

The Value of a Social Relationship

Introducing the Social Relationship Value (SRV)TM Formula

a fanscape white paper

Overview

Measuring the value of a fan engaged through social media is extremely desirable yet highly subjective. While most businesses are dabbling in social media marketing practices, many still need convincing that attributing a significant spend to social media is a worthwhile investment. Reports are coming at a fairly regular pace now with varying thoughts on how to value a fan who engages with a brand within the social media fold. Using a valuation based around media value, Vitruve suggested that a Facebook fan is worth \$3.60. Meanwhile, Syncapse compared the actual spend of a social network-engaged fan over a non fan and believes that \$136.38 is a more accurate number.

We at Fanscape have a different point of view. We believe that the lifetime value of a social network-based fan is not created equal. Each business has its own individual way of calculating the value of a customer and so the value of that company's social network-based fan should be calculated with equal individuality. Core customer data, similar to what a business would typically and often confidentially collect, is necessary to assess this value. When this data is paired with customer acquisition and retention methodology, a far more accurate value can be determined. We created a formula called the Social Relationship Value or SRV.

How much are your social relationships really worth?

Over the past few months we have closely studied the effects of our clients' social networks on not only sales but long-term value. It is still early in our research and we continue to study this with great attention, but we believe our SRV is a substantial tool for determining the worth of a fan to a business. While this tool is usable by all businesses, it does not create an arbitrary value across the board. It is focused specifically on factors within each individual business, providing a value that is appropriate and commensurate with the goals, needs, and values of that particular organization.

Fanscape Point of View

As a company fully entrenched in social media marketing for twelve years, we partner with our clients to analyze data at the most senior levels. We have historical roots in one-to-one consumer marketing and see the inherent correlation between managing an email database and a social network property. Both require Customer Relationship Management (CRM) – a customer-centric approach to business where the client is at the center of everything. The evolved focus is now referred to as Social CRM; the approach is the same, the only difference is the vehicle. Fanscape has and always will adhere to our philosophy that for the relationship between business and client to succeed, engaging communication is vital; give customers content that: relates to them, drives them to take an action, and keeps them interested.

Whether through email or social networks, actively engaging with customers on a regular basis as part of an ongoing CRM strategy can lead to increases in the following: profit from each customer, the number of items purchased annually by each customer, response rates to promotional campaigns, the duration of the business-client relationship, and customer satisfaction¹. After all, the aim of CRM is not only to maximize the revenue from single transactions, but to build a lasting relationship with the customer, thus increasing the customer lifetime value (CLV).

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When placing a value on the overall relationship it is important to keep in mind that in doing so, marketers should not be solely focused on increasing their number of likes (fans) and followers. Increasing retention rates, customer lifetime values, redemption rates, and/or conversion rates can have just as much, if not more, impact on increasing the value of a social relationship. In essence, there is a place for social media marketing to positively impact all of these value drivers. The pioneering work of F.F. Reichheld and W.E. Sasser Jr. in their *Harvard Business Review* article titled, “Zero Defections: Quality Comes to Services” found that even a 5% increase in customer retention yielded improved profitability in net present value from 20 to 85 percent across a wide range of businesses.



¹R. Baran, R. Galka, and D. Strunk. *Principles of Customer Relationship Management* (Thomson South-Western, 2008)

The Logic

In 2009 Fanscape began working on creating a formula to determine the value of a social relationship. Working directly with several of our clients, across all of our verticals including CPG, Entertainment, Travel, Gaming, Consumer Electronics, and Automotive, we studied what was most important, both in expenditure and valuation, to each of them when acquiring and retaining a customer. The need to put a business value to social relationships has driven us to develop a formula that takes the principles of CRM into account. And we're not alone. In an interview with eMarketer, Papa John's VP of Marketing Communications, Jim Ensign, was asked, "What's the value of a Papa John's fan on Facebook?" Mr. Ensign replied, "I'm not going to say what it is, but we know what it is. We look at the percentage that convert to customers, the percentage increase in their frequency, projected increase in their average ticket and what their tenure is with us. We can project their future value."

Desert Gallery's Facebook fans spent 45% more of their eating out dollars at Desert Gallery stores.

We believe Mr. Ensign is dead on. His valuation process for a customer on Facebook is core to the formula we created for measuring a Social Relationship Value.

Further reports have supported our theory. In a 2010 research study by Rice University entitled "How Effective is Facebook Marketing?," researchers found that the café chain, Dessert Gallery (DG), was able to increase sales, word of mouth and customer loyalty via their Facebook page. The study found that compared with typical Dessert Gallery customers, the company's Facebook fans made 36% more visits to DG's stores each month, spent 45% more of their eating-out dollars at DG, spent 33% more at DG's stores, and 41% greater psychological loyalty toward DG.

What is the value of a Papa John's fan on Facebook?

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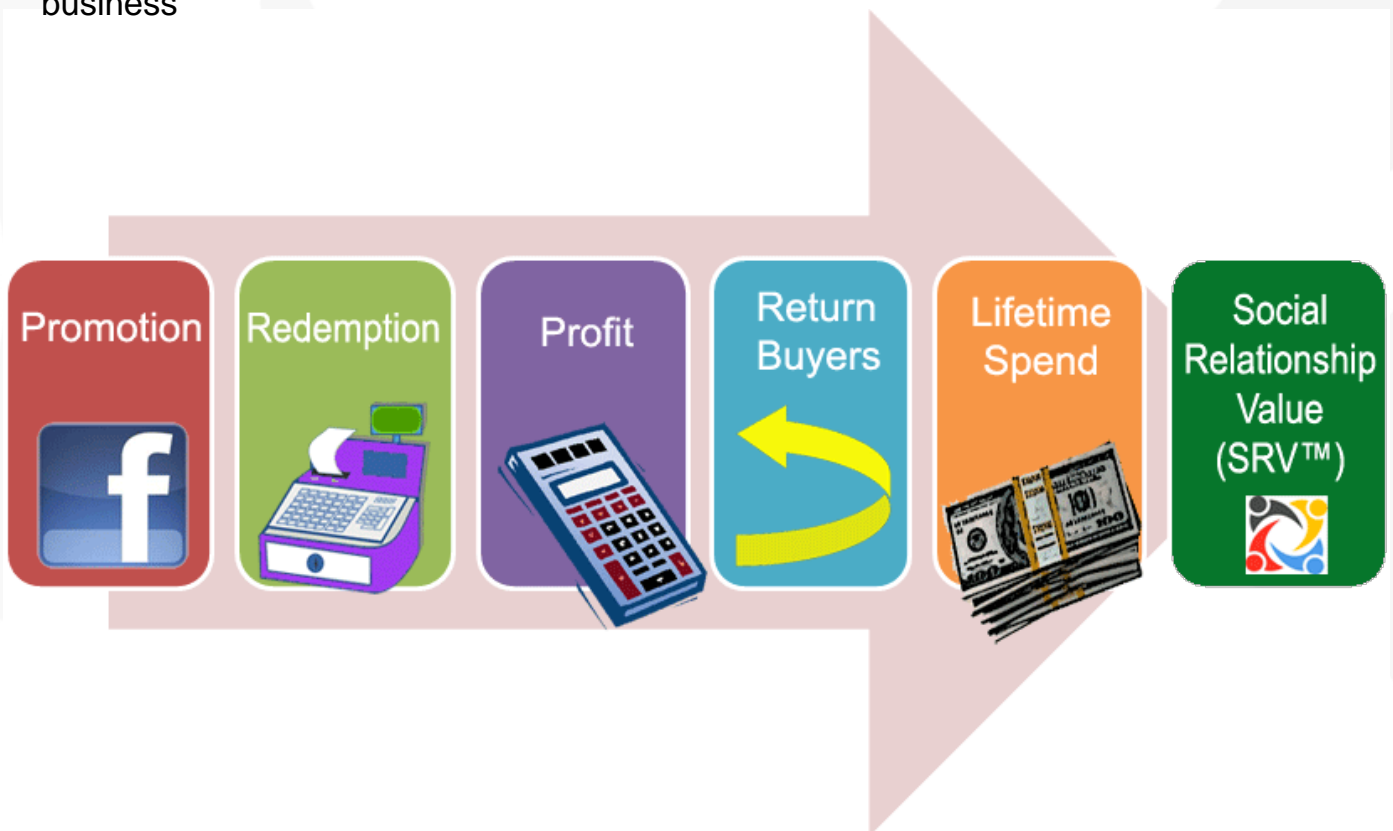
~ Jim Ensign, VP of Marketing at Papa John's

Our Social Relationship Value Formula

Augie Ray, Senior Analyst at Forrester Research wrote on the company's blog that when determining the value of a Facebook Fan, "it may be best if marketers approached this question as if the answer is zero – unless and until the brand does something to create value with Facebook Fans." Thus, if you actually do a promotion (perhaps a coupon or discount) and compare actual results data with traditional data that is core to your business, you obtain an actual value that is relevant specifically to *your* business.

