
Calculating the ROI for Social Customer Service:

How to Combine Strategy with ROI to Accelerate
Executive Approval

By Dr. Natalie Petouhoff and Kathy Herrmann

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The Challenge: Making a Business Case for Social Customer Service

Customer Service executives and managers are responsible for caring for customers and delivering experiences that ultimately result in customers deciding whether to stay loyal to a company. That decision affects the bottom line by either increasing or decreasing costs and revenue.

Social media represents a new dynamic in customer experiences in which the company, its products, services, reputation, and the way it treats customers become highly visible to millions of people. Comments, reviews, ratings, and customer dissatisfaction are permanently “inked-in” in the online world for millions of people to view—forever. However, social media also provides new channels to allow companies to service customers in new ways and heighten customer satisfaction.

Many executives and managers struggle with showing how social media can impact a business. Their experience tells them that, because social media provides a way to interact with their customers in a more direct, authentic, and genuine way, it's got to be a worthwhile endeavor. But they may be unsure of how to create a business justification that makes sense to their executive teams.

The Solution: A Framework for Measuring ROI

To gain buy-in for your social customer service program, you'll need to show your executive team you have a viable business case. The components of a business case include:

- Goals and objectives
- A strategy to meet those goals and objectives
- Metrics/Key Performance Indicators (KPIs) to measure the goals and objectives
- The business results (cost savings or revenue generation) or the return on investment (ROI)



The net result of any combination of customer service goals will be cost savings. However, when a company engages in social media, the results also touch almost every other area of the business—from PR, to marketing, to sales and product development. And although the goal of customer service is not necessarily increased sales or product ideation, positive word of mouth can be far reaching.

In this paper, we'll give you a framework for measuring ROI. We'll highlight common benchmarks and metrics and show how to use some of those metrics in an example ROI calculation.

What is ROI?

Experts often say “*Social media ROI can't be calculated because there are too many unknowns*” or “*Don't worry about the ROI, just get a strategy and start doing*”

something.” They quote metrics and/or key performance indicators (KPIs), but few know how to take those metrics and convert them to ROI.

An ROI calculation is just a way to put your metrics into formulas to show, in numbers, how your strategy is increasing revenue and decreasing costs. ROI calculations can also provide perspective on the potential strengths and weaknesses of your strategy.

A way to look at ROI is with the following formula:

$$\text{Return on Investment} = \frac{(\text{Gains from Investment}) - (\text{Costs of Investment})}{\text{Costs of Investment}} \times 100$$

Calculating the ROI of social media involves three variables:

1. Traditional business metrics
2. Social media metrics
3. Changes to traditional business processes and metrics when social media is used in a business

By understanding the relationships and dependencies between these variables, you can gain insight into the activities, reach, relevance, and behaviors of customers.

The Impact of Social Media on Traditional and Social Metrics

Social media monitoring allows a company to listen, discover, and measure what’s being said about their products and services across the social Web. This data is then processed and converted into actionable intelligence, KPIs, and metrics. You can use this data to:

- Serve as an early warning system of brewing problems
- Respond to customer questions and resolve them
- Create an increase in positive sentiment, share of voice, word of mouth, and referrals

Table 1 below shows common metrics used for Customer Service measurement, as well as additional social metrics and the associated business results. When you calculate ROI for your company, you will use your own unique set of goals and objectives to choose metrics that best match your goals.

Table 1: Customer Service Metrics for Social Media ROI Calculations

Customer Service Metrics	Social Metrics	Business Results
Customer Service satisfaction ratings Deflection rates Escalation rates Case volumes by segments (calls, emails, chat, etc.) First resolution rates Agent productivity statistics such as: <ul style="list-style-type: none"> • Average Handling Time per case • Total Cases Handled in a given time period 	Sentiment (positive, neutral, & negative) Conversation volumes across segments (comments, tweets, posts, etc.) Engagement analysis Community membership volumes (total versus active) Membership influence (measuring the extent of your members’ networks) Conversation volumes across segments (comments, tweets, posts, etc.) Engagement analysis	Revenues, segmented by: <ul style="list-style-type: none"> • Total revenues for the impacted brand(s). • Yield or transaction sales value per customer Costs for people Costs for process to implement the technology Costs for technology

In the example ROI calculations that follow, we focus on showing how social customer service can address two of these metrics: *deflection rates* and *agent productivity*.

Calculating ROI

In the ROI formula introduced earlier, you can see that coming up with the ROI of your social investment includes calculating the gains associated with that investment, calculating the costs, and then using the results in this formula.

$$\text{Return on Investment} = \frac{(\text{Gains from Investment}) - (\text{Costs of Investment})}{\text{Costs of Investment}} \times 100$$

Proving ROI: An Example

To illustrate this process, we used a company profile based on a real customer service organization (but we've obviously changed the name). The left side of Table 2 provides an overview of the company and the costs associated with the social media solution. These costs are reflected in the Costs section of the spreadsheet shown in the right side of the table. How we arrived at the savings shown in the spreadsheet is shown in the section *Calculating Gains* that follows.

As you can see, with a positive net result of more than \$475,000 and an ROI of 152%, Acme's social customer service program is successful.

Table 2: Company Background and Cost Calculations

Acme Company: Description and Metrics	Acme - Summary of Gains versus Costs	
Below is the cost data used in the sample ROI calculation on the right.		Total
About Acme:		
<ul style="list-style-type: none"> A medium-sized enterprise 500 customer service phone support agents 	Gains	
Social Media Customer Service Team:	Call Center Savings	
<ul style="list-style-type: none"> 1 Customer Service Manager: 20% dedicated time 1 Data Analyst: 20% dedicated time 3 Customer Service Agents: 100% dedicated time One agent is a Community Manager Compensation data is based on average U.S. domestic salaries, appropriate to each position 	<ul style="list-style-type: none"> Direct Deflection Savings \$117,600 Indirect Deflection Savings \$336,000 Avg. Handling Time Savings \$39,312 First Call Resolution Savings \$273,000 Knowledge Base Enrichment Savings \$27,300 Subtotal Cost Savings \$793,212 	
Social Media Customer Service Technology:	Total Gains	\$793,212
<ul style="list-style-type: none"> Each social Customer Service Agent has a license to Acme's CRM (Customer Relationship Management) solution (total of 3). This solution includes functionality for CRM and social CRM. Acme's primary social channels are Twitter and Facebook. Acme uses a community solution to enhance the user experience with Facebook, allowing users to gain search and other capabilities not available in the standard Facebook experience. Acme uses a premium social media monitoring solution. 	Costs	
	People Costs	
	<ul style="list-style-type: none"> Employees \$224,126 Third-party Consultants \$0 Total People Costs \$224,126 	
	Technology Solution Costs	
	<ul style="list-style-type: none"> Solutions and Services 75,200 Process (incl implementation) \$15,000 Total Social Monitoring Solution Costs \$90,200 	
	Total Costs	\$314,326
	Net Results	\$478,886
	Return on Investment	152%

Calculating Gains

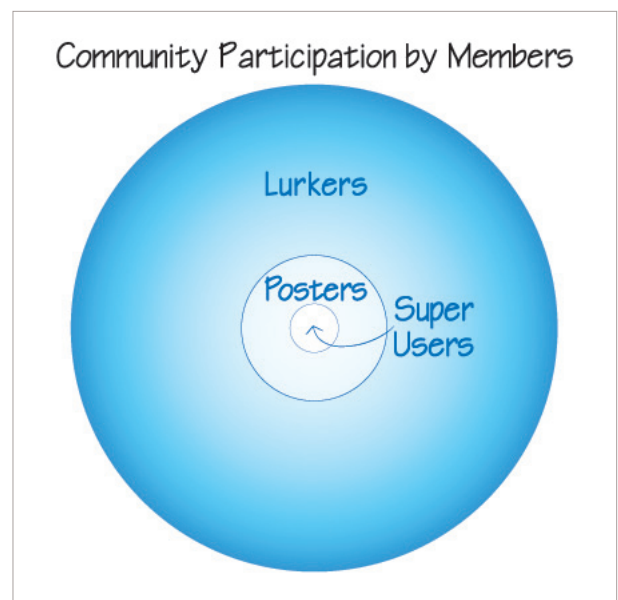
With your investment in a social media solution, you want to affect the metrics listed in Table 1. Which metrics are most important depends on your individual company, but many companies will benefit from savings associated with the following metrics:

- Increased call deflection rates, both direct and indirect
- Improved agent productivity

Savings from Agent Call Deflection

The greatest expense in a contact center is agent-assisted calls. One strategy to reduce calls is to have customers answer questions instead of agents. To do so, a company must create an engaged online community.

To understand how this strategy works requires some knowledge about the dynamics of social media interaction. The *Community Participation Principal* (footnote) says the ratio of super-users to posters to lurkers in a community is 1:9:90. Super-users are the 1% of the community that generate and curate content about your products and services. Your product is their “hobby.” Posters are the 9% who respond to content posted by super-users. Posters are also highly knowledgeable about your products and contribute answers from time to time. Lurkers, who are your average customers looking for answers, makes up the balance at 90%.



Online communities can be created on social channels such as Facebook and Twitter, or you can build your own support communities. You'll want to learn all you can about your social channels. The more you understand what your customers care about, the more you can engage them in your community.

Super-users and posters then act as a volunteer support team. By leveraging their knowledge you can resolve customer issues online and increase deflection rates.

Calculating Direct and Indirect Agent Call Deflections

When customers get answers from the community, they don't require agent-assisted calls or emails. Some companies worry that these answers won't be correct. However, statistics show that super-users and many posters often know more about your product or services than your company's agents.

When choosing a community platform, look for a feature that allows people to vote whether an answer helped them or not. When 10,000 people vote that an answer helped, you can feel assured that your customer got the right information.

Additionally, your customer service community manager can vet answer quality and fill in any gaps in customer-generated answers.

Direct call deflections occur when customers post questions and super-users or other customers weigh in or provide answers. **Indirect call deflections** occur when customers don't need to post questions because they find the answers in comments that have already been posted.

To determine the effect of social media on call deflections, you'll need the following information:

- Number of contacts per period without social media (segmented by calls and emails)
- Number of new social media conversations per period
- Average handle time
- Percentage of deflected contacts (obtained by surveying customers or by projection)

Table 3 shows how these metrics are used in a formula for estimating the savings associated with direct call deflection. For our example company, you can see that 490 deflected calls per month amount to savings of \$117,600 per year.

Table 3: Calculating Direct Agent Call Deflections

<p>Direct Deflection Savings Formulas:</p> <p># New Questions answered by Super-Users = (# Total New Questions Answered) x (% New Questions Answered by Super-Users)</p> <p># of Direct Deflected Contacts = (# New Questions answered by Super-Users) x Est Direct Deflection Rate</p> <p>Savings per period = (# of Deflected Calls) x (Avg Cost/Call)</p> <p>Direct Deflection Savings Calculation:</p> <p># New Questions Answered by Super-Users = (7,000 New Questions Answered/month) x 70% = 4,900 New Questions Answered by Super-Users/month</p> <p># Direct Deflected Calls = (4,900 New Questions Answered/month) x 10% = 490/month</p> <p>Savings = (490 Deflected calls/month) x (\$20/call) = \$9,800/month = \$117,600/year</p>

Table 4 shows the formula for estimating the savings associated with indirect call deflection. Using our example company, you can see that 1,400 deflected calls per month amount to savings of \$336,000 per year.

Table 4: Calculating Indirect Agent Call Deflections

<p>Indirect Deflection Savings Formulas:</p> <p># of Indirect Deflected Contacts = (# Total New Question Answered per period) x Estimated Indirect Deflection Rate</p> <p>Savings per period = (# of Deflected Calls) x (Average Cost/Call)</p> <p>Indirect Deflection Savings Calculation:</p> <p># Indirect Deflected Calls = (7,000 New Questions Answered/month) x 20% = 1,400/month</p> <p>Savings = (1,400 Deflected calls/month) x (\$20/call) = \$28,000/month = \$336,000/year</p>

Savings from Improved Agent Productivity

Social customer service programs can increase agent productivity in a variety of ways. In this paper, we'll focus on the following metrics:

- Decreased Average Handling Time
- Increased First Contact Resolution Rate

Lowering Average Handling Time (AHT)

You can lower AHT if you have a CRM or case management solution that can connect with popular Web communities such as Twitter and Facebook.

In this scenario, your case management solution pulls customer questions into your platform, just like an email or a call, and creates a case. Your agents can try to identify the customer to get a better understanding of the complaint and any related past issues. Armed with this information, they can then undertake problem resolution by querying internal experts and communicating with the customer. The net result is a lower AHT.

To calculate average handle time, you need the following information:

- # issues generated in social channels
- Average time to resolve issue
- Average cost per agent, per hour
- Estimate % of time saved using social channels

In our example, the savings associated with AHT were \$39,312.

Increasing First Contact Resolution Rates (FCR)

FCR refers to the idea that a customer's issue can be resolved with a single call or contact. As the number of calls required to resolve an issue increases, so does customer dissatisfaction and costs. FCR is an important indicator of customer satisfaction.

Additionally, research shows over 90% of customer issues haven't been unearthed yet by a support team. Because of this, agents may not have structured answers to resolve these problems when a customer calls. These exceptions lead to long support calls, poor FCR, agent stress, and customer dissatisfaction.

However, these same issues may be exposed and addressed in online social communities before the call center is aware of them. In other words, social channels can act as early warning systems. Your team can prepare the needed triage steps to help accelerate problem resolution and increase your FCR rate. Additionally, community content provides more relevant information to agents in general, making them more efficient.

To calculate savings in First Contact Resolution, you need the following information:

- Calls per period
- % of calls failing FCR
- # of new conversations per period
- Cost per call
- % decrease in calls failing FCR

In our example, the savings associated with FCR were \$273,000.

Creating Enriched Knowledge Bases

Research shows agent productivity increases with access to content in community postings. Content developed for the knowledge management database is often based on known problems or customer issues and their known solutions.

Many social CRM and contact center solutions have the ability to pull content from community conversations to accelerate the creation of new knowledgebase articles, links, etc. Such technical capabilities further increase agent productivity by decreasing the time required to create new articles and increasing the average speed of providing an answer.

To calculate the savings resulting from enriched knowledge bases, you'll need the following information:

- # calls per period
- Cost of first call
- Average # new articles overall/period
- # estimated new articles from social media
- % decrease in calls per period

In our example, the savings generated by creating an enriched knowledge base is \$27,300.

Calculating Costs

The major costs for social customer service programs center on people and technology. The ability to scale your social program will be an important factor in providing efficient and effective customer experiences while containing operational costs. The key to success is to:

- Deploy the right-sized team to support your social program
- Implement well-defined work processes for your people
- Use the right technology solutions to support your people and processes

Additionally, as you prepare your program strategy, be sure to anticipate higher demands for people and technology resources as your program gains success.

People Costs

The costs associated with staffing your social media customer service team depend on the extent of your social initiatives. Let's look at the payroll costs associated with a typical team, which consists of:

- Strategic members – Executive(s) and managers
- Tactical members – Support or service reps who engage in social channels or run the community
- Data analysts to monitor and analyze social media monitoring results
- Technology implementers

Average payroll costs consist of the burdened cost of an employee—the total of salary plus *bonus* plus *benefit*. Your Accounting or HR departments should be able to give you information about average payroll costs. If you plan to use outsourcing to staff your social team, you'll want to look at your vendor costs as they relate solely to social support (as opposed to the total cost of outsourcing, which would include phone or email support). Your Accounting team should also be able to give you the cost data for your outsourced vendors.

Table 5 below shows the formula for calculating the costs associated with staffing a social team. Using our example company, you can see that people costs come to a total of \$224,126.

Table 5: Calculating People Costs

<p>Payroll Cost Formulas: Burdened Compensation per social team member = (Salary + bonus + benefits load) x (% time devoted to social) Total Payroll Costs = Sum of Burdened Compensation/Social team member</p> <p>Calculation of Payroll Costs: Cost of Manager = (\$101,320/year) x (20% time) = \$20,264/year Cost of data analyst = (\$102,810/year) x (20% time) = \$20,562/year Cost of Customer Service Reps = (\$61,100/yr) x (3 reps) x (100% time) = \$183,300/year Total Payroll Costs = Sum of costs shown above = \$224,126/year</p>
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Technology Costs

CRM solutions manage the relationships between your company and individual customers. Common types of data collected by such solutions include Accounts, Contacts, Case Histories, and Activities. Unless you're adding headcount to your social team, the costs for a CRM solution in the calculations are already a sunk cost. If you are adding new headcount, you might consider incremental CRM licenses or subscriptions in your ROI determination.

You'll want to enhance your traditional, transactional CRM and contact center management solutions with social and knowledge management components. Additionally, you'll want to include software solutions that will allow you to monitor social media activity. Which optional add-ons you will need depend on your social strategy and your business goals and objectives.

In general, you'll incur the following technology costs for the components that follow:

- Incremental costs for licenses and subscriptions for new CRM seats (and social CRM add-ons)
- Subscription costs for any usage-based technology components

Social Connectivity Application Costs

A social connectivity application will allow you to connect your CRM solution with popular Web communities—such as Twitter and Facebook—to monitor social activity and participate in conversations. The best solutions support auto-generation of knowledge base articles by pulling content from crowd-sourced, online conversations. Some vendors' solutions include these features.

Community Platform Costs

There are two general categories of online communities: *public* communities such

as Facebook and Twitter and *branded* corporate communities, typically used by companies for support forums.

Public communities do not charge usage fees. In some cases, these vendors may offer optional, fee-based services to enhance the user experience or allow additional functionality. Corporate branded communities are fee-based. Costs are usage-based and determined by the number of members, page views, etc.

Internal Employee Collaboration Solutions Costs

Collaboration solutions allow for the ease of internal collaboration across departments. Some solutions are similar to public community interaction platforms such as Facebook or Twitter. Other common capabilities include the ability to share files, chat, and instant message. Costs are usually usage-based; for example, member volumes, page views, etc.

Social Media Monitoring Solutions Costs

Social media monitoring solutions allow you to collect actionable intelligence about the behavior of customers and other interested parties across the Web. These solutions allow you to measure, analyze, and report on your social efforts. You can also use them to gain exposure to social conversations and channels in which you may not already be involved. You may also want to add premium social media monitoring solutions to your social technology mix. These solutions give you a depth of intelligence and reporting not included in free solutions. Costs for premium monitoring solutions tend to be based on some combination of conversation volumes and reporting preferences.

Knowledge Base Solutions Costs

Knowledge base solutions allow for the collection, organization, and retrieval of knowledge. These solutions allow your relevant audiences (employees, customers, partners, etc.) to share and re-use information.

Integration Costs

CRM providers that incorporate social components may involve no to low integration costs. In contrast, if you build a best-of-breed Social CRM solution, you'll need to integrate individual components into the overall social platform. You will also need to determine whether your costs are for a system deployed on your premises or whether the system is hosted on the vendor's site. Be sure to include integration costs in your ROI determination.

Table 6 shows the formula for calculating the costs associated with the technologies for a social customer service solution. For our example company, technology costs come to a total of \$90,204.

Table 6: Calculating Technology Costs

Technology Costs Formulas:

Technology costs = Sum of individual technology components described above. Use incremental costs only.

Example Technology Cost Calculations:

Assume the 3 Support Techs (shown under People Cost example) are new hires. Need incremental CRM seats with social add-on functionality.

Also needed is a modest community solution to supplement searchability of Facebook community.

Total Technology Solution costs for example = [Incremental seats CRM + SCRMs add-ons] + (Cost for modest Community solution) + (Subscription Costs for Premium Social Monitoring) + Implementation Costs

= [(\$200/user/month for CRM/SCRMs) x (3 seats)] + (\$4,167 per month Community) + (\$1,500 per month Social Monitoring) + \$15,000
= \$90,204 for first year

Conclusion

In this paper, we've shown you the most common program objectives associated with social programs. With these objectives you can build a framework for social media customer service success. We've also shown you an array of customer service and social metrics, calculations, and business results to determine the gains and costs associated with social media programs.

You can use these examples as a guide to build your own business case—your strategy, your objectives and goals, metrics, and formulas to determine the ROI for your social customer service program. Armed with your social strategy and business case, you're ready to move forward to win executive approval for your social customer service program.

Author Bios

Dr. Natalie L. Petouhoff

Dr. Natalie Petouhoff serves as the Chief Strategist for Social Media, Digital Communications and Measurement, with a world-wide practice role spanning client work, practice development and thought leadership. Dr. Natalie's focus is to consult with clients on their strategy for social media, marketing, PR, customer service and integrating them using organizational change management, new technology deployment and social media analytics, measurement and ROI models and calculators. You can find her on Twitter at www.twitter.com/drnatalie.

Kathy Herrmann

Kathy Herrmann is a thought leader on social business and organizational change management. She specializes in holistically fusing people, process, and technology requirements to ignite positive change. Her transformational focus centers on helping clients understand how to leverage social business to improve customer-facing activities like marketing, sales, and customer service. Additionally, she also helps clients foster greater collaboration across employees, customers, and partners. And Kathy designs ROI methodologies and tools for social business valuation determination. You can find her on Twitter at www.twitter.com/kathyherrmann or www.kathyherrmann.com.