

July 16, 2010

The ROI Of Social Media Marketing

by Augie Ray

for Interactive Marketing Professionals



July 16, 2010

The ROI Of Social Media Marketing

A Balanced Marketing Scorecard Thoroughly Validates Social Media Value

by **Augie Ray**

with Nate Elliott, Emily Riley, and Jennifer Wise

EXECUTIVE SUMMARY

The demand has never been greater for marketers to validate and measure the benefits delivered by their increasing investment in social media. Marketers often frame this question as, “What is the ROI (return on investment) of social media?” but financial metrics are just one way of evaluating social media marketing programs. Social media marketing delivers a wide range of benefits to organizations that are beneficial in the short term and long term in ways both quantitative and qualitative. To properly value the impact of their social media marketing investments, interactive marketers must align their objectives, metrics, targets, and strategies across four perspectives — the financial perspective, the digital perspective, the brand perspective, and the risk management perspective.

TABLE OF CONTENTS

- 2 **Social Media Delivers Results That Are More Substantial Than Mere ROI**
- 3 **A Balanced Social Media Marketing Scorecard Delivers The Entire Picture**
- 5 **The Financial Perspective Measures Social Media’s Impact On Sales**
- 6 **Survey Consumers To Measure The Brand Perspective**
- 6 **The Risk Management Perspective Is ROI You Cannot Measure (But Can Estimate)**
- 7 **The Digital Perspective Complements Other Perspectives**

RECOMMENDATIONS

- 8 **Robust And Varied Metrics Validate Social Media Investments**

WHAT IT MEANS

- 9 **Social Media Is Maturing; Metrics Must Mature Along With It**
- 9 **Supplemental Material**

NOTES & RESOURCES

Forrester interviewed seven vendor and user companies, including Bazaarvoice, Best Buy, imc², Lithium Technologies, Razorfish, Toyota, and Zappos.com.

Related Research Documents

[“Three Steps To Measuring Social Media Marketing”](#)

October 29, 2009

[“US Interactive Marketing Forecast, 2009 To 2014”](#)

July 6, 2009

SOCIAL MEDIA DELIVERS RESULTS THAT ARE MORE SUBSTANTIAL THAN MERE ROI

Marketing investment in social media is increasing, yet marketers continue to struggle with the methodologies for validating these investments. In the absence of standardized best practices, some turn to ROI as a means of proving social contributions, but many benefits delivered by social media are not easily measured in dollars and cents.¹ Marketers can and should measure financial return but cannot overlook other vital measures of social media success and contribution.

Brands that sell directly to online consumers can easily match social media tactics to financial outcomes, but what about brands that do not sell directly? Some marketers try to use proxies to assign financial value to nonfinancial metrics such as likes, followers, retweets, blog comments, and positive reviews. For example, a brand might calculate the advertising or PR value of impressions made in a newspaper ad or article and then apply this same value to impressions on Twitter. But this type of proxy carries risks that include:

- **Failing to measure true business value.** Assigning a value to a fan on Facebook is problematic because fans have little innate value; it is what brands do with their followers — not merely that they have them — that creates value. A mass of followers that “like” the brand but never return to the fan page is far less valuable than a handful of followers who frequently share brand updates with friends.
- **Getting in the way of achieving objectives.** For example, a brand that sets out to increase unaided awareness may implement a strategy to grow Twitter followers via a social media sweepstakes. But if the brand only counts followers, hashtags, and retweets while failing to measure if consumers recall the brand when asked in the appropriate context, it cannot know if the program achieved its original marketing objective.
- **Arriving at an incorrect value for social efforts.** While it is tempting to take the costs and values from other channels and apply them to social interactions, this can result in inaccurate value outcomes. For example, a marketer wishing to ascertain the value of traffic from a social site may apply the Cost Per Click from a Google AdWords campaign to each visit received from Twitter, but unless both channels produce equivalent conversions and deliver consumers of equal value, this value calculation will be inaccurate.
- **Failing to attribute results to those channels and investments that deliver the results.** Social media marketing is not limited to social networks or even online channels. PepsiCo supported its social media program, Pepsi Refresh Project, with a television campaign to drive awareness of the program and traffic to the Pepsi microsite. With offline, online, and social strategies increasingly integrated, attributing value to the “last touch” on social networks can result in undervaluing other marketing vehicles.

