an example comparing an email newsletter to using Facebook.

Say you have a Web site and a monthly email newsletter for your services business. "Looking at the last six months, you've found that 17 percent of your 3,000 newsletter subscribers ended up purchasing something from your Web site at an average selling price (ASP) of \$70. This brings in about \$35,700 (510 subscribers x \$70 ASP)."

Creating a Facebook page for your business costs nothing except employee time. Let's say the \$62,400-per-year employee spends an average of five hours a week on Facebook-related activities for a total of 60 hours or \$1,800. Advertising on Facebook for people to become a fan costs \$2,700 for three months and brings in 1,500 fans in three months. Your email newsletter company may have a free widget that you can add to your Facebook page to encourage people to subscribe to your newsletter. But we'll throw in \$4,000 to create a widget. About 300 Facebook fans subscribe to your email newsletter. At \$70 ASP, this brings in \$21,000, minus the cost of ads, employee and widget, bringing you a profit of \$12,500.

Look for business case studies

Case studies can give you success stories you can share with your company to make the argument. Do a search using a variation of keywords: "social media," "business," "case studies" and "examples" together. You can easily find many books, articles, case studies and blog entries explaining how a business uses social media. [Texas Instruments \(TI\) measures engagement](#), and the company found that twice as many members of its online forum engaged with the company "broader, deeper and more recent."

Melyssa Bernstein, emerging media specialist with CKR Interactive, says, "Showing case studies of other successful social media campaigns can help make a business justification. Social media is changing the way we structure business. You can't apply the social-media model to the old business model and expect the same results. I think a strong business case is being able to shift the mindset first and foremost."

Consider the cost of not participating

A company not active in social media will have a hard time addressing a crisis like HP did. During the peak of the holiday selling season, the social sphere was abuzz with links to a YouTube video, titled "HP Computers are Racist." The genesis of the video was a motion detector on an HP Web cam that could not acknowledge a black face.

HP responded to negative posts at myriad social media sites within a few hours. It extinguished the flame with an apology, an explanation of the technology and the fact it was working on the glitch. "The fact that HP had a social media strategy balanced the Google search sphere at a critical time when people were shopping and comparing for their holiday purchase," says Rodney Mason, CMO, Moosylvania.

It's not hard to realize that HP avoided losing a lot of sales by taking action rather than standing by and letting the crisis smear company's name.

Along the same vein, social media builds relationships. Missing out on this means missing out on potential business. "You may want to look at a 'negative' social ROI of social media. In other words, organizations and leaders NOT taking part in the conversations and relationship building that happens through social media will be hard pressed in the future to have access to timely (real time) information and trusted relationships that they can energize immediately to help drive solutions, innovation, etc.," says David Lange, *Aventine Associates*.

"If you make too strong a case for metric-based decision-making, you are lobbying to be replaced by a computer. Social media can put a warm human face on a corporation, but only if there is a warm human face behind the Twitter account," says Mike Poller of *Poller & Jordan Advertising*.

Six themes emerged from the many responses. When they use social media, companies do the following:

1. Show thought-leadership.
2. Get intelligence on competitors.
3. Stay in people's minds.
4. Keep an eye on their brand.
5. Provide customer service.
6. Boost traffic to their Web site.

Bill French, co-founder, MyST Technology Partners, Inc., says ROI is subjective: "All business activities have consequences, and [therefore], companies can assert a basis for ROI in every situation. Calculating it is another question. Generally, it's impractical for most business activities, especially those that have numerous [subjective] variables."

About the author

Meryl K. Evans is senior editor at InternetVIZ and the content maven behind the *Connected Digest*, *B2B Social Media Digest* and *Professional Services Journal*. Follow her on Twitter @merylkevans.

Comments (4)

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1. **Bill French** says:
March 18, 2010 at 5:06 pm
Meryl – enjoyed your post and thanks for including my viewpoint.
I also expanded on this subject to provide additional context for my assertion that some business activities – including some social media marketing activities – need not endure rigid ROI analysis.
<http://blogsite.com/public/item/252562>
[reply](#)
1. **Meryl** says:
March 19, 2010 at 8:39 am
Bill, thanks for taking the story further and posting the link here so others may see it.
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2. **Christine Taylor** says:
March 18, 2010 at 8:45 pm
Great article. You make me seem smarter than I feel on most days. Thank you!
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1. **Meryl** says:
March 19, 2010 at 8:39 am
Thank you, Christine, for your comments!
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