

The quest for return on investment is an old problem. John Wanamaker once famously [complained](#), "Half the money I spend on advertising is wasted; the trouble is, I don't know which half."

Social media marketing was supposed to fix the ROI problem by making interactions with brands easy to track. In practice, it has just given companies more data than they know what to do with. Don't blame social media for what are essentially business problems.

The confusion over social media ROI happens when we design faulty campaigns, ask the wrong questions and obsess over meaningless data points. Social media can deliver business value, but you can't create a social presence and then try to figure out its value after the fact. **You have to build ROI into the core of everything you do online.**

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The SmartBrief Guide to Social Media Return on Investment

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42%

Percentage of readers who say they have trouble comparing the cost difference between social media and traditional marketing.

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Step 1: Define your terms

Return on investment is the measure of an activity's results relative to its cost. The equation for determining ROI, in its most simplistic form, looks like this:

(Results - costs) + costs = ROI

The equation takes two things into account: Money spent (that's the investment) and the resulting revenue/savings (that's the return). Anything that isn't money (such as the time you spend maintaining your social presence) must be converted into dollars and cents before it can be factored into your calculations.

Results come in two ways: Income and cost reductions.

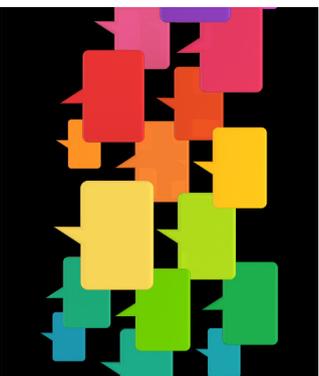
> Income includes any time your social media presence prompts someone to buy a product from you, donate something to you or hire you to perform a service.

> Cost reductions are savings on existing business functions that can now be performed at a cheaper rate because of social tools.

Companies often trumpet social media success by announcing results, but outcomes are only half the story. Seeing results from your social media efforts is great, but if you're spending \$200,000 a year to generate \$100,000 in sales via Twitter, you're not seeing positive ROI.

What do we mean by costs? Anything that goes into the creation of a social media presence can be considered a cost. Some common costs include:

> **Content creation costs:** This could be something as cheap as licensing photos for blog posts or as expensive as buying audio-visual equipment to create videos and podcasts.



> **Training costs:** Did you attend a social media conference? Buy a book or two on social media best practices? Bring in an expert to train your staff? Those costs all count.

> **Software costs:** There are dozens of great free social media clients and tools out there. But if you're serious about determining the ROI of your efforts, you'll want to at least consider investing in a premium social media client because paid clients offer more robust features and better tracking options than free programs.

> **Labor costs:** This is often the biggest cost associated with a social media campaign — and it's also the one most likely to be overlooked. If you've hired a dedicated social media staff member or outsourced your social media efforts to an agency, that cost is easy to measure. If you're doing it yourself or if one or more employees are working on the company's social media presence in addition to their other duties, then the calculation becomes more difficult. Typically you'll need to figure out how much time each person spent on social media and then multiply that figure by their rate. If someone is paid \$200 a day and spends half their day on social media, the cost of their social media efforts is \$100 per day.

Step 2: Establish goals and benchmarks

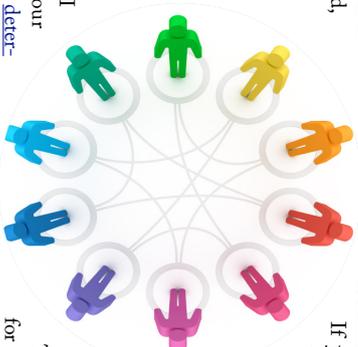
Having a great social media presence is a means to an end. Engagement is worthwhile, but it's important to remember that such communication has to serve a larger purpose:

Businesses engage to make a sale, provide customer service, alter the way a brand is perceived, hire new workers or achieve some other business goal. The rise of social media did not create any new business objectives; it just created new ways to reach them.

Your social media presence will never demonstrate positive ROI until you identify your goals. Those goals will determine the shape of your social media efforts, as well as the metrics by which they can be judged.

