

Chapter 2

Cost Analysis: Identifying Direct and Indirect Social Media Costs

Abstract Managers want a good idea about costs, both direct and indirect. Most important are follow-up expenses or those incurred once the equipment or web domain has been purchased. This chapter focuses on these issues and outlines in straightforward language how your company can get a better handle on costs incurred for such things as a Facebook page, Twitter account, or corporate blog.

My first serious use of cost-benefit analysis was in trying to address how young people entering the workforce in the province of Alberta (Canada) might best be helped by government programs that facilitate skills upgrading. The focus was on whether more general skills (i.e., those skills that can be transferred to another job) versus specific skills (e.g., specific to one's occupation) would help improve job prospects for trainees. This issue has been addressed extensively in the literature, including human capital theory as proposed by Gary Becker (1964). Other applications include helping organizations determine which recruiting or selection method facilitated hiring qualified staff using a cost-benefit framework.

The objective of cost-benefit analysis is to determine the change in net benefits brought about by a new or amended marketing activity, *in our case social media*. The cost-benefit analysis should be carried out in an incremental manner. That is, the incremental benefits and costs of each of the alternative options are estimated and compared to the baseline option.

It is obvious that understanding exactly what you want to measure and how to measure it takes time. Accordingly, you cannot expect to have this completely nailed down before you begin. Nevertheless, cost-benefit analysis will be an important exercise to help you use social media more effectively.

Cost-benefit analysis *helps managers get clear and accessible information on the economic pros and cons associated with social media and marketing investments, so that they can identify the activities that are both effective and affordable for their organization*. This permits a better allocation of scarce resources.

In this chapter we focus on costs. When starting a social media activity and depending on where you are on the maturity continuum (see Table 1.2), cost information may be more or less extensive. In most cases, quantifying the benefits is much harder, and goes beyond the scope of this chapter. Nevertheless, we can point out that *with the help of actionable metrics that link to key drivers*, the importance of social media can be demonstrated. To illustrate, using Twitter may help reduce wait times for walk-in traffic at our restaurant during lunch, specifically by tweeting a code to our followers that offers regulars who place their order before 11:30 am or after 1:30 pm a free soft drink. The code can then be used track how much this action helps reduce patrons' wait to be seated and receive their order, a key driver that affects turnover.

Using Facebook and/or the organization's Google+ page as an example, we outline step by step how potential costs and benefits can be assessed systematically. While our framework is far from complete, it does give the reader an idea of what needs to be done to better present a case to top management. It begins with assessing things before deciding to establish a page, as well as setting it up and monitoring its progress while being able to show the budget committee the numbers.

2.1 Planning to Set Up a Facebook or Google+ Page

Table 2.1 outlines the strategic costs one should consider when thinking about setting up and running a Facebook fanpage.

You may not want to set a precise budget (material, labor, expenses/overhead separated into direct and indirect costs) right away. Nevertheless, your budget committee will want to see numbers in order to approve your funding request. Accordingly, streamlining this process is a must. Table 2.1 will help you achieve this objective by outlining the types of issues that must be addressed before launching a Facebook or Google+ page.

To support your efforts, expenditures must be grouped into *indirect costs* (also known collectively as *overhead*—cannot be attributed directly to a product, service, or department) and *direct costs*. Each cost type can be attributed to one of three categories:

- Materials
- Labor
- Expenses or overhead

However, to do this properly, we must specify the two or three critical tasks we want visitors to perform during their visit. To illustrate, a firm that offers consumers local searches if they need to find a dentist or bookstore may want visitors to conduct a search directly from its Facebook page. By contrast, an engineering firm might want visitors to download their eBook that helps people prepare a tender, or another teaser that provides value to the interested Google+ follower.

This indicates that *we must identify and agree on what critical tasks we want visitors to perform*. Thereafter, we need to set measurable objectives and our progress must be tracked over time to see if the trend is going in the right direction (e.g., increasing monthly active users and number of comments for each post).

Table 2.1 What Facebook really costs you: Planning

Description by ComMetrics.com	Direct costs	Indirect costs
Determine your target audience (e.g., age group, country, gender, and education)—may require research, outside consultant, etc.	Labor, material, expense	—
Establish the three most important goals a Facebook brand page should help you accomplish (<i>engagement</i> , visibility—be specific!)	Labor	—
Ascertain the three most important tasks clients need to complete during their visit (e.g., Like a post, comment, and shop)	Expense or overhead	—
Plan how your Facebook page can best be integrated with your Web site and/or corporate blog (i.e., coordination of strategy and content to be shared/published)	Labor, material, expense	Material
Develop three key performance indicators (KPIs) to help measure progress over the next quarter	Labor	Expense
Coordinate next quarter's Facebook activities with other channels (e.g., exhibitions, advertising, and PR)	Labor	Labor
Set a social media policy and discuss other legal matters, such as liability and compliance issues	Labor	Expense
Design your Facebook page	Expense	—
Train staff and hold workshops (in-house or through outside experts)	Labor, expense	—
Strategize for a worst-case scenario within your crisis management framework (e.g., how employees should respond to negative comments about the company and products on the Facebook page)	Labor, expense	—
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

Note. This table groups together some major cost items to better illustrate the full cost accounting approach (for more information, contact the author). Thanks to Susanne Ulrich for improvements made to an earlier version of this table

It is also necessary to make sure that we plan how Facebook activities will be integrated with other activities. For instance, should the Facebook fanpage URL be added to our stationary as with our corporate Web site and blog? Will we publish a link on our Facebook page for every new blog post? Or will we start a discussion by writing a note on Facebook instead?

Table 2.2 What Facebook really costs you: Implementation

Description by ComMetrics.com	Direct costs	Indirect costs
Engage PR to create a press release for the new fanpage (using social media and other distribution channels)	Labor, expense	–
Prepare editorial calendar for posts	Labor	–
Set up assistance from in-house experts	Labor, expense	–
Set up assistance from outside experts	Expense	Material
Integrate with corporate blog/Web site (e.g., Like button on blog posts)	Labor	–
Create apps for better customer engagement (e.g., online polls for fans and easy-to-use contact form)	Expense or overhead	–
Marketing campaign to connect with clients and target audience (e.g., Facebook, corporate blog, and Twitter)	Expense	Expense
Vanity URL for Facebook page	–	Expense
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

Note: This table groups together some major cost items to better illustrate the full cost accounting approach (for more information, contact the author). Thanks to Susanne Ulrich for improvements made to an earlier version of this table

The above issues must be discussed, especially since they have consequences for the costs we will incur. Of course, it is less time consuming to ensure that a tweet on Twitter is simultaneously posted on the company’s Facebook page. Nevertheless, this approach is less likely to foster engagement through comments and a discussion by fans than a note specifically tailored to Facebook users, with just a link to the blog.

Table 2.1 demonstrates that it never hurts to compare the effort and resources spent on social media like Facebook to what it would take to prepare for a trade show, an ad in a newspaper, and/or publish another corporate magazine. Enumerating any and all potential opportunity costs is practical and therefore very helpful.

The table also provides a list of several issues and questions that should be addressed during the planning period. Once strategic and planning issues have been addressed, including costs and budget issues as outlined in Table 2.1, implementation matters come to the fore. Table 2.2 tries to structure these issues in some more detail.

2.2 Implementing a Facebook or Google+ Page

Focusing direct and indirect costs is required as part of implementation matters, using the categories listed in Table 2.2. Some costs are so immaterial or negligible that it is not feasible to track them, even if they are fully traceable. In this case, we may just enter expenses/overhead under indirect costs.

Depending on where your company resides within the social business maturity model (see Table 1.2), costs will be more or less easily traceable. Accordingly, if this is your tenth fanpage for just another of the company's brands, it will be a little easier: you will have learned from past mistakes and be able to more accurately estimate project numbers. Of course, this assumes that knowledge is shared across divisions and brands, which unfortunately is not always the case.

In some cases, you might also be able to piggyback with, and benefit from, another project, such as using a Facebook URL to promote a product or event. The URL might already be known by your target audience since it is already listed on stationary and print ads. Such piggybacking might justify charging indirect costs—overhead to the project for use of a well-known URL or account.

Distilling direct and indirect costs can be somewhat tricky early on in the social business maturity model. Nevertheless, keeping track of these costs, including the work time spent in making it happen, is a must to be able to show how this could benefit operations.

Using Twitter or Tencent Weibo may also be a must for some companies, but for many—including non-profits—it may not be financially viable or strategically smart to use all of these platforms. To illustrate, the Facebook platform may not be the best way to find those who might purchase your high-speed trains, power plants, or architectural services. Let us not forget that a recent study reported that for US consumers, Facebook is primarily a channel to get news from friends and family (Mitchell et al. March, 2012).

2.3 Maintaining Your Facebook or Google+ Presence

As you can see in the above title, I have added the word Google+ because any page or group you intend to set up will incur costs, no matter what the platform. Accordingly, benefits that can or did accrue must be spelled out for the benefit of the budget committee, enabling you to make a decision that will most likely give you the results you seek.

After we have planned and implemented the Facebook page for one of our brands, it is necessary to manage the interaction. In Table 2.3, we outline some of the costs to consider when managing the interaction needed to maintain the fanpage's attractiveness for those who Like it. As Feile (February 28, 2011) pointed out, some of the tasks to consider for a hotel could include putting up guest comments, or getting them to post their feedback and photos from their last stay on your Wall. Of course, the hotel might put up some event videos, as well as job vacancies, and so forth. Whatever is shared (e.g., images or customer comments) must be vetted to protect clients' privacy (e.g., removing names on customer comments). This is especially important in cases where faces in images can be tagged on Facebook or Google+.

A firm that offers consumers local searches for services and stores may want visitors to conduct a search directly from its Facebook page. Therefore, *when*

Table 2.3 What Facebook really costs you: Interaction

Description by ComMetrics.com	Direct costs	Indirect costs
Gathering information on the Web to post content valued by fans (i.e., more than company news)	Labor	Labor, expense
Selecting and preparing content for release (e.g., a Wall post or a Note with video)	Labor	
Writing one piece of content every week (e.g., explaining something of interest and asking questions to engage fans)	Labor	
Rephrasing and cross posting replies to comments made on the corporate blog to elicit feedback	Labor	
Acknowledging and responding to fan-engagement (e.g., a post Like or Wall comment)	Labor	
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

Note: This table groups together some major cost items to better illustrate the full cost accounting approach (for more information, contact the author). Thanks to Susanne Ulrich for improvements made to an earlier version of this table

maintaining and updating the Facebook page, content has to relate to the primary product. For an engineering firm, this could mean a new ISO standard or regulation that will affect its clients’ businesses.

As such, engaging content does not mean retweeting a Twitter post on your Wall. While this saves time, it is unlikely to elicit much engagement from Facebook users.

2.4 Perform Maintenance Tasks Early in the Day

Remember that about 15% of employers block Facebook access, so new content must be posted early in the morning—preferably before 7:00 A.M.—to catch smart-phone users on their daily commute. Research shows that people are more likely to leave a comment or Like something if things are posted earlier in the day.

As previously stated, it never hurts to compare the effort and resources spent on social media to the resources required for an alternative media activity - awareness of all potential costs is essential.

Table 2.4 focuses on things people tend to forget. For instance, Facebook changes from time to time, so staff may require a refresher seminar to acquire new skills (e.g., correct privacy settings to disable geo-tagging). Also, besides having a crisis communication procedure in place, people need to learn how to effectively handle any negative onslaught—even on weekends (Nestlé did not do so well when Greenpeace attacked).

Table 2.4 What Facebook really costs you: Maintenance

Description by ComMetrics.com	Direct costs	Indirect costs
Coordinating Facebook activities with other social media campaigns, PR, etc.	–	Expense or overhead
In-house and outside training to update skills	Labor, expense	
Facebook project manