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INSIGHT

Determining the Value of Social Business ROI: Myths, Facts, and Potentially High Returns

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IDC OPINION

The fastest-growing segment of the collaborative applications market is the emerging social platforms category, which achieved $370 million in 2009 and will reach nearly $2 billion by 2014, representing a compound annual growth rate (CAGR) of 38.2% over the forecast period. The term "social" has been the *en vogue* buzzword of the past five years, with the rise of consumer social networking creating much hype, skepticism, and serious business opportunities for enterprise software players. According to IDC's *Social Business Survey,* enterprise social software adoption still has room to grow, with 41% of respondents indicating that they have already implemented an enterprise social software solution such as IBM (Lotus Connections), Jive Software, Lithium Technologies, Novell (Pulse), and others. But what about the remaining 59% who have not implemented? One of the top challenges associated with using/implementing enterprise social software is measuring the impact on business goals, and there is no greater importance given to validate a business decision than return on investment (ROI). In this Insight, IDC and industry pundits Dr. Natalie Petouhoff and Kathy Herrmann discuss how to determine social business ROI by:

- Debunking social business ROI myths
- Defining social business ROI gains and costs

IN THIS INSIGHT

This IDC Insight explores the criteria for validating enterprise social software purchases and social business transformation through return-on-investment (ROI) measurement. Given the attention, often-cited benefits, and use cases for enterprise social software, widespread industry adoption is relatively immature and executives are still hesitant to design and implement social business initiatives. Why? Because many executives want a clearer understanding of the potential gains, costs, and return on investment that social business initiatives can have on a company's bottom line. This should not be a surprise since ROI is another industry buzzword that many are quick to demand but have difficulty calculating and tracking. Social business ROI is particularly illusive, but for broader adoption to occur, executives will need to conduct ROI analysis to justify expenditures in this category.

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When determining the ROI on social business initiatives, the rules of business still remain regardless if a company applies social business initiatives to assist customer service, marketing, public relations, product innovation, employee collaboration, or other functional areas of the organization. Business executives need to understand not only the traditional metrics and value calculations of ROI, but also the impact that social business initiatives have on these computations and their interrelatedness. It is rare that organizations know how to calculate ROI for traditional company projects; the addition of social business initiatives adds another twist, making it seem difficult to calculate social business ROI, but in reality it is possible.

SITUATION OVERVIEW

The social business is a paradigm shift that is redefining interpersonal and business relationships with colleagues, employers, customers, partners, and suppliers. Through the rise of the social Web, innovative methods of collaboration and networking require a new type of communication that is grounded in authentic, genuine, and direct interactions, demanding greater trust, transparency, and accountability on behalf of all those who participate. Social business transformation is a big shift for corporations that are used to polished messages in press releases and on Web sites. Long gone are the days of "controlling" a company's message and a brand's image. Instead, a company's key stakeholders interacting on the social Web control the message.

Today, consumers, business professionals, and corporations already engage on social networking sites such as Facebook, Twitter, YouTube, and LinkedIn. Adoption of the social Web among business professionals and consumers in their personal lives has driven the development of enterprise social software products to help companies extend influence and reach as well as maintain customer loyalty to create "stickiness." In fact, IDC's recent *Social Business Survey* indicates that the top 5 reasons end users are conducting social business initiatives are to:

- Acquire knowledge/ask questions
- Share knowledge/contribute ideas
- Communicate with customers
- Create awareness about company product or service
- Communicate with internal colleagues

A company's social business strategy requires creating compelling customer and employee experiences while generating revenue, increasing profitability, and/or cutting costs. To determine social business ROI, organizations must consider why their customers and/or employees are using social software and understand the cost/benefit impact related to people, process, and technology. However, before calculating social business ROI, a foundation of ROI analysis as well as social software "truths" must be discussed.

Debunking Social Business ROI Myths

Myth #1: A Metric Is ROI

Social business ROI has been referred to and labeled as many different things including "return on influence" or "return on impact." While metrics such as sentiment, influence, impact, and traditional Web metrics like "reach" are important to calculating social business ROI, they are not true ROI. A metric is part of what is used to calculate ROI but in itself is not enough. Oftentimes the confusion around whether there is ROI is because companies can measure a change in a metric but do not know how to make that change meaningful with respect to their business. To calculate ROI, in its simplest terms, means that companies must have more money coming in than money being spent on something.