Putting that theory to the test, our Social Relationship Value (SRV) formula follows the following example story line:

- You ran a promotion and offered a discount for your product
- You counted how many people redeemed that discount
- You calculated how much profit you made from that redemption
- You determined how many people returned to buy again after the promotion
- You incorporate core data that you know already about your business, in this case, how much the average person will spend over their lifetime with you
- You combine the two and determine how much that newly acquired fan will spend with you over their lifetime giving you a more accurate idea of their value to you as a business



Fanscape SRV™

A	Number of Likes and/or Followers ¹	#
B	Conversion or Redemption Rate of Promotion ²	%
C	Number of Conversions or Redemptions	(A x B)
D	Average Gross Profit per Transaction ³	\$
E	Cumulative Profit from Converted Customers	(C x D)
F	Retention or Repeat Purchase Rate ⁴	%
G	Number of Returning Customers	(C x F)
H	Customer Lifetime Value ⁵	\$
I	Cumulative Profit from Returning Customers	(G x H)
J	Cumulative Profit from Converted and Returning Customers	(E + I)
K	Value per Like and/or Follower	(J ÷ A)

¹Number of Likes and/or Followers – aka “fans” - Determine the total number of “Likes” on your official Facebook page or “Followers” on your official Twitter profile. For simplicity sake choose the one you are strongest and have had the most activity.

²Conversion or Redemption Rate of Promotion - Sticking with the same platform (Facebook, Twitter, etc.), you’ll need to know the conversion or redemption rate of a recent promotion you did on that platform; i.e. discount, coupon, sweepstakes.

³Average Gross Profit per Transaction - This is data that your company should have which is the average gross profit per transaction (not specific to in-store commerce or e-commerce, just in general.)

⁴Retention or Repeat Purchase Rate - Company data reporting what percentage of customers purchase again

⁵Customer Lifetime Value - Company data reporting the monetary lifetime value equated to each customer (i.e. how much your company predicts a person will spend with your company forever.) less step “E”.

In order to make a positive ROI, the cost* to acquire and maintain each like/follower should not exceed the above value. We suggest a simplified formula to determine average cost:

A	Number of Likes and/or Followers	#
B	Total Cost to Acquire Likes and/or Followers ¹	\$
C	Cost per Like and/or Follower	(B ÷ A)

**To avoid double-counting, do not include acquisition and retention costs used in the calculation of Customer Lifetime Value. If your CLV does not take such costs into account, those should be included in this formula.*

¹Total Cost to Acquire Likes and/or Followers - Total amount of money spent on a particular promotion on the selected platform; includes marketing, advertising, free or discounted items given away

Conclusion

A studied attempt.

Closer to an accepted method.

Value of a social relationship.

“All formulas are wrong, but are they usable?” is James Clark’s mantra on social media ROI metrics. Fanscape is not claiming that this is a perfected formula. Rather, it is a studied attempt to get closer to providing an accepted method for measuring the value of a social relationship. One that requires data specific to each business and is intended to give results specific to that business. One that will hopefully get us all closer to quantifiable proof that a highly concentrated Social CRM strategy can and will provide significant and relevant return on investment.

About



Fanscape is a leading Social Media Marketing Agency with fourteen years of experience helping clients reach and activate consumers and influencers to foster positive word-of-mouth sentiment about their products. Fanscape's online influencer marketing experts have in-depth understanding of niche audiences and consumer behaviors and are driven to increase our clients': brand identification, share-of-voice, and sales.

We provide highly measurable, earned media strategies for major corporations and leading entertainment, technology, gaming, travel, automotive, and consumer package goods companies. Our mission is to lead the field of Social Media Marketing, keep developing innovative and creative methods of inspiring word-of-mouth conversations, foster positive sentiment for our clients, provide detailed measurement and analysis, generate the highest Return on Investment (ROI) possible and to listen, educate and activate consumers. This results in forging trusted relationships between our clients and their customers.

Fanscape has also published a number of other knowledge documents that include [4 Reasons to Use Social Media for Your Business](#), [Pitching to Bloggers](#) and [Social Media and the Oscars](#).

For additional information, visit www.fanscape.com, our blog www.digitallyapproved.com and follow us on Twitter @Fanscape.

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