A BALANCED SOCIAL MEDIA MARKETING SCORECARD DELIVERS THE ENTIRE PICTURE

The best way to measure the impact of social media, as with other diverse efforts in the organization, is through a wide range of metrics that are both directly and indirectly financial. In their 1996 book, *The Balanced Scorecard: Translating Strategy into Action*, Dr. Robert S. Kaplan and Dr. David P. Norton offered an approach for avoiding narrow ROI-based performance management and instead presented a means to capture all of the benefits of corporate initiatives.² The Balanced Scorecard they prescribed monitors business impact from four perspectives: financial, customer, internal processes, and learning and growth.

Because social media delivers a broad range of advantages to marketers, a similar approach is necessary to fully capture the value delivered by social media programs and tools. A balanced social media marketing scorecard will consider and monitor effects across four perspectives that balance the short term and long term and the directly financial with indirectly financial outcomes (see Figure 1):

1. **Financial.** Has revenue or profit increased or costs decreased?
2. **Digital.** Has the company enhanced its owned and earned digital assets?
3. **Brand.** Have consumer attitudes about the brand improved?
4. **Risk Management.** Is the organization better prepared to note and respond to attacks or problems that affect reputation?

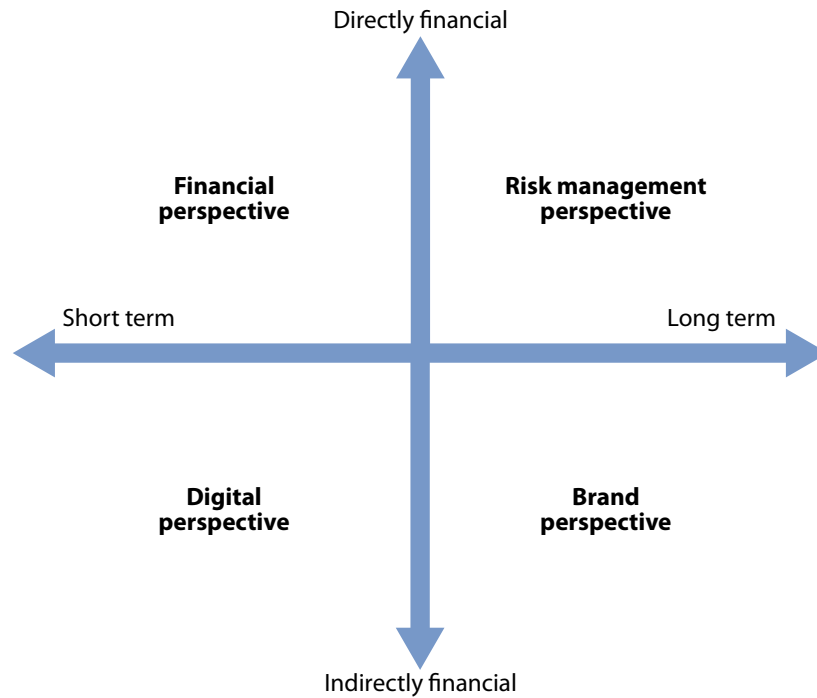
Balanced Scorecards aren't just a measurement process. When thoroughly defined as a part of the objective-setting process, a Balanced Scorecard can help you:

- **Align measurement to all corporate objectives, not just sales.** The use of objectives, measures, and targets focuses less on ROI than ROO — return on objectives. A properly designed social media marketing Balanced Scorecard validates achievement of broad-based objectives rather than merely counting dollars.
- **Enhance the strategic development process.** A Balanced Scorecard not only defines measurement criteria for use after launch but also aids in the development of ideas prior to launch. Defining success measures and setting targets for those measures furnish a solid foundation for approving or rejecting proposed strategies and tactics.
- **Build consensus.** Social media teams need to satisfy many company stakeholders, often with conflicting or undefined expectations. Gaining consensus on metrics and targets is a means to take account of the needs of all stakeholders and keep project teams collaborating around shared goals.

- **Avoid short-term gains coming at the expense of long-term brand health.** Financial results are important but even when marketers can easily measure direct sales, they must not forget to test other important results. Frequent promotions seeded into social channels may generate inexpensive sales but can damage brand health by decreasing the attention from some consumers or substituting affinity for the brand with affinity for discounts.

To create your own social media marketing Balanced Scorecard, consider each of the four perspectives, and determine the appropriate metrics and targets within each. You may not need all four perspectives for every social media program, but considering the benefits from as many perspectives as possible will help you avoid the narrow metrics that result in ineffective strategies, incomplete measurement, and incorrect business decisions.

Figure 1 Four Perspectives Of A Social Media Marketing Balanced Scorecard



THE FINANCIAL PERSPECTIVE MEASURES SOCIAL MEDIA'S IMPACT ON SALES

Financial metrics work best when marketers use social media for direct response marketing or for augmenting eCommerce sites with social functionality.³ Increases in conversions and revenues per sale are the most obvious monetary result — and are relatively easy to measure using trackable URLs and adserver tags — but marketers can measure a wide range of other financial benefits:

- **Measure improved promotion response rates with social-enabled commerce.** Some e-retailers are measuring improvements in promotional response rates by inserting storefronts directly into social channels. For example, social commerce company Alvenda has implemented eCommerce-enabled news posts on Facebook for brands such as 1-800-Flowers. Alvenda reports that eCommerce-enabled news feed posts drive 18.4 times more sales per impression than Web site links posted in news feeds.
- **Measure improvements in average consumer spend and share of wallet.** Fair Isaac Corporation (FICO), which offers credit products that help protect financial health, implemented a Lithium community and found that spending for those in the myFICO community increased 66%. Charles Schwab Trading launched a Jive community and observed that members completed 80% more trades than those outside the community.
- **Measure the savings from decreased return rates.** Bazaarvoice, which provides ratings and review services for Web sites, evaluates not just the sales but also the return rates on Petco.com. Products with reviews have return rates that are 20% lower than those without reviews — and the return rate is 45% lower for products with more than 25 reviews — saving on shipping, restocking, and customer service costs.
- **Measure other costs eliminated.** The Intel Channel Voice community, launched using the Jive community platform, allows customers to interact with each other in ways that used to occur only at costly Intel conferences. The company has been able to decrease the number of customer conferences it holds, saving upwards of \$500,000 for each.
- **Use media mix modeling to validate brand impact in the social channel.** This approach quantifies how investments in social channels deliver results compared with other media. Unfortunately, this measurement technique is expensive; for example, Procter & Gamble applies media mix modeling only to its largest brands. Using media mix modeling, P&G found that BeingGirl.com, a community for girls sponsored by the Tampax and Always brands, was several times more effective at driving sales than the brands' television ads.⁴

SURVEY CONSUMERS TO MEASURE THE BRAND PERSPECTIVE

Marketers don't need to reinvent brand metrics for the social media age. The same tried and true surveying methodologies used to measure brand lift in traditional media also work in social media. The key is to define your objectives, select the brand attributes that fit those objectives — awareness, purchase intent, preference, brand association, or other measures of long-term brand health — and then plan surveying methodologies to measure the impact on consumer perception. Examples of the brand perspective validating social media results include:

