How to Estimate Your Social Media Return on Investment

By Dag Holmboe
Published October 12, 2011

Print

Are you wondering how to determine the return on your social media activities? If so, look no further.

In my prior Social Media Examiner article about Social Media return on investment (ROI), I discussed the financial definition of social media ROI.

This article goes a step deeper by working through a few examples of estimating the social media ROI.

Why Estimate a Return?

Before we go any further, let's review **why we need the social media return and ROI again.**

You use the return and the ROI to **compare the efficiency of marketing campaigns**; for an in-house team, you can use these numbers to **negotiate budgets with your management**; for agencies, you can use estimated numbers to **land prospective clients** and to **retain current clients**. The numbers are used in conjunction with social and web metrics to **analyze and optimize current and future campaigns**.

Last but not the least, a primary reason for using the return and the ROI is *social media financial accountability.* As social media initiatives become mainstream, *executives are holding them to the same accountability as other business initiatives*, demanding financial returns and ROI on social media investments.

In the article mentioned above, I also said that the ROI calculation is easy; you simply use the financial ROI formula. The tough part of social media ROI is to tie a hard-dollar value to the social media return.

How Should I Estimate My Return?

So, how do you **estimate the social media return**?

In this post, I will show how the social media return can be estimated. As I work through these examples, it's important to remember that I can only *estimate* the social media return and ROI—*as in most areas of marketing, exact numbers are not possible.*

To estimate the social media return and ROI, you need to **start with a 3-step process**:

1. Define your social media goal.
2. Based on the goal, define your social media return.
3. Finally, define how you will tie hard dollars to the social media return.

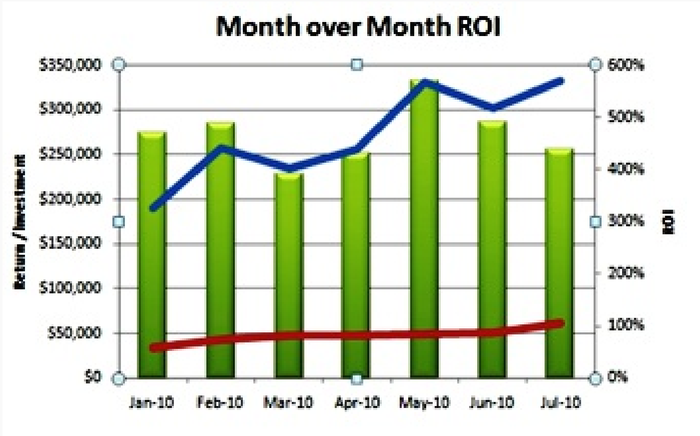
So let's get started with estimating your social media return and ROI!

To show how we can estimate your social media return and ROI, I will use three examples: return on sales, return on consumer insights and return on customer support.

Social Media ROI on Sales

In this case, we are tasked with estimating the ROI on sales. The tricky part is to **attribute sales to social media**

Using the 3-step process, we first define our social media goal as “we want to increase sales.” Second, based on the goal, we’ll define the return as the value of sales that can safely be attributed to the social media campaign. Third, the hard-dollar value is the amount of sales dollars.



ROI month-over-month trending.

The second step in the 3-step process—attribute sales to a social media campaign—is hard to do. How can you safely attribute sales to a social media campaign? Getting accurate numbers is tough, but we can **estimate sales by employing a few different methods**.

The first method is to look at is *last-touch sales*, which means that by using our web analytics program, we can **follow a user upstream from the online check-out counter to where the user entered the stream**. If the user entered the stream from one of our social media touch points, we can attribute that user’s sales to our social media campaign.

A second method is to **provide our users with social media campaign–only coupon codes**, which means that if a user checks out with this coupon code, we can attribute that sale to our social media campaign.

A third method, which is a bit more involved, is to forecast the value of our sales without a social media campaign. During the campaign, we **compare actual sales with forecasted sales** and assuming that the actual sales are higher than the forecasted sales, we can use the difference as the value of our social media return.

Sales gap analysis.

Each method is good; however, **a combination of methods could give us a more accurate picture**.

Now, the last step in the process is to **declare that the amount of sales that you attribute to your social media campaign is in fact your social media return**. Based on the cost of the campaign, you can quickly calculate you social media ROI using the standard financial ROI formula.

> ***Social media ROI = (return – investment) / investment %.***

For example, during last month, we estimated that we could attribute $2,500 in sales to our social media campaign. This is our social media return. Let’s assume that our investment in our social media campaign was $1,000. Using our ROI formula:

> *Social media ROI = ($2,500 – $1,000) / $1,000 % = 150%*

This means that for the last month, we estimate that our social media ROI is 150%.

Social Media ROI on Consumer Insights

In the second example, we will try to **estimate the social media return on consumer insights**.

Using the 3-step process, we first define our social media goal, which in this case is to generate a high number of high-quality consumer insights from our social media campaign. Second, we define the social media return as the value of these consumer insights. Third, we'll tie hard dollars to the return by comparing what it would cost to generate the same quantity and quality of consumer insights using a focus group.

Here again, we run into the same problems as with sales: How do we **attach a hard-dollar value to consumer insights**?

The answer is that we **use consumer insights equivalency.** We know the cost of a focus group. We also know the number of acceptable consumer insights per focus group. Based on these two numbers, I can estimate the cost per consumer insight.

Over the course of a month, based on what our users are saying to each other and to us on social media, we **count all consumer insights that we determine to be of equal or higher quality as the consumer insights from a focus group**. Based on this count and the per-insight cost, we can determine the value (the return) of our social media presence.

Using the standard financial ROI formula, we can quickly calculate the ROI.

For example, in a particular month, say the return on consumer insights is estimated to be $900 and the investment during that month was $600. Using the ROI formula:

> *Social media ROI = ($900 – $600) / $600 % = 50%*

So the social media ROI on consumer insights for this particular month was estimated to be 50%.

Social Media ROI on Customer Support Calls

In the last example, we will **calculate the social media return and ROI on customer support calls**.

Using our 3-step process, we first determine the goal of our social media campaign. In this case, our goal is to save customer support dollars by minimizing the number of calls that our customer support group needs to handle Second, we define our social media return as the amount of dollars saved. Third, we tie a hard-dollar value to the savings by multiplying the average cost per call with an estimated number of calls that we avoided by using our social media presence.

Any customer support group should know exactly the cost of an average call. In the U.S., the average support call cost is approximately $10 to $25 per call, depending on the product, services and the vertical.

It is tough to estimate the number of avoided support calls; nevertheless, we will present two methods.

First, Charlene Li and Josh Bernoff, in their national bestseller *Groundswell,* walk through a *customer support cos analysis* based on cost savings from a community forum. The authors base their estimates on parameters such as the percentage of customers joining the forum and the percentage of customers finding answers on the forum. The outcome of the analysis is the annual cost savings from avoided calls.

Another way of estimating prevented calls is similar to our sales estimates. We forecast the number of calls without social media. Over time, we measure the actual number of support calls. **The number of prevented support calls is the difference between forecasted and actual support calls.**

Support call gap analysis.

Based on the social media return and the social media investment, it is again easy to calculate the social media ROI using the financial ROI formula.

For additional reading, Kathy Herrmann and Dr. Natalie Petouhoff wrote a white paper that does a great job analyzing the ROI of Social Customer Service.

Conclusion

We laid out three ways of estimating the social media return and ROI: sales, consumer insights and customer support. It is important to note that a social media campaign does not need to include all three social media returns. In fact, most campaigns don't. The primary take-away is that **your social media return and ROI depend on the goals of your social media campaign.**

So what do you think? Do these three ways of estimating the social media return and ROI make sense to you? Can you use them in your business? How do you estimate the return and ROI today? Leave your comments and questions in the box below.

Tags: **consumer insights roi**, **custumer support calls roi**, **dag holmboe**, **marketing campaign**, **roi**, **sales roi**, **social media accountability**, **social media analysis**, **social media metrics**, **social media return**, **social media roi**

About the Author, Dag Holmboe

Dag Holmboe is the CEO of Klurig Analytics. Klurig develops methodologies and applications to analyze and estimate the return value and ROI of social media campaigns for brands and agencies. **Other posts by** Dag Holmboe »