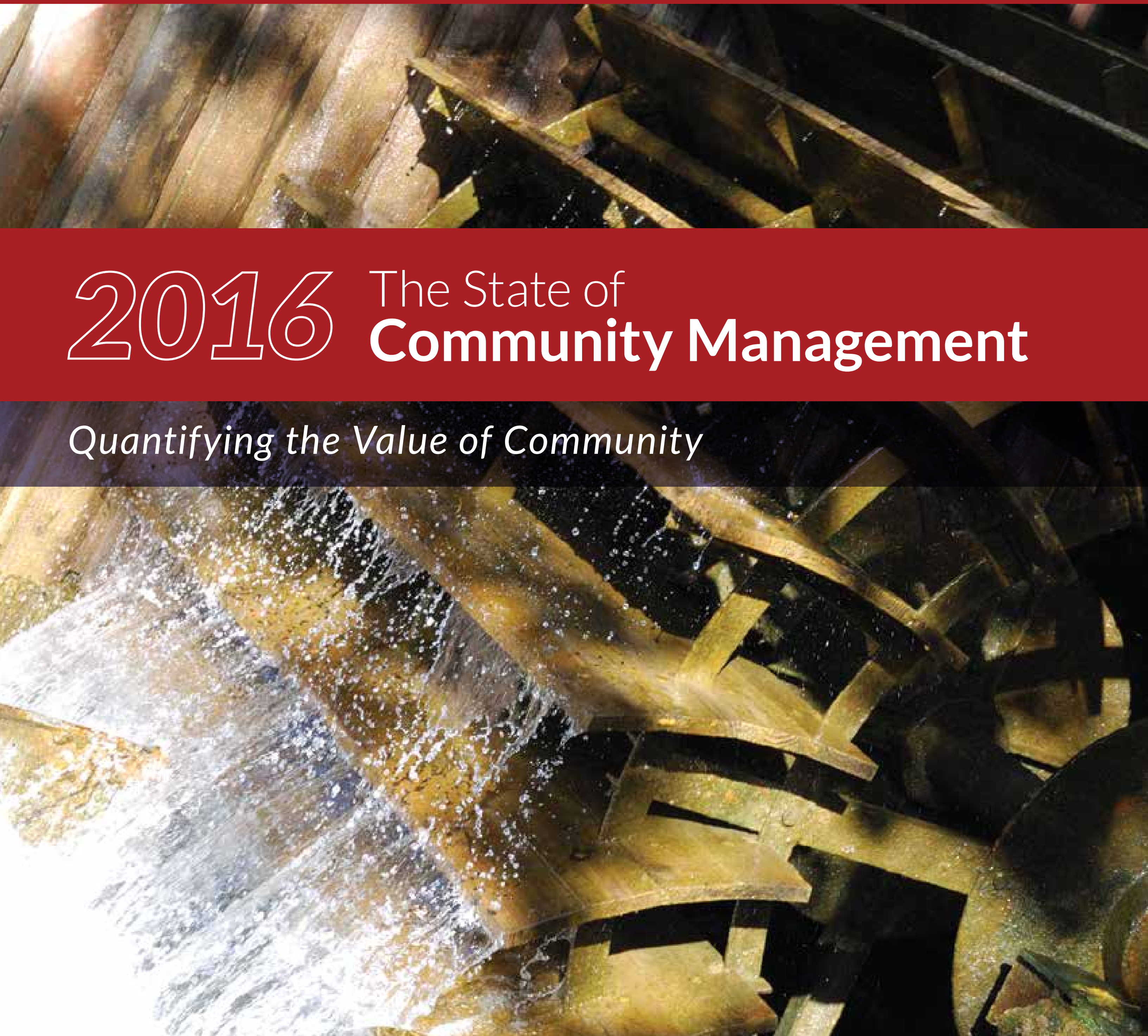
THE COMMUNITY
ROUNDTABLE

2016 The State of Community Management

Quantifying the Value of Community



Community ROI: Why and When to Define It

We often hear people in the community space say things like, "Why should we calculate ROI of communities? We don't calculate the value of a phone." That's true, but it's because understanding and use of phones is widespread and well-understood. Using communities – especially online communities – intentionally to achieve business outcomes is still pretty new for most people. That means the onus of proving their value is on us, the people who understand them the best.

There are so many perspectives on the value and use of communities that one of the main reasons to create a community ROI model is to get agreement on how communities generate value. Without that agreement, it is like the parable of the blind men and the elephant – because everyone is touching a different part of the elephant they disagree wildly about what it is. The ROI discussion helps community teams and their stakeholders see the whole elephant, so to speak.

But as the data clearly show, it is an exercise that too few community owners have undertaken. Instead, as community managers, we often get lost in the weeds and come up with a laundry list of community outputs and outcomes, when what we really need is one clear succinct statement of how the community generates value.

The primary reason to calculate ROI is that it forces you to define value.

The best time to calculate ROI is as soon as you can – because it will help you focus on what matters, regardless of all the other inputs you may get. To do it, you need to start with the ability to define community value, which in itself is a critical precursor to community success. When you can clearly and crisply define value, you gain credibility for yourself and you give your stakeholders a powerful tool to communicate with others. This in turn makes it easier to secure attention, support and resources more quickly. In short, it makes you more successful. We found a correlation between those who can articulate their community's shared value and their engagement rates.

Faster time-to-value is an ROI of an ROI model.

THE THREE SINS OF ROI MODELS

While ROI models are valuable tools for securing support, they are often viewed as the way to solve all advocacy and budget problems - a unicorn metric – mythical and magical if you can figure it out. No single metric will ever be able to do that. Metrics can do two things well: validate an approach or highlight performance problems. Specifically with ROI, that means you can quickly identify whether people agree with you or not about the value the community produces. Both help you evaluate how to proceed.

An ROI calculation will not:

- Capture all value
- Capture all investment
- Predict the number of leads, sales, new patents, deflected calls, new ideas, etc that a community will produce
- Tell anyone whether a community approach is the right approach

But because people's expectations of what an ROI model can do is overblown, it leads to three predictable sins. People tend to:

1. Over-complicate the metric making it impossible to understand or communicate
2. Use the data they have instead of the data they need
3. Try to solve for complex value chains before solving for simple values

We get ourselves wrapped around axles trying to create a community ROI model to prove complex outcomes, like conversion, retention or innovation when in reality even the broader organization may not have a good approach for proving or valuing those outcomes. It would, of course, be wonderful to prove that your community is delivering more value than traditional approaches to sales, marketing, collaboration and innovation, and you can eventually get there – but it's too much to expect for your first approach to articulating ROI.

Great artists and writers will tell you, the way they created masterpieces is by starting with putting pen or brush to paper. Get started and iterate. We will be able to build an ROI model that connects the behaviors established in the community to more qualified leads, faster sales cycles, more revenue, lower costs and more, but we need to start with something more basic that we can use to educate, refine and build upon.

Giving stakeholders something to react to is the prompt that leads to fantastic conversations with them about their community hopes, what they value, how they imagine success, what the community needs to get there and how long, in their minds, it might take. Those conversations are what will help you build a plan and a budget that gets approved. Never mind that the ROI model doesn't capture every last ounce of value.

AN ROI MODEL WE CAN ALL LOVE

At The Community Roundtable, we've learned some important things over the last few years. First, very few community professionals can calculate their community ROI. Generally speaking, community professionals are oriented toward engagement and relationship building – not analysis – and that is as it should be. Second, we have observed and documented a few keystone behaviors that contribute value in every community – the most valuable of which is answering questions. When community members answer questions, it means someone doesn't need to be assigned to answer them and it eliminates the need to answer them again and again because they are available to the entire community.

With this in mind, we have developed a baseline ROI model that can be applied to any community – based on how well the community is answering questions. The logic of this is that the most valuable engagement is dialogue that follows a question and answer pattern, no matter what use case the community serves.

THECR'S COMMUNITY ROI MODEL

TheCR's ROI measures return in two ways:

THE VALUE OF ANSWERS:

This is the absolute value of answers. This value may partially be displaced from other channels – i.e. the questions and answers could have been exchanged in email, through a ticketing system or over the phone. It can be hard to tell if these questions and answers were generated because of the community and therefore, you can choose to not include this value in your ROI model. However, it is instructive because it allows stakeholders to see that this value is typically a tiny fraction of the Networked Value of Answers.

Data you need:

- Number of Answers
- Average Financial Value of an Answer

NETWORKED VALUE OF ANSWERS:

While enabling people to get their questions answered is great – an even greater value of a community approach is that those same answers are available to everyone else in the community at any time. The Networked Value of Answers typically far outweighs the absolute value of the initial answers, by as much as 20x or more.

Data you need:

- Number of Searches
- Percentage of Searches that are Successful

TheCR's ROI model measures investment in one way:

COMMUNITY BUDGET:

While not all community teams have discrete budgets, most community owners can come up with a pretty good estimate of the combined cost of salaries, technology, programming & events, content, consultants, and professional development. We know from the research that the majority of community budgets are the technology and the human resources.