- **Secret, which improved brand associations with Facebook programs.** By implementing programs such as “Let Her Jump,” a petition to let Lindsey Van and other female ski jumpers compete in the 2014 Winter Olympics, Procter & Gamble’s antiperspirant brand Secret created social relevance and built a fan base. The brand used a combination of online surveys of Facebook users and Nielsen Brand Lift surveys to discover that the belief that Secret deodorant works better than other deodorants increased 8 points and purchase intent jumped 11%.
- **NASCAR, which enhanced brand perception with a private advocate community.** NASCAR launched the “Fan Council,” a prequalified online community of 12,000 members, to listen to and engage fans. The community fueled a significant rule change in the sport, which was met with praise among NASCAR’s larger audience. The brand found that it had increased key brand attributes like “thrilling and exciting,” “down-to-earth,” and “good public image” by 10% or more.⁵

THE RISK MANAGEMENT PERSPECTIVE IS ROI YOU CANNOT MEASURE (BUT CAN ESTIMATE)

Social media delivers not just financial, brand, and digital results but also creates an asset the organization can use when challenges arise. This perspective is not about creating positive ROI but reducing unforeseen negative ROI in the future (see Figure 2). The way to assess this perspective is to:

- **Estimate the costs of potential PR issues.** These costs may include internal and external expenditures, lost sales, diminished executive productivity, and others.
- **Forecast the likelihood of these issues in the next year.** Is it likely a given scenario may occur once every two years or once every 10?
- **Consider the extent to which the costs may be reduced.** How much might costs be reduced as a result of the listening, dedicated social media resources and community of fans and advocates available when needed?

The costs of a social PR crisis can be substantial.⁶ To generate a value for the risk management perspective, consider how your social media preparedness and assets can reduce these costs across several different social media crisis scenarios. For instance, a midsized company might consider the social implications of a batch of defective products caused by unforeseen manufacturing issues in an overseas plant — and find that involvement in social media helps insure them against an average annual possible risk of \$25,000.

Figure 2 The Value Of Social Media Efforts

Description	Example
Estimated costs should customers create hundreds of thousands of negative impressions about product quality	\$50,000 of outside PR costs + \$100,000 additional advertising media costs + \$50,000 additional customer service costs + \$100,000 of lost executive time and focus + \$50,000 short-term loss of sales + \$20,000 to fly advocates to testing facility for tour + \$5,000 cash outlays (such as contributions made to charities) = \$375,000 total value of worst-case scenario
Likelihood of occurrence	20% (once-every-five-year occurrence)
Percent social media assets can mitigate effects	33% (because the company's rapid response team can engage advocates and reduce customer service costs, lost sales, and media costs)
Total value of risk mitigation	$\$375,000 \times 20\% \times 33\% = \$25,000$

57009

Source: Forrester Research, Inc.

THE DIGITAL PERSPECTIVE COMPLEMENTS OTHER PERSPECTIVES

There are several ways to measure gains in owned media (such as company Web sites, communities, and blogs) and earned media (the mentions the company receives or creates in social channels such as social networks, third-party blogs, and forums):

- **Measure social media programs' impact on search engine relevance.** For example, the myFICO community has created content that drives substantial search engine relevance and traffic; community URLs have grown to account for 39% of all myFICO.com traffic from search engines. When Swanson Health Products improved the visibility of its product reviews to search engines, it saw a 163% increase in search engine traffic to product pages.
- **Measure traffic to and beside owned media to track all brand touchpoints.** Consumers are increasingly interacting with brands in multiple online locations, not just branded Web sites. Measuring the flow of your social media traffic along with your other online presences such as your site permits you to recognize where consumers are most likely to touch the brand, see information, and research purchases. Information such as this helps executives to understand the value of social efforts and aids with your overall content and traffic flow planning.
- **Measure short-term metrics when your objectives are short term.** The key to selecting worthy social media metrics is to link these to the program's overall objectives.⁷ For example, if your goal is to increase your Facebook fan base, you can consider this as part of your digital

perspective. Interactive agency Razorfish demonstrated improvements to Levi Strauss & Co.'s earned assets by measuring fans and views. Each year the brand has a major presence at SXSW, an annual music, film, and interactive festival. Levi's FADER Fort has become a popular spot for up-and-coming music artists and their fans. Seeking to increase its digital fan base, Levi's added new features to its Facebook page such as live streaming video from the event and offered free passes to the FADER Fort. This effort resulted in a 50% increase in Levi's Facebook fans and 780,000 views of the live stream.

