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The True Value of Social Business

Focus Research Briefing

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Introduction

Are you confused about how to determine the true value of social business initiatives? That's not surprising given the various misconceptions circulating about ROI. Results such as influence, engagement, impact or customer satisfaction are not values but benefits. Value refers to the economic results reflected by revenue generation or profitability (which is another way to say cost savings). And if you want to gain the green light on your social initiatives, then you must discuss the value with your executive team in monetary terms. This paper will tell you what you need to know.

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1 Social Business Is About Making Money

The social business model focuses on engagement and collaboration with customers, partners and employees; a variation on the "social business" label you might come across is "social CRM." The intent of the social business model is to create mutual value in a transparent business environment.

Think of it as a return to village settlements, where people lived and worked in the same community. Because of the physical proximity, villagers lived mostly transparent lives with the people they did business with. Additionally, villagers had a vested interest in helping the community prosper in tandem with their individual prosperity.

In the modern spin on the village, a company's village outposts can exist anywhere in the world, thanks to electronic connectivity. And the social business approach includes building relationships and sharing information online.

The benefits of social business are diverse:

- Extended influence or impact with prospects and customers
- Improved branding
- Improved customer service
- Heightened customer loyalty
- Better insight into customers
- Expansive, and often more targeted, ideation
- Accelerated product development

All valuable benefits to be sure — but only part of the information executives need in order to make the right decision on social initiatives. You must understand that the rules of business remain in effect even when you transition your company to a social business model.

Social business initiatives should either make or save money for companies, just like every other corporate initiative. Understand that, and you will realize that you must discuss your initiative with your executive team in monetary terms.

2 Social Business Dollars & Sense

Don't buy into the myth that social media is free. It's not. At the very least, there are people costs associated with social initiatives. For larger programs, expect to carry a technology cost as well to construct a viable platform to monitor conversations as well as to facilitate and participate in discussions. Your company will also incur marketing costs if you use campaigns to help promote and grow your community footprint.

So what's an expected range of costs for a social program? It will depend on company size.

For a small company devoting only part of a person's time to engage on Twitter or Facebook, expect a low cost related to payroll. Something on the order of maybe only $5,000 - $30,000 depending on the staff member.

However, for a larger, integrated social program, the price tag can climb into hundreds of thousands by the time you add people plus technology plus marketing costs.

Is it any wonder executives want to understand the potential costs and gains from a social initiative?

Here's the other thing to remember: Most companies are opportunity rich but resource limited. Executives have a fiduciary responsibility to select the best initiatives to invest in. And this is why the economic analysis of an initiative's monetary value and return is so important.

There are a lot of misconceptions about economic valuation, though, especially relative to social media and business initiatives. Let's demystify valuation and remove the guesswork so you can accelerate executive acceptance of your initiative.

Demystifying Valuation: What Execs Really Want to Know

If you think metrics like Web visitations or call center statistics reflect a social media ROI, then you're wrong.

Metrics — from your Web analytics, CRM or elsewhere — are historical insights into prospect, partner and customer behaviors. These behaviors may be leading indicators of impending revenue generation or cost savings. However, they are not the actual ROI.

Understanding the difference between metrics and ROI will allow you to give execs what they need to know. Before you can determine ROI, though, you need to determine two of the other big three valuation factors: cash flow and net present value.

Cash Flows

Cash flow is important because it gives execs insight into expected out-of-pocket gains vs. costs. It doesn't matter how attractive an investment's possible return may be if you can't afford it. And a cash flow analysis will tell you if you can.

Thus, expect execs to look at the monthly or quarterly out-of-pocket costs vs. gains when considering your initiative. Remember, social programs take time to gain traction (reflected by membership numbers and engagement). This means there will be a lag time between your go-live date and the accrual of gains. Executives will also be looking for the payout month when your initiative will achieve a positive cash flow where gains exceed costs.

Social Business Gains and Costs

Gains derive from either revenue generation or cost savings. Which gain type your program will accrue depends on your strategy. If marketing is the thrust, then look for a greater emphasis on revenue generation. A support focus will tilt gains toward cost savings with some possible increase in after-market sales. A strategy balanced on marketing and support should show gains from both revenues and cost savings.

Costs will fall into several categories. Topping the list will be people costs from some combination of personnel and external consultants. For larger, integrated social programs, expect social CRM technology costs to be another large chunk of costs. Additionally, if your strategy includes using marketing campaigns to promote and enlarge your online communities, then add those costs in your forecast.