Myth #2: ROI Does Not Include Net Present Value

More specifically, return on investment is a financial term that relates to gains versus costs. To arrive at the ROI, the cash flow of an initiative must first be determined, which involves looking at gains (money in) versus costs (money out) over a period of time. Once potential cash flow is understood, net present value (NPV) can be considered, which relates to the time value of the cash flow stream. For example, while the potential cash flow of an initiative may be factored over a two-year period, NPV can show the value of the initiative today. NPV can then be used as a stepping stone to ROI; ROI compares gains with costs and it relates very specifically to money. Figure 1 illustrates the particular elements that serve as the foundation for constructing an economic analysis of social programs in business.

FIGURE 1

Pillars of Social Business Economic Analysis

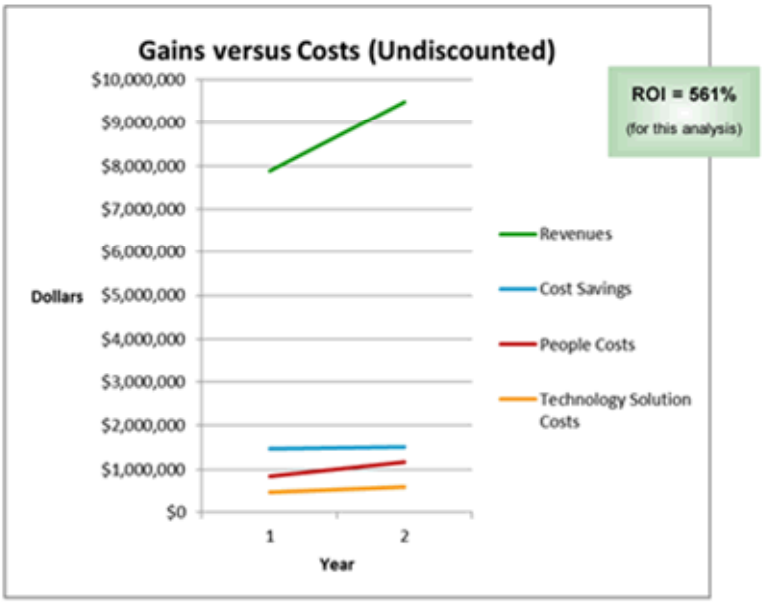
Source: IDC and Kathy Hermann and Dr. Natalie Petouhoff, 2010

Myth #3: Social Business ROI Cannot Be Determined

While social business initiatives can have some challenges related to economic analysis, as many initiatives do, they can be overcome. Determining social business ROI requires knowledge of social business transformation (which takes marketing, sales, and customer service essentials into consideration) and sound economic analysis fundamentals. Given the opportunity to achieve high margins with social programs, it is well worth the exercise to determine the potential. Doing so requires coupling defendable assumptions with appropriate risk for an economic analysis. Nonfinancial social and Web metrics are also important because these inputs help form the basis of assumptions that can then be used in ROI analysis. Figure 2 provides an example of undiscounted gains versus costs in a social business ROI scenario.

FIGURE 2

Gains Versus Costs (Undiscounted) Example



Source: IDC and Kathy Hermann and Dr. Natalie Petouhoff, 2010

Defining Social Business ROI Gains and Costs

Potential social business initiative gains are multifaceted, and the ability to garner any of these depends on the extent of a company's social program. As shown in Figure 3, gains can be attributed to singular departments or functional areas such as sales, marketing, public relations, and customer service. The costs primarily involve people, process, and technology.

It is up to the individual company to determine how far it wants to extend the impact of a social business initiative. For example, it is possible to take the information and interactions occurring on the social Web and provide every single department in a company with a new and unique type of "crowd sourced" business intelligence. Extensive programs where cross-functional departments share information from the social Web throughout the entire business have the potential to accumulate all revenue and savings in these categories as well as experience additional lift due to the interrelated interdepartmental synergies.

FIGURE 3

Social Business Gains Versus Costs

Source: IDC and Kathy Hermann and Dr. Natalie Petouhoff, 2010

Examples of Social Business ROI Gain

Gains from Sales Revenue

Some examples on how social monitoring and engagement allows sales and marketing professionals to get valuable insights that can be used to optimize customer acquisition are:

- Accelerate customer acquisition rates and decrease customer churn
- Create better messaging that can increase the potential for upselling and cross-selling opportunities

These revenue-generating outcomes are determined by metrics that relate to reach, impact, and yield:

- Reach refers to the extent of a company's online footprint including community members, fans, or followers.
- Impact reflects the smaller cross section of community members who are active and pay close attention to a particular product, company, or event.
- Yield refers to how much revenue is generated from active members of a community.

For example, a company may have a community of 100,000 members (reach), but only 30% are engaged in the community (impact). That means this company's online community is potentially influencing about 30,000 current members. Yield can then be determined by considering the combination of sales conversions and average sales amount.