Data you need:

- Annual community budget OR
- Costs across multiple budgets that contribute to the community

ROI Calculation*:

$$\frac{((\text{Value of Answers} + \text{Networked Value of Answers}) - \text{Community Budget})}{\text{Community Budget}}$$

**Make sure your time frames for answers and budget match (monthly or annual?)*

CONFIDENTLY USING AMBIGUOUS DATA

While we've been able to distill community ROI to a relatively simple model, it is still clear from this year's research that far too many communities either can't find or don't know how to derive the needed data. And the data we got from many others were too high, too low, or too odd to seem accurate.

This happens for any of the following reasons:

- Community platforms do not collect or generate the data required to understand value
- Community leaders have a difficult time estimating the data they can't find
- Community leaders don't focus on question or answering behaviors, which can leave communities full of superficial exchanges or acting as content repositories with little engagement
- People are uncomfortable estimating or using estimates

Of all of these, the place where community leaders can quickly improve is in developing good estimates, which is critical to building an ROI model since there will never be a perfect 'right' answer. We talked to a lot of community professionals who were nervous about this piece because they felt like they didn't know where to start. There are a few things to keep in mind:

- ROI models are tools to get agreement on assumptions. They will always be ambiguous.
- Your original estimate can be off – even by a wide margin – because a big part of value of presenting an ROI model is to trigger conversations about what reasonable estimates are.
- Building an ROI model is an iterative process with stakeholders – not an isolated process you do by yourself.

Understanding the purpose and value of the ROI model and its limitations is how to be confident about generating a community ROI and using it. Accepting that it will not be perfect – or even very close to total value – is part of that process.

COMMUNITY ROI IN 2016

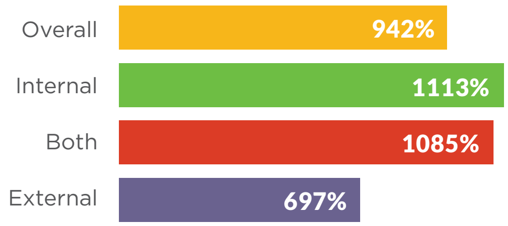
In the State of Community Management 2015 research we asked people to self report their ROI percentage. We did not get enough responses to be able to report anything meaningfully. This year, we worked to develop a universal community ROI model we just shared here, validated the approach with TheCR Network members and asked research participants for the five data points we needed to calculate ROI for them. We are thrilled that we have received enough data this year to report an average ROI.

What was less clear, however, was how good our data is. While the averages we calculated looked reasonable, looking more closely at the data revealed some issues.

- There were some seemingly wild estimates, both on the low and high end, of the value of an answer.
- There were major variations in the numbers of answers and searches in a month that suggested respondents were calculating (or estimating) in very different ways.
- There were quite a few participants who answered that 100% of searches were successful, which suggests either how we framed the question or how they understood it was flawed - since experience tells us that not every search delivers a helpful answer.

We cleaned up or removed the clear outliers but calculated out the rest in the spirit of starting the conversation. The averages passed the "smell test" (i.e. they were not impossible to believe) and we found the relative averages for external, internal and those communities that addressed both to be interesting and, again, consistent with what we might have guessed.

COMMUNITY ROI BY COMMUNITY USE CASE:



Successful internal communities are more valuable, on average, than their external facing peers and those community programs that addressed both audiences had an ROI in the middle. Overall, communities average an annual ROI of 942% - suggesting that most community managers have nothing to fear from calculating their community's ROI – remembering that it is the start of an ongoing dialog about value and how to grow it.

While there is a wide range and many communities do have negative ROI rates that are likely due to their young age, small size or immaturity, many more demonstrate compelling returns that should satisfy stakeholders.

More interesting, in many ways, was the ratio of the average answers per month to successful searches per month, which was 1:31, suggesting that communities are the way to maximize the value of dialog between employees or between employees and customers. For each new answer in communities, there are 31 old answers used.

So, can we calculate community ROI consistently? *Yes!*

Is it something most community program owners have done? *No!*

YOUR TURN

Whether or not you decide to report ROI to stakeholders just yet, it is an immensely valuable exercise to go through – if only for the practice of playing with your assumptions and seeing their impact on value.

- What if answers were only worth $5 – would that make your ROI negative?
- What if they were worth $500?
- How much do answers need to be worth in order to produce a positive ROI? Do you think that is achievable?

Asking and answering these answers will help you understand the financial dynamics of your community – and what you as a community leader can do to impact them. THAT is the power of the ROI model, not the absolute answer you get.

We encourage you to play with the numbers and, when you are confident enough, share the model and your assumptions with peers and stakeholders. It is never too early to engage them in the discussion of desired behaviors and ways to determine their value.