

Social Media ROI:  
Can You Monetize Social Networks for Internet Marketing Sales?

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### Abstract

The purpose of this paper is to examine the ways in which businesses can measure the return on investment (ROI) of their social media marketing practices. It focuses mainly on Twitter and Facebook statistics.

This paper will outline:

- Business implications of social media
- Tracking methods used to measure social network lead generation and sales
- Measures of social media marketing success other than monetary profits
- Successful social media marketing case studies
- Cautions and implications for the future

The overall goal of this paper is to define the steps a business needs to take to see a successful return on investment from social media marketing.

*Keywords: Social networks, ROI, Facebook, Twitter, social media, marketing, social commerce*

**Introduction: Social Media?**

Social media is a current fad that many companies are suddenly implementing into their strategic marketing plans. However, many of these same companies don't take much action past than creating accounts on a few social networking sites and posting a couple status updates every so often. Other companies hire a team to create a strong social presence only to see very little benefit from their time and effort.

Christian Bohike, head of marketing communications at ING direct explains the problem of social media marketing like this:

*“The social media industry has a lot of attention this year... it's become a buzz word, yet the only people who are making money off of it are those who are organizing conferences on it... Expectations are over-rated – 99 out of 100 social media campaigns in 2009 failed” (Donaldson, 2010, p. 10).*

The important question is; how can a company measure the return on investment of social media marketing practices and what can a business do to use social media to increase profits.

**Reasons Businesses Should Care About Social Media**

To a traditional marketer, social networking platforms like as Twitter and Facebook may seem interesting or fun, but not practical from a business standpoint. However, the next time your CEO scoffs at the idea of social media marketing or tells you that social media is just for teens, remind them of these facts.

*Fact 1: Social media can reach millions of potential customers.*

According to Twitter's website, the social networking site currently has over 175 million registered users and over 95 million tweets are written per day. And Facebook claims to have over 500 million active users. Furthermore, people spend over 500 billion minutes on Facebook

per month and share 30 billion pieces of content. There are very few other outlets when a company can reach so many potential customers at a low cost.

*Fact 2: Social Media influences online consumers.*

According to Marketing Magazine (2009), a study conducted by the Per-formics division inside Public is Groupe and ROI Research revealed the following statistics (p. 22).

- 30% of online consumers said they learned about a product, service or brand from a social networking site
- 25% said they went directly to an online retailer or e-commerce site after learning about a product or service on Facebook, Twitter or another social networking site
- 34% used a search engine to find information on a product, service, or brand after seeing an advertisement on a social networking site
- 44% have recommended a product on Twitter
- 39% have discussed a product on Twitter

Since nearly a third of the consumers surveyed had relations regarding a product or service via a social network, these statistics prove that social networks can be used as a medium to reach new customers, improve relationships with current customers and even track customer satisfaction.

*Fact 3: Sales and discounts work better online.*

Consumers not only learn about products and service on social networks, they also receive discounts and coupons. The same Per-formics Survey revealed that:

- 32% of consumers said messages about printable coupons on social sites resonate with them
- 28% of consumers said messages about sales or special deal notifications resonate with them

Furthermore, while paper coupons have an average 5% usage rate, e-coupons have a 25% conversion rate. What's more, social coupons such as Groupon or Living Social, site which offer

group discounts to their social networking communities (e.g. people who have signed up to be part of their site) have an even higher conversion rate of 75% (Cecece, 2010, p. 15).

### **Lead Generation, Conversion and Sales**

According to MarketingProfs.com, 6 out of 10 businesses use their social media strategy for lead generation. In these cases, social networks are used as a means to drive traffic to a company's website. "Website visitors become leads once they fill out a form in return for some sort of offer (e.g. a webinar, a trial, etc.) on a targeted landing page. These leads can then be qualified and distributed to a sales team" or led directly to a product where the leads can turn into a sale. In these cases, the value of a customer is determined by how much they purchase and the value of the social networking site is determined by the conversion rate of leads into sales.