While the digital perspective is a particularly necessary one for brands that do not sell directly to consumers, marketers rely too heavily on metrics such as visitors, clicks, impressions, retweets, and number of friends. Even though it is difficult to connect business value to these sorts of measures, interactive marketers feel they are among the most effective ways to measure results.⁸ In isolation, digital metrics provide a weak assessment of actual business results, but when used in concert with the other perspectives within a balanced marketing scorecard, they become more powerful and relevant.

RECOMMENDATIONS

ROBUST AND VARIED METRICS VALIDATE SOCIAL MEDIA INVESTMENTS

Social media can deliver business results, but to validate your social media efforts requires a combination of approaches:

- **Develop a social media marketing Balanced Scorecard as part of the POST process.** Developing this scorecard is a key component of the "objectives" step in Forrester's four-step POST (people, objectives, strategies, and technologies) process. After identifying the audience (or people) for a program and before defining the strategies and technologies, gain consensus around objectives, metrics, and targets.
- **Eliminate financial measures that are not direct and attributable.** Sales are an important metric, but if financial results are not immediately and apparently associated with social media efforts, do not use proxies to convert nonfinancial results into financial equivalents. Instead, transition your metrics to the other perspectives.
- **Do not rely on just one or two perspectives.** While financial and digital efforts are easiest to measure, do not neglect the vital benefits delivered by the brand and risk management perspectives. You cannot assess properly and thoroughly your social media marketing programs without the long-term value delivered by these perspectives.
- **Don't use the term "ROI" unless you are referencing financial returns.** ROI has an established and understood meaning — it is a financial measure, not a synonym for the word "results." Marketers who promise ROI may be setting expectations that cannot be delivered by social measures.

WHAT IT MEANS

SOCIAL MEDIA IS MATURING; METRICS MUST MATURE ALONG WITH IT

Social media is moving out of the experimentation stage and into the mainstream of marketing strategies. The way we measure the contributions of social media programs must follow suit. This is what we can expect with respect to social media marketing metrics:

- **Metrics will gauge not just activity but outcome.** Whenever an inflection point occurs in marketing technology, an explosion of creativity is experienced around measurement. As the technology matures, many new measures are abandoned in favor of traditional ones that align with business objectives and not simply technology. Counting fans and retweets are good tactical measures, but true social media measurement will come from gauging all outcomes in business terms.
- **Social media focus will shift from short term to long term.** Many marketing investments are not intended to furnish immediate financial results but instead create long-term brand value. The greatest and most valuable brands weren't created one quarter to the next but with an eye toward building lasting relationships with customers. Smart marketers are coming to recognize the way social media marketing can deliver on those same long-term values and are building programs with strategies and metrics to suit.
- **Not every social media program needs ROI to deliver business benefit.** What is the ROI of your company's Web sites? Fifteen years into the Internet age, it is likely your organization does not recognize the entire financial return it receives from its owned Web properties; despite that, the company continues to invest in redesigns, new sites, and Web technology because it must to keep up with customer expectations and the competition. Many social media activities — such as a presence in Facebook or listening programs — are becoming the new table stakes in the same manner, regardless of immediately available ROI metrics.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Bazaarvoice

Lithium Technologies

Best Buy

Razorfish

imc²

Zappos.com

ENDNOTES

- ¹ Return on investment is a financial calculation used to determine the profit generated by a specific investment, expressed as a percentage of the original investment. Some use the term “ROI” as a synonym for “results,” but ROI is a well-understood and specific financial calculation. Marketers who use a financial

term to describe nonfinancial results can create confusion and false expectations. When the COO or CFO hears a marketer say, “Our social media program will yield ROI,” they won’t be content when those results are conveyed as retweets, sentiment, or number of followers.

- ² Dr. Robert S. Kaplan and Dr. David P. Norton first defined the Balanced Scorecard in response to management processes that focused too heavily on financial metrics. In their book, *The Balanced Scorecard: Translating Strategy into Action*, they noted, “The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.” Source: Dr. Robert S. Kaplan and Dr. David P. Norton, *The Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, 1996.
- ³ The focus of this document is on measuring the results of social media marketing. Of course, social media tools and strategies can be used to meet a wide range of business needs, including customer service, product development, research, and enterprise efficiency, and these efforts may be measured in ways other than those conveyed in this report. This report is proudly written for and about social media marketers doing social media marketing.
- ⁴ BeingGirl.com has generated substantial traffic and has been successful at developing relationships with consumers outside of the brand site. See the August 20, 2007, “[Case Study: P&G’s BeingGirl.com Builds Lasting Brand Loyalty](#)” report.
- ⁵ NASCAR’s “Fan Council” also decreased the organization’s costs, delivering three times the research at a cost reduction of 80%. For more information, see the *Groundswell* blog (<http://www.groundswelldiscussion.com/groundswell/awards2009/detail.php?id=185>).
- ⁶ P&G had invested considerable time, effort, and money into protecting its \$8 billion Pampers brand when complaints about the new Dry Max design surfaced on mommy blogs and other social media channels. P&G diverted 40 to 50 employees to marketing and research, extended customer support hours, consulted with outside experts, flew mommy bloggers to the Cincinnati headquarters for meetings, paid for pediatrician and dermatologist visits for children whose parents complained, and increased its Internet advertising spend. Source: Dan Sewell, “P&G Hosts Bloggers in Defense of Pampers Dry Max,” *abc News*, May 20, 2010 (<http://abcnews.go.com/Business/wireStory?id=10704040>) and Ellen Byron, “P&G Goes on Offensive for Pampers,” *The Wall Street Journal*, June 14, 2010 (http://online.wsj.com/article/SB10001424052748703685404575306863979636250.html?mod=WSJ_latestheadlines).
- ⁷ Choose your digital, owned, and earned metrics based on which of the five objectives categories is appropriate for your program — listening, talking, energizing, supporting, or embracing. See the October 29, 2009, “[Three Steps To Measuring Social Media Marketing](#)” report.
- ⁸ When asked, “Which of the following metrics are most effective when measuring the success of your interactive marketing campaigns?” four of the top five metrics provided by marketers were from the digital perspective: site visits, clicks, return visits/loyalty metrics, and impressions. Source: Q2 2010 US IM Executive Online Survey.

FORRESTER®

Making Leaders Successful Every Day

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617.613.6000
Fax: +1 617.613.5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Forrester has research centers and sales offices in more than 27 cities internationally, including Amsterdam; Cambridge, Mass.; Dallas; Dubai; Foster City, Calif.; Frankfurt; London; Madrid; Sydney; Tel Aviv; and Toronto.

For a complete list of worldwide locations visit www.forrester.com/about.

For information on hard-copy or electronic reprints, please contact Client Support at +1 866.367.7378, +1 617.613.5730, or clientsupport@forrester.com.

We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research, Inc. (Nasdaq: FORR) is an independent research company that provides pragmatic and forward-thinking advice to global leaders in business and technology. Forrester works with professionals in 20 key roles at major companies providing proprietary research, customer insight, consulting, events, and peer-to-peer executive programs. For more than 26 years, Forrester has been making IT, marketing, and technology industry leaders successful every day. For more information, visit www.forrester.com.