

# Reviewing ROI/ROA models for online...

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[scottpalmer](#) 10 posts since

Sep 5, 2008

ROI or ROA, either way, it's OK, (yes, i did that for the rhyme)

First let me propose that ROA (return on assets--initialism not acronym) is a more appropriate term because most of the community costs will come from re-allocating resources you probably already have...in my case 100 employees "volunteering" their time for this "business cause" vs. another business cause. Yes, there are some initial sunk costs (software, hardware, build fees etc.) but the ongoing operational costs are mostly labor that you probably already have.

So, weather we call it ROI or ROA or ROC (return on capital) let's move on to some specific issues and details:

Firstly, ROA has to be broken down into specific business functions/operations. Just as the case with any operational program within a company, the primary function (where it belongs) will help determine the ROA models--many of which have existed for quite some time.

For example, if the "community e-program" (in this case businesss-centric social media features--aka communities) has a primary function as "customer support", then it will likely be measured against its alternatives by measuring opportunity costs (e.g. inbound telephone call center support, online chat and email support etc.). Evaluating those more traditional costs (inbound call center support) vs. online community support will be a key ROA question.

If the community can resolve customer (post sale) issues more efficiently, then it has a chance of successfully competing with the call center program. Or, simply blending the two support programs together. When a call center person answers a response to a customer issue question, that same information can easily be included in the community

= an integrated solution of old (call centers) with new (business communities). So these support programs do not have to be mutually exclusive. Thus the ROA can be blended with old and new as well.

Of course, as is the case in many business communities, the solutions to customer problems are given by other customers, so the incremental cost for the answer back to the company is almost zero. Now that is a nice word to use "zero cost" (minus the initial sunk cost extended over time). As examples, look at Apple Iphone and Blackberry discussions (problem and solution topics). Personally I have not had to call Apple about 8 times, because other customers (customer advocacy) provided me a great solution. This dynamic is also gaining momentum on our private channel site, customers helping customers. The point is that there is a savings every time a customer finds a solution and they didn't have to call our 800 numbers around the world.

However, if the community e-program is focused more on "sales and marketing" functions (e.g. acquisition, retention), then the ROA measurement will likely include competing with the ROI/ROA of hiring more sales and marketing folks. As one of our VP's once asked, "should I spend my resources on online communities focused on sales or should I hire more sales people? This was a dramatic statement, but a fair one.

In my case, our channel (partner customers) community has multiple functions from customer support to sales to online customer research to change agent for our company paradigm (i.e. transparency, everyone sells--staying closer to customers, global views and issues etc.).

So in summary, ROA depends on the primary function (s) of the community. More than likely, as is our case, we can justify "returns" (weather correlations to sales growth or reduction in costs--costs saving) because the community is playing many business roles from sales person to PR person, to customer support person, to research person, to executive presentation person, to technical engineer person and on and on.

Yes, some of the "hard" numbers are hard to find;) But others are easier. By combining hard numbers with soft numbers (i.e. quantitative data with qualitative data) and also

executive sponsorship (it took us about a year for that piece), it is hard to resist or refuse the inevitability of the value of online business communities.

Other issues to consider if the ROA comes up:

Make sure you have VP sponsorship, then the ROA issue will dissipate. VP's take risks all the time and, from what I have seen, the ROI models are pretty thin. Can't mention specific examples here;) But whether at Intel or other large companies for which I have consulted, ROI can be as much a PR exercise as a truly "financial modeling" exercise.

Make sure you are integrated with other groups that already have defensible ROA models (e.g. support and sales and marketing) as a combined meta-group each group can afford a few % of assets to go into a new initiative (e.g. online community). Thus the community is truly a joint effort of many groups and each group is taking a very, very small risk (i.e. allocating a few assets--whether money or people).

Also consider measuring against the cost of customer conferences. At Intel we have literally dozens of customer conferences around the world each year. However, our online programs are starting to replace the "in person" conferences at a huge savings. Those numbers are easy to get. Moreover, a conference lasts one or two days and then they are gone (poof). An online community lives much longer. Not to mention the reach of an online community can be global...not to oversell this point, but the cost of one conference for our top customers is easily more expensive than my total investment to date in a community that supports 200,000 channel customers. Again, blending the community e-program with your current conference program can be a great partnership and help promote and defend the value of the community.

Finally, with our channel customers, we can also correlate sales data with community participation...so that we can understand if the community attracts top customers or passive customers and ultimately if participation leads to greater sales. This will take about a year to establish in order to gather a critical mass of data, rule out seasonality and allow the community to grow.

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Sorry for the lack of structure to these arguments and a bit of spontaneity. Being the weekend, I have been enjoying a really cold frozen margarita, hence the occasional sarcasm and breaks in logic.

hope this helps a bit.

Please feel free to challenge any points.

And please add to the ROI methods and techniques...the more the merrier.

cheers,

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Message was edited by: scott palmer

Tags: business, communities, roi, metrics, analysis, return\_on\_investment, roa



[adam.mertz](#) 123 posts since

May 29, 2008 1. **Re: Reviewing ROI/ROA models for online business communities...** Sep 7, 2008 9:06 PM

Scott,

Really great thoughts here on RO<pick a letter>. Keep drinking Margarita's!!



[MRowland](#) 19 posts since

Aug 6, 2008 2. **Re: Reviewing ROI/ROA models for online business communities...** Sep 11, 2008 4:15 PM

Excellent points Scott.

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I would only add that RO (insert letter here) is a process rather than an end to a means. We've been helping organizations measure the communities RO (you know what goes here) since the early days when working at Participate.com... what we've seen is that most VPs and sponsors don't want the definitive number, they want to see a trend over time to support their budgets and efforts. Take the analysis and back it up with qualitative, unstructured content that demonstrates how the community is meeting BUSINESS objectives and you'll maintain your support.

Mike