This type of ROI is easily measurable if a company utilizes tracking software such as Google Analytics, custom URL's and website cookies that track where the site traffic is coming from . "The Internet is the most measurable medium ever invented, and anything that can be measured can be used to calculate ROI... Let's say Twitter brings an average of 1,000 monthly visitors to your website and that you typically convert 50 of them to customers. That's \$250,000 in monthly Twitter value. If it took 50 tweets to get 1,000 visitors, then each tweet was worth \$5,000. " (Gillin, 2010, p. 8).

However, tracking social media ROI in this way is a process that requires keyword research, competitive review and content analysis. For an effective measurement, companies need to monitor web analytics and referring domains on a weekly basis and alter their social media strategy accordingly . Because of this, many businesses find themselves spending more time on marketing the business, than running the business (Gresing-Pophal, 2009, p. 42). Furthermore, many businesses lack the data and analysis to develop ROI. Gillin (2010) states, "The bigger problem is that few companies use Web analytics or understand the analytics they use. They look at meaningless statistics like page views and ignore the capabilities of today's sophisticated tools to identify what visitors do once they reach a website" (p. 8).

### **The ROI of Putting Your Pants On**

Both the difficulty of tracking and analyzing social media lead generation and conversion and the hassle interpreting these numbers as a profit margin may cause businesses to fail to see the value of social media marketing. However, numerous top marketing analysts argue that you can't put a dollar sign on the value of social media marketing. Focusing on lead generation limits the measure of the value of social media to one path – sales. This causes the other values of social media to be lost.

Nick Reid, the head of UK sales at MySpace says, “A brand presence isn't just about click-through rates, but engagement and branding. [MySpace's] own research found that brands with social network profiles saw a third of people click through their websites as a result of being a friend of the brand, and 22% spend more on them” (McElen, 2009, p. 5).

David Meerman Scott compares measuring the ROI of social media to trying to measure “the ROI of putting your pants on in the morning” (Burns, 2008). You don't. But you still do it. Like social media, just because the value of putting your pants on is not quantifiable doesn't mean it isn't important.

### **A Movement Towards Social Commerce**

Social media marketing marks a movement from measurable sales to overall sales experience. E-commerce and traditional marketing drive efficient transaction by delivering sales to customers. Social media marketing can be used to enhance the shopper's experience and increase brand awareness. Cecece (2010) defines this new marketing technique as “social commerce and says “Social commerce is the use of social strategies to anticipate, personalize and energize the shopping experience.” (p. 14).

As with social media, social commerce is driven by sharing. Sales are driven by recommendations by consumers and the community, not by direct marketing from the company.

Businesses with good social commerce strategies encourage customers to recommend their product or service to friends on Facebook or discuss their company on Twitter and use social networks as a means to initiate these conversations within the community. This makes every customer's friend a potential customer and creates a huge network of marketing possibilities.

“This suggests that returns from social media investments will not always be measured in dollars, but also in customer behaviors (consumer investments) tied to particular social media applications” (Hoffman & Fodor, 2010, p. 42). Therefore, businesses should not only measure short term goals such as increased sales from social network traffic, but also longer term goals like reducing quarter costs by improving customer service using social platforms and increasing brand recognition with social media promotions.

### **Businesses that Used Social Media for Success**

As we've discovered, successful social media campaigns are aimed at more than just sales.

“When asked who is doing the best job in social commerce... there is no single company that has is figured out. Instead, we find that industry sub-groups are moving at different rates towards the goal” (Cecece, 2010, p. 8). Below are some examples of social media marketing successes.

#### *Wet Seal's Virtual Runway*

The clothing store, Wet Seal created a virtual runway where customers can share outfits with their friends and give each other feedback on those outfits. Shoppers can also scan an item in the store with an iPhone application to see a variety of outfit possibilities. “Each season, fans post 50 million viral impressions per month on Wet Seal's virtual runway” (Cecece, 2010, p. 12). This increases brand awareness for the company and the iPhone application encourages consumers to purchase more clothing.