Gains from Consumer Insights

The social Web also allows companies to aggregate insights and make real-time or near-real-time determinations of customer insights and sentiment. Through active observation and participation, companies can accrue cost savings from ongoing social monitoring by:

- Increasing productivity and decision-making capabilities by reducing traditional market research efforts like surveys and focus groups to enable quicker delivery of results
- Gathering more frequent and better intelligence through the scalability of a social monitoring solution
- Leveraging real-time insights to accelerate product development, messaging, and go-to-market strategy

Gains from Brand Protection

One unfortunate event shown by the social Web is how quickly a company's efforts to build a positive brand image and reputation can be undermined by negative social conversations. To help avoid revenue loss, companies can monitor and engage in the social Web proactively to save money through early detections of negative sentiment and/or events. Fast action in these situations can mean revenue preservation and faster time to recover costs. By giving consideration to the following questions, companies can determine how to preserve revenue and avoid/lower crisis communication costs:

- What percentage of revenue per week would your company lose if your brand were attacked unfairly in the marketplace?
- How many weeks would your brand likely be impacted?
- How quickly could you mitigate the problem with social Web engagement and monitoring practices?
- What would it cost your company to recover from an unforeseen attack on your brand? (Consider the total of agency and internal costs.)
- How much could you lower crisis communication costs if you could mitigate the problem with social Web engagement and monitoring practices?

Gains from Lead Generation

Lead generation is often associated with high costs from advertising (traditional media and online pay per click), trade shows and events, customer and partner conferences,

and list and/or lead purchases (traditional and online). Social business initiatives can be used as an alternative to these more expensive lead generation methods. As a result, the money saved from lead generation initiatives utilizing the social Web can go directly to a company's profitability. Savings can be accrued from:

- Lower cost of lead acquisition through less expensive social channels
- Larger marketing conversion rates
- Shorter sales cycles due to better and faster informed buyers as well as heightened trust

Gains from Contact Center Operations

Contact centers represent one of the main areas that can benefit from cost savings and revenue gains by utilizing social business initiatives.

Savings in the contact center can be derived from:

- Agent deflection (via lowering the number of incidents)
- Agent productivity (via faster time to incident resolution)

Agent deflection stems from customers helping other customers resolve issues. A direct deflection occurs when a customer posts a question online and receives an answer; an indirect deflection occurs when a customer finds an answer previously posted such as through a discussion forum, blog, or wiki. Customer-generated answers can also help agents provide faster and more accurate assisted support. Companies can grow their internal knowledge base by adding good (and vetted) answers from customers, resulting in increased efficiency for agents.

As previously mentioned, monitoring social activity can provide early warning signs of a negative issue. Armed with this knowledge, contact centers can then devise appropriate triage methods that allow customer service representatives to be faster and more accurate with problem resolution. On the flip side, social channels can be used to alert customers about an issue and its pending resolution before phones start ringing angrily.

Gains in the contact center can be directly realized through revenue generation as the result of inbound marketing activity. Increasingly, contact centers are used to respond to inbound marketing efforts where customers reply through the contact center to broad brand initiatives. Additionally, social networking fan pages and Twitter campaigns can be directed back to the contact center through instant messaging (IM), email, wall posts, or tweets. Therefore, it is important when choosing a technology solution that companies determine the business goals and the appropriate level of business process automation.

Examples of Social Business ROI Costs

Costs Related to People

A social program or initiative can involve a variety of members within the same department or consist of a cross-functional team. Members of a social program include strategic, technical, and tactical participants:

- Strategic members are executives, project managers, and program owners that have a vested interest in the direct success of the project.
- Technical members are IT personnel or third-party consultants that are needed to design, administer, maintain, and resolve product and process issues.
- Tactical members include content providers or consultants who actively monitor and engage in social channels; these members also include trainers and administrators that help support the initiative on an ad hoc basis when needed.

Therefore, people-related costs for social business initiatives are broken out into two areas:

- Employee payroll expenses
- Third-party or agency expenses

It is important to note that people costs will vary over time. For example, in the initial phases of designing the social program, there may be higher involvement from executives and management team members. However, when the program is launched, executive and management activity levels may decrease, while the activity levels of tactical team members increase. As the community gains traction and success, the demands for monitoring and engaging will climb, which means the costs for tactical people will increase as well.

Costs Related to Technology

Enterprise social platforms are broad in terms of capabilities. They have a variety of use cases (internal collaboration versus external community management), features, infrastructure, and integration capabilities to consider. The exact nature of a company's social platform choice will vary depending on the scale of the social program, components, and how well this program will be incorporated into the cultural DNA of the business. In terms of technology costs, it is imperative that companies ascertain the standard features and functions the vendor provides and what will require additional purchases.