Gains	**Increased Revenues**	Sales
	Cost savings	Lowered support costs Lowered sales costs
Costs	**Personnel**	Prorated costs for all personnel who are part of your social outreach team Ongoing third-party consultants
	Technology	Licenses or subscriptions: CRM site (incremental seats) Social CRM subscription (e.g. Salesforce Service Cloud) Social (community) subscription (e.g., Jive or Lithium) Premium social Web analytics subscription (e.g. Radian6 or Attensity) Third-party costs to design and implement new technology solution sets Miscellaneous technology costs
	Other	Marketing campaign costs

The diagram below shows an example cash flow summary for two years of analysis.

Summary of Gains versus Costs

	Year 1	Year 2
Gains		
Revenues		
Expanded social revenues (due to increased conversations and sentiment)	$3,762,500	$4,600,750
Better or Targeted Insight revenues	$1,750,000	$1,925,000
Subtotal Revenues	**$5,512,500**	**$6,525,750**
Cost Savings		
Call Center savings	$1,034,226	$1,033,571
Subtotal Cost Savings	**$1,034,226**	**$1,033,571**
Total Gains	**$6,546,726**	**$7,559,321**
Costs		
People Costs		
Employees	$333,868	$686,495
Third-party Consultants	$775,000	$837,750
Total People Costs	**$1,108,868**	**$1,524,245**
Technology Costs		
Solutions and Services	$250,000	$312,500
Implementation	$10,000	$0
Total Social Monitoring Solution Costs	**$260,000**	**$312,500**
Total Costs	**$1,368,868**	**$1,836,745**
Net Results	**$5,177,859**	**$5,722,576**

How to Determine Cash Flow Streams for Social Initiatives

Defendable Assumptions

A big stumbling block for many folks is grappling with the uncertainty associated with forecasting cash flows. Defendable assumptions are the building blocks of both your strategy and your valuation forecast.

Cash flow streams for each type of gains and costs should be built on a set of defendable assumptions. Additionally, assumptions you make for revenues, cost savings, people and SCRM technology should make sense in isolation and in aggregate.

Metrics (aka past results) are ideal starting points for defendable assumptions, although don't keep yourself locked in the past. Your social initiative will define a new path for your company, so deviation from the past is expected. That said, deviations should be defendable based on tactics captured in your strategic definition.

Look at the table below for examples of defendable and undefendable assumptions.

Example	New Customers per Month Now (Known Metrics)	New Customers per Month Forecast (No Social Media)	New Customers per Month Forecast (with Social Media)	Personnel Activity Level	Assumption Quality
A	3	6	60	Low	Undefendable
B	3	6	60	High across a team	Possibly defendable
C	3	6	9	Modest	Defendable

Example A is undefendable because it assumes your social team will succeed in generating a 2,000 percent increase in new customers with a low level of effort. It doesn't make common sense to assume you can generate prolific sales with little effort, does it?

Example C is defendable because it assumes adding in social media to your revenue generation mix will result in modestly higher sales compared with strategies that do not employ social media. In other words, a modest personnel activity level coupled with social media will lead to a modest increase in new customers. Sounds reasonable, yes?

Example B can go either way and it depends on the supporting strategy. If your plan calls for a high level of activity with an aggressive community-building effort, then Example B might be defendable.

Revenues

Looking at revenues on a per-channel impact requires you to consider three general factors:

- Reach
- Impact (or Influence)
- Yield

Reach refers to the extent of your online footprint. Think in terms of community members, fans or followers (choose the right term for your preferred channel). It indicates the size of your social community swirling around you.

Not all your fans or followers will be paying attention to you or be active in your community. That's why you need to consider impact, which reflects the smaller cross-section of members who are active in your community or paying attention to you.

For example, your community may be 5,000-members strong (reach) but only 30 percent (impact) are engaged by or with you. That means your online community is potentially influencing about 1,500 of the overall 5,000 members.

Yield refers to how much revenue you generate from your active members. Yield is determined by considering the combination of sales conversions and average sales amount.

What community membership is the best size for your company? Is bigger better? It all depends on how reach, impact and yield come together. A small, active community has potential to generate higher gains than a large one with low member involvement.

Cost Savings (Contact Center)

One of the main sources of cost savings from a social initiative will be centered in your contact center. These savings will derive from agent deflection and faster resolution time for incidents.