Once you've decided what you'd like a given social media presence to accomplish, the next step is establishing **benchmarks**. Unless you know where you started, you'll never be able to measure how far you've come.

What are the key performance indicators



for your chosen goal? If you're looking at sales, for example, don't just look at your total sales revenue for the quarter — you may also want to take into account the number of transactions, the average order size, the cost per acquisition, etc. Don't forget to look at ways you could measure potential cost savings.

If you're not sure what to measure, ask yourself which aspects of your business you want to improve and then develop metrics that track that aspect of the business. The benchmarking process can break down over intangibles.

Take customer influence, for example. It's reasonable to say businesses should influence purchasers or that they should work to create brand advocates who will influence others to buy. But there's **no firm metric** for influence — no way to convert it into a dollar figure. Brands are better off measuring the effects of influence through more traditional means such as **customer loyalty programs** and referrals.

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57%

Percentage of readers who say they feel pressure from management to quantify the ROI of their social media efforts.

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Jay Baer, Social Media & Digital Strategist, Speaker and Author



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Ann Handley, "Content Queen," Chief Content Officer of MarketingProfs



John Ball, Global Managing Director of Social@Givvy



What readers are saying

"I love love love SmartBrief on Social Media—it has really helped me formulate my Social Networking Strategy. Not every-one in my company gets why I need to divert resources to Social Networking and articles from SmartBrief aid in driving my point home. Thank you."

Stacey Kame, Director of Marketing California Tortilla

"I'm a fan, in my opinion, this is the best social media newsletter I've seen so far. Relevant, short stories that keep me up to date." Christine Morrison, Social Media Marketing Manager TurboTax

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Step 3: Implement and experiment



Once you've determined your goals, identified key metrics and established performance baselines for those metrics, you're almost ready to start tracking your social media ROI.

There are three options:

1. Measure key performance indicators against a baseline at regular intervals.

This is the easiest option but also the sloppiest. Say you weren't active on social media last year, and you sold 100 widgets. This year you're tweeting away and sold 200 widgets. Success! Or maybe not. You've run into the age-old problem of advertising: Why did the customer buy?

The same problem arises in other uses of social media — if you start recruiting on LinkedIn and see an increase in qualified applicants, that's great. But how do you know LinkedIn deserves the credit?

2. Use coupons, order codes, loyalty programs or some other mechanism to identify and track brand interactions.

When you offer followers a deal, you can use a tracking code to measure how many people took advantage of the offer. Some brands, such as 1-800 Flowers

or Delta Airlines allow customers to buy products on Facebook.

This strategy can work well for sales, recruiting, newsletter subscriptions, pledge drives, petitions and other tangible goals, but it can't measure more subtle effects. What if a customer buys from you in a physical store after seeing a tweet? What if you're using social media for PR — how do you know when you've changed a person's mind?

3. Track and analyze user sentiment.

Some of the most successful brands in social media, such as Dell, use premium social media monitoring software and social media specialists to record and analyze what is being said about them.

These systems have their limits — for example, sarcastic comments, idioms, and vague language can frustrate them. But for a brand monitoring a high volume of social media mentions, it can be the only way to track the effectiveness of social media marketing and PR efforts.

Social media customer service efforts can also benefit from more sophisticated clients, as software can make it possible to track successful resolutions of customer complaints and questions, making it easier to calculate the cost per resolution relative to other channels.

There are still limits to technology's ability to measure fans' responses to brands via social channels. But when a social media presence is aligned with business goals, designed with trackability in mind and compared with solid performance benchmarks, it's possible to measure a brand's effect on the conversation — and the conversation's effect on the bottom line.

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Percentage of readers who say they consider cost savings when determining the ROI of their social media presence.

► Poll of SmartBrief on Social Media readers

Step 4: Evolve

The last element of social ROI has nothing to do with your customers and everything to do with your workers.

Instead of focusing on using social tools to improve marketing or communications, some businesses are striving to fuel innovation, collaboration and improved efficiency. Rather than be content to improve a business process, these companies want to use social media to improve their entire business.

These changes could involve technology, such as the adoption of social media platforms

for communication. They could be process oriented, as employees adopt new methods of training. But the biggest changes have to do with company culture, as social tools can promote the exchange of ideas as part of daily office life.

Companies can benchmark and track these changes by rolling out social tools to a single department and then watching how that department evolves, relative to the rest of the business. If social tools help that department become more open, efficient and innovative, then other departments can follow.

The 5 big lies of social media ROI

1. ROI doesn't matter.

Some people will argue that because we don't know what the exact ROI of a phone book ad is, that lets social media marketers off the hook. The problem with that reasoning is that once you decide ROI doesn't matter, it opens the door to all kinds of magical thinking. That doesn't mean you should ignore social media if you can't generate ROI immediately. Even if you're never able to establish a hard ROI ratio, the very act of pursuing ROI brings rigor to your marketing as you continually test, refine and reset your efforts based on solid benchmarks and clearly defined business goals.

2. Social media is free.

Social media is time intensive, and your time is valuable. As your presence grows you may need to pay for tools or additional staff, but at minimum you need to account for the value of the time you commit.

3. ROI is all about sales.

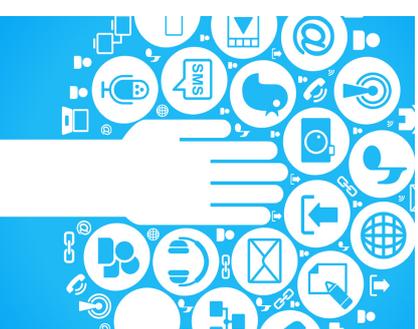
If you want to understand the full benefit of your social media efforts, you need to look at cost savings throughout the organization. If you lower your cost per lead, improve the efficiency of your customer service or attract qualified new hires using social tools, you're generating ROI.

4. ROI can be measured in something other than money.

Fans aren't ROI. Neither are retweets or blog comments or any form of social sharing or participation — if only for the simpler reason that not all comments are equal. A single social media interaction with a client might create a sale or save you money — but many more will not. So it doesn't make sense to measure all such interactions as equal indicators of success. ROI can only be measured in currency earned.

5. Finding ROI just requires a little back-of-the-envelope math.

You can't just assign a dollar value to each fan and then add them all together. The process of calculating the costs and benefits of social media vary depending on your tactics and goals.



5 more social media ROI resources

Want more? Of course you do. Social media ROI is a complex subject that rewards extended study – especially since, as you’ll soon see, not even the brightest minds in social media always agree.

Here are five more resources for those of you who want to take your understanding of social media ROI to another level. The first two are blog posts, the second two are pdf e-books like this guide that require registration and the third is an honest-to-goodness book, giving you a range of options for furthering your social media education.

1. [The ROI Of Social Media Marketing: More Than Dollars And Cents](#) by Augie Ray. Social media can confer a number of indirect benefits. This post advocates creating a scorecard that pays attention to indirect and long-term benefits, as well as immediate cash-in-hand.

2. [The Social Media ROI Pyramid](#) by Jeremiah Owyang. This blog post lays another framework for the ROI question, offering a way of thinking about the problem that speaks to many kinds of businesses. Be sure to check out the comments.

3. [How to Leverage Facebook, Twitter and LinkedIn](#) from HubSpot. If you want something more tactical and immediate, this trio of guides from HubSpot is a good starting place. They emphasize practical tips and concrete instructions over conceptual frameworks.

4. [ROI of Social Media: Myths, Truths and How To Measure](#) from Radian 6. Different businesses will look at the question of how to find the ROI of social media differently, depending on their business goals and the departments that are using social media. This guide does a great job of explaining those differences.

5. [Social Media ROI](#) by Olivier Blanchard. Yes, it’s a book. No, it’s not free like these other resources. But Blanchard, who is a long-time SmartBrief on Social Media Advisory Board member, is the gold standard for fearless thinking on the ROI question. Sometimes you get what you pay for.



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18%

Percentage of readers who say their social media efforts have yielded a measurable return on investment.

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About the author



Jesse Stanchak writes and edits SmartBrief newsletters on marketing, social media and other topics. Before joining SmartBrief, he worked as a Web producer at Congressional Quarterly. His work has also appeared in Slate.com, MSN.com, the Washington City Paper and other publications. You can find him on Twitter at [@sbosm](#).

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