Social Software Features

The following mix of social software features can often be found in social platforms. Companies need to determine which features are required for their particular program needs and evaluate accordingly:

- Activity streams
- Analytics

- Blogs
- Community (group centered; externally focused)
- Conferencing (Web, video, and audio)
- Dashboards
- Discussion forums/threads
- File sharing
- Groups (public or private; internally focused)
- Idea management (polling, rating, and voting)
- Microblogging/status updates
- Mobile deployment
- Presence
- Profiles
- Recommendation engine (content/people)
- Reporting
- RSS
- Search
- Tagging/bookmarking
- Video
- Wikis

Social Software Infrastructure

Social software infrastructure pertains to the deployment and platform management options that should be considered when evaluating a social platform. Deployment options are particularly important since they will ultimately affect how much time IT has to dedicate managing the solution as well as pricing/licensing options. Social software infrastructure includes the following elements:

- Data encryption
- Deployment options (on-premise, hosted, and SaaS)
- Policy management
- Security
- Storage
- Single sign-on

Social Software Integration

Social software integration consists of the ability of a social platform to connect into third-party applications such as the following:

- Back-office applications such as customer relationship management (CRM) or enterprise resource management (ERP)
- Collaborative applications such as email, instant messaging, conferencing (Web, video, and audio), and team collaborative applications (TCA)
- Consumer social networks such as Facebook, Twitter, LinkedIn, and YouTube

High Social Business ROI Potential

Considering the full range of potential social business gains and costs, the resulting ROI can be quite high (see Figure 4) depending on the scale of the program, investment as well as utilization of people, process, and technology.

FIGURE 4

A Social Business Project Example of Gains Versus Costs

Acme Company – Summary of Social Gains versus Costs

Discount rate	**10%**		
	Year 1	**Year 2**	**Net Present Value**
Gains			
Revenues			
Expanded social revenues (due to increased conversations and sentiment)	$5,375,000	$6,692,000	
Better or Targeted Insight revenues	$2,500,000	$2,800,000	
Subtotal Revenues	**$7,875,000**	**$9,492,000**	**$15,003,719**
Cost Savings			
Call Center savings	$1,034,226	$1,033,571	
Consumer Insight savings	$360,000	$396,000	
Brand Protection savings	$68,943	$76,990	
Lead Generation savings	$103,365	$139,543	
Subtotal Cost Savings	**$1,463,169**	**$1,506,561**	**$2,575,245**
Total Gains	**$9,338,169**	**$10,998,561**	**$17,578,964**
Costs			
People Costs			
Employees	$333,868	$686,495	
Third-party Consultants	$512,500	$472,125	
Total People Costs	**$846,368**	**$1,158,620**	**$1,726,962**
Technology Solution Costs			
Solutions and Services	$468,000	$608,400	
Process (incl implementation)	$5,000	$0	
Total Technology Solution Costs	**$473,000**	**$608,400**	**$932,810**
Total Costs	**$1,319,368**	**$1,767,020**	**$2,659,772**
Net Results	**$8,018,802**	**$9,231,541**	**$14,919,192**
Return on Investment			**561%**

Source: IDC and Kathy Hermann and Dr. Natalie Petouhoff, 2010

FUTURE OUTLOOK

The industry is entering a new phase of business collaboration, fueled by the intersection of Web 2.0, Enterprise 2.0, and collaboration tools to form the social business. Business collaboration is a key area impacted by the widespread consumerization of IT, and there is ample evidence that many business users, regardless of industry, will favor using the same social, messaging, communication, and search tools in the workplace to enable better productivity and seamless collaboration among customers, partners, suppliers, and employees.

The social business model is changing the way companies generate and conduct business online, and IDC believes that this model will have a long-lasting impact. As a result, company executives have to understand the economic impact of social programs as well as the cultural transformation that a company needs to go through before undertaking a social platform implementation.

Social business ROI can be determined from evaluating the impact on marketing, sales, public relations, and operations. In many cases, ROI can be quite high for well-defined social business initiatives and implementations. Keep in mind that costs for people and technology will increase as a program's success is achieved. Yet gains from sales revenue as well as savings from consumer insights, brand protection, lead generation, and call center operations will also increase to help balance costs. The interplay between costs and gains is an evolving area that IDC will continue to monitor. Many of the costs and gains will be indirect and therefore difficult to quantify. For that reason, it is essential that organizations develop an understanding of the myriad of social business initiatives undertaken by their organization — not for censorship reasons but to aid in the net impact of these engagements over time. By determining the economic value of social programs, companies gain the ability to prove the direct and indirect revenue potential of well-structured projects.