Agent deflection stems from customers helping customers to resolve issues on online. Direct deflections occur when a customer posts a question in an online community and gets a needed answer. Indirect deflections occur when a customer finds an answer from a previously posted thread. In many cases, indirect deflections can exceed direct ones.

Customer-generated answers can also help agents provide faster and more accurate assisted support. Pull correct customer answers into your company's support knowledge base (after, of course, a member of your support team vets the answer). Be sure to tag them well for searchability. Agents can then leverage the answers for their own assisted support efforts by giving timely and correct answers to help customers. The net result will be faster resolution times. Additionally, customers can also leverage the growing knowledge base and continue to extend agent deflections.

To determine the contact center cash flow impact, you will want to forecast:

- Changes to number of incidents
- Changes to number of contacts per incident
- Resolution time
- Service rep costs per incident

People Costs

Your social team can consist of any of the following individuals, depending on the extent of your social program:

- Strategic members — Executive(s) and some managers
- Tech implementers — IT personnel or third-party consultants
- Tactical members to monitor and engage in social channels — Marketing, support or service reps and third-party consultants
- Miscellaneous others — Trainers, admins and third-party consultants

When you consider employee payroll, it's best to consider the fully burdened costs (salary plus bonus plus benefits load) to gain a true understanding of the employee costs associated with your initiative.

Also, allow for variations in activity time per position type in your forecast. For example, in the strategic phase of your social program, you may have high involvement from your more expensive executive and management team members. However, once your program goes live, executive and management activity levels may decrease but the activity levels of tactical team members will increase.

Additionally, a successful community will require more engagement activity as it gains traction. This means your folks charged with tactical engagement will need to devote higher percentages of their time to the community as it succeeds. Be sure to account for the increase in the forecast of your people cost cash flows.

Social CRM Technology Cost

Small social programs focused on tweeting here and posting in Facebook there may have minimal requirements for technology. There are a lot of free tools you can leverage for small programs.

However, if you want to scale your social program to monitor conversations across many channels, capture actionable intelligence, and facilitate reporting, then your company will need an integrated technology solution. To date, there's no all-encompassing solution, so the answer is to build a best of breed social platform. The primary components of this are:

1. **CRM (traditional = transactional):** For companies that already have a CRM solution, consider whether you need incremental seats for social team members.
2. **Social CRM:** To monitor social activity and auto-generate content. Example: Salesforce Service Cloud or RightNow Social Experience.
3. **Social community:** Needed if you elect to implement a branded community. Examples: Lithium or Jive solutions. (Note: For this discussion, "branded communities" exclude those on Facebook or other public social sites. A "branded community" is one where your company owns the site and all data generated on it.)
4. **Premium analytics:** Solutions that monitor content and provide sentiment analysis across social channels. Example: isible Technologies, Attensity or Radian6 solutions.
5. **Miscellaneous other costs:** Such as integration of one solution to another, as well as other ancillary costs.

Your CRM solution will either use licenses or subscriptions. If licenses, then expect to front-load these costs during the implementation phase of your cash flow analysis.

Solutions 2 - 4 will most likely be subscription-based or a monthly charge. Subscription services will start either during your implementation or live phase of your social initiative.

Pricing for subscription-based solutions are usually based on the number of members or page views. Thus, as your community gains in popularity, expect these costs to increase over time. Your cash flow analysis needs to account for the increase.

Other Costs

You might also incur other costs such as those for marketing campaigns designed to raise awareness of your community. Include a section in your cash flow analysis for these sorts of costs.

Net Present Value (NPV)

Comparing initiatives on the basis of cash flow is cumbersome. That's where NPV comes into play. NPV brings the cash flow back to a single point in time by applying a risk factor known as the Discount Rate or company Cost of Capital. In other words, NPV reflects the time value of money.

The diagram below shows the NPV and ROI results derived from the Cash Flow Section.

Summary of Gains versus Costs

	Year 1	Year 2	Net Present Value
Discount rate	**10%**		
Gains			
Revenues			
Expanded social revenues (due to increased conversations and sentiment)	$3,762,500	$4,600,750	
Better or Targeted Insight revenues	$1,750,000	$1,925,000	
Subtotal Revenues	**$5,512,500**	**$6,525,750**	**$10,404,545**
Cost Savings			
Call Center savings	$1,034,226	$1,033,571	
Subtotal Cost Savings	**$1,034,226**	**$1,033,571**	**$1,794,396**
Total Gains	**$6,546,726**	**$7,559,321**	**$12,198,941**
Costs			
People Costs			
Employees	$333,868	$686,495	
Third-party Consultants	$775,000	$837,750	
Total People Costs	**$1,108,868**	**$1,524,245**	**$2,267,768**
Technology Costs			
Solutions and Services	$250,000	$312,500	
Implementation	$10,000	$0	
Total Social Monitoring Solution Costs	**$260,000**	**$312,500**	**$494,628**
Total Costs	**$1,368,868**	**$1,836,745**	**$2,762,396**
Net Results	**$5,177,859**	**$5,722,576**	**$9,436,545**
Return on Investment			**342%**

The Secret to Dealing with Valuation Uncertainty

A common refrain among many folks in the social media world is the difficulty of determining valuation (aka, the ROI) in the face of uncertainty. They'll say too many unknowns negates the value of the ROI.

Get beyond that showstopping attitude right now.

Every valuation for any initiative is a forecast of the future economic potential of an investment. Since the future is always uncertain, this means every forecast involves uncertainty. It doesn't matter whether the investment possibility is social media, real estate, a new product line, a stock or anything else you can name.

The key to managing uncertainty in any valuation analysis is to:

- Make defendable assumptions
- Apply appropriate risk

The dynamic duo of defendable assumptions and appropriate risk give your executive team context to evaluate your initiative relative to others in their field of opportunity.

Discount Rate — or Appropriate Risk

Risk is captured in your economic forecast by the discount rate you use to determine Net Present Value.

The more uncertain you are about your forecast factors, then the higher the risk that you should apply. As the discount rate climbs, the value of the NPV will drop. See the NPV table above for a demonstration of the principle.

The discount rate is also sometimes referred to as your company's cost of capital. Most company's have a minimal rate they expect their corporate investments to earn. Check with your accounting or finance department for the best rate(s) to use.

Additionally, take into account the level of uncertainty in your forecast. Decide whether it makes sense to do a business case with a higher discount rate.

If your NPV is still reasonably profitable under high risk, it will strengthen your ability to get a green light on your social initiative.

Let's look at an example of matching up defendable assumptions and reasonable risk by reviewing two earlier examples:

Example	New Customers per Month Now – (Known Metrics)	New Customers per Month Forecast (No Social Media)	New Customers per Month Forecast (with Social Media)	Personnel Activity Level	Assumption Quality
B	3	6	60	High across a team	Possibly defendable
C	3	6	9	Modest	Defendable

Example B should carry higher risk (aka a higher discount rate) than Example C. The reason? Because Example B carries more unknowns and higher expectations relative to the investment of effort than Example C's more conservative results.

Return on Investment

Now that cash flow and net present value are understood, we're ready to talk ROI.

The "I" in ROI stands for investment — and that always, always means money. At the end of the day the only real measure of social success will be either increased revenues or profitability (or both). Period. Exclamation point.

$$\textbf{Return on Investment} = \frac{\text{Gains from investment} - \text{Costs of investment}}{\text{Costs of Investment}}$$

Gains for any corporate initiative are universal and fall into two buckets — revenue generation and operational cost savings — and these will be equally true for social media initiatives.

Revenue and Cost Savings impact on corporate coffers

Sales Revenues	+	Support cost savings – From better info sharing & other customer outreach via social media	=	Increase to corporate bottom line = Impact on profitability

As you can clearly see from the formula, metrics are not the same ROI. Talking about metrics as if they are will undermine your credibility with your executive team — because they know the specific meaning of ROI.

When Do You Perform the Valuation for Your Initiative?

There's an art and science to the timing of the valuation process. Start the strategic definition process by looking at the big picture. Once you have a strategy sketched out, then do a quick analysis of its economic viability.

If your preliminary financial forecast is negative, then figure out why. Possible reasons might be:

- The program just flat out isn't economic – no how, no way.
- Unrealistic assumptions about gains or costs.
- Trying to undertake a larger program than your company can afford due to people, technology or other costs.

Negative results will require a decision. Consider:

- Scrapping or deferring your social business initiative in favor of corporate initiatives more likely to provide value.
- Rescaling your proposed social program or otherwise altering your strategy.

If your preliminary valuation results are positive, then keep going on the strategic path you started by layering in more specificity. As you do, continue to iterate on your valuation analysis as you go. Once you finalize your strategy definition, then finalize your economic valuation.

Then you can head off to the executive suite to sell your social initiative.

Are There Times When Social Media Fails as a Good Investment?

Companies are opportunity rich but lacking in resources. As a result, they need to prioritize their opportunities to determine the best ones to invest in. Even if an initiative has a satisfactory ROI, it may not be the best investment among a number of corporate opportunities. The determining factor will be the value of your social business investment (return and risk) against other customer-facing solutions. It all comes back to context. Give your executive team a realistic ROI for your social initiative, and you become their champion by arming them with the information they need to make the best decision.

3 Closing Thoughts on Social Business

Businesses have been testing the social business waters in the past few years by engaging in smaller-scale efforts in social channels. And there's nothing wrong with this approach as a test case.

However, to achieve scalability for social initiatives, companies will have to invest in higher levels of people and technology resources — and these higher cost structures will cause business leaders to demand insight into expected returns.

Describing social benefits is…well…beneficial — but you need to go further. The language of commerce is money, so you must find ways to convert social benefits such as greater customer engagement and extended company impact into monetary terms. And that means performing an economic analysis.

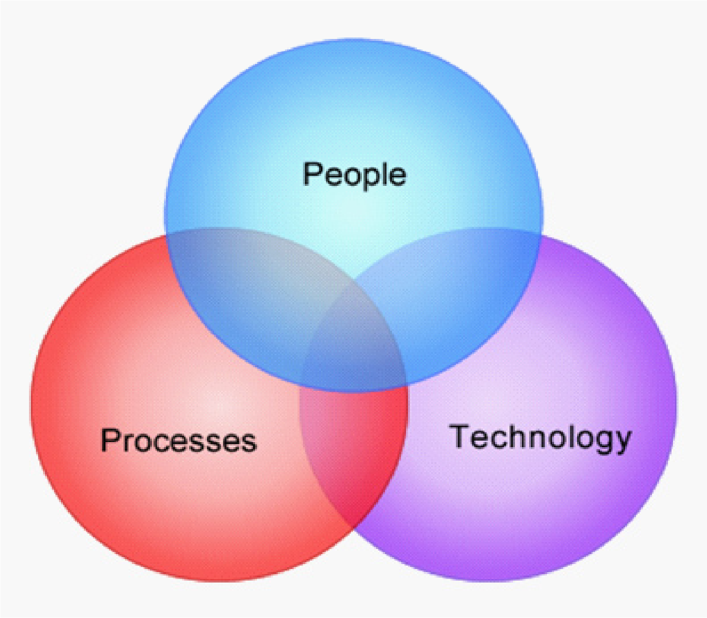
Before you can build a viable economic forecast though, you must first know your strategic objective and plan. You can, however, build your strategy in an upward spiral with your economic forecast. Construct your strategic foundation, perform an initial valuation, then layer in more strategic layers as you continue to perform interim valuations.

If you take this approach, then your end result will be a holistic strategy built on a strong foundation of defendable assumptions. And the win to you is becoming an executive suite champion for giving the CxOs the information they need to make informed decisions for your company. The win for the company is faster approval, implementation and gains from social initiatives.

About Kathy Herrmann

Kathy Herrmann is a thought leader on social business and change management. She specializes in holistically fusing people, process and technology requirements to ignite positive change.

Kathy's transformational focus centers on business process design, definition and the user experience, as well as valuation of strategic initiatives.



Additionally, Kathy is an economic (ROI) valuation expert and designer of the ROI methodologies and tools for social business valuation determination. She is a forerunner in this arena.

Her almost 30 years of diverse corporate experience, spent in operations, marketing, sales management and petroleum exploration, allows her to accelerate and elevate client success.

Her domain knowledge spans IT and software, supply chain management, petroleum exploration and Internet retail.

She is an active participate in the SCRM Accidental Community on Twitter, a premier group of social business thought leaders. Connect with Kathy via her website at www.kathyherrmann.com or via Twitter at @kathyherrmann.

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About Focus Research

Each year U.S. businesses spend more than $75 trillion* on goods and services. And yet there has not been a definitive source of trustworthy and easily accessible information to support business buyers and decisions makers — especially those in small and midsize businesses. Filling this gap is the mission of Focus Research.

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* Source: Visa, Inc. Commercial Consumption Expenditure Index fact sheet.