#### *Kelloggs' Special K Challenge*

In 2007, Kelloggs created their Special K Challenge. This challenge encouraged people to lose weight by incorporating Special K into their diet. The marketing campaign included an online support website where users could customize a Special K Cereal diet. The website included

online forums and email support. It also included a link where users could purchase cereal from Amazon.com. Amazon measured the lick-through market response for 18 months and the online ROI was double that of the Kelloggs' Special K Challenge television campaign (Hoffman & Fodor, 2010, p.45). Kelloggs' use social media to create a community which led to increased sales.

#### *Salesforce.com's IdeaExchange*

To improve customer satisfaction and feedback, Salesforce.com created an application called IdeaExchange that allowed customers to suggest feature ideas for products. The application on its website also let other customers and vote on the suggested feature ideas. In 2007, a year after the creating of IdeaExchange, Salesforce.com shipped four new releases, two more than the year before (Bernoff & Li, 2008, p. 38). Salesforce used social media to learn what its customers wanted what the market truly wanted.

#### *Square Enix – Dragon Quest XIII*

In 2009, the Japanese gaming company Square Enix was ready to release its video game, Dragon Quest XIII in the U.S. However, months before the release, Square Enix started an online community to stir up interest. The community drew more than 14,000 members, 30% whom were recruited by word of mouth. Forty-percent of the online community pre-ordered the game and by the end of 2009, over 510,000 copies had sold in the U.S. (Hoffman & Fodor, 2010, p. 46). Like Kelloggs, Square Enix, use social media to create a community, which led to increased sales.

### **Barriers and Failures**

Businesses may be scared of relinquishing control to customers since they cannot control the conversations and content on social media. However, consumers will use social media against a business whether that company has a strong social media presence or not. For example, an angry customer posted the audio from a call he had with an AOL customer service representative on YouTube, leading to harsh criticism regarding AOL's customer service quality (Bernoff & Li, 2008, p. 38). It was AOL's presence online and within social media that allowed them to find

and respond to the backlash of the YouTube video. Therefore, a social media marketing strategy is not only important for creating strong brand reputations, but also for monitoring and combating negative brand perceptions and claims.

Another obstacle businesses may have to social commerce could come from their own marketing department. According to a survey by Lora Cecece (2010), 72% of businesses say the standard marketing definition is the biggest barrier to social commerce. Companies have difficulty moving from tightly controlled product marketing, where the message is pushed out to the customer, to a market-driven message driven by the community” (p. 14). Marketers need to convince managers and CEO’s of the value of social media marketing since the ROI is not always easily measurable.

Thirdly, social media marketing may not work in all cases. Since, social media is a “sharing” platform, social media campaigns won’t be effective if consumers are unwilling to “share”. For example, Consuelo Bova , CEO of ForTheFit.com, a specialty retailer for short men, expressed her failure with social media:

*“We had a difficult time meeting marketing needs using Facebook. We also found it difficult, given the nature of our product, to get existing customers to participate-I’m going to guess they didn’t feel the need to share with their colleagues and friends that they shop at a short men’s retailer”* (Grensing-Pophal, 2009, p. 42)

Lastly, social media marketing is also not effective when a company is dishonest about it’s intentions. In 2003, “Dr. Pepper and 7up outraged consumers when they secretly enlisted a group of 6 teens-20-somethings to post favorable reviews and spread the word about their new milk drink. When people found out that the seemingly unbiased reviews were actually planted by the company, bloggers started at boycott and the product failed” Hoffman & Fodor, 2010, p. 43).

### **Implications and Next Steps**

In conclusion, businesses need to decide whether their target demographic is right for social media marketing. If so, then they need to create a social commerce strategy that focuses on increased awareness, improved brand recognition and reputation and improved customer experience, rather than increased sales. “Instead of emphasizing their own marketing investments and calculating the returns in terms of customer response, managers should begin by considering motivations to use social media and then measure the social media investments customers make as they engage with the marketers’ brands” (Hoffman & Fodor, 2010, p. 42). Businesses should look at factors such as time spent on website or the quality of customer comments on Facebook or Twitter. The returns on social media investments should be measured by customer behaviors and community outlook, rather than profit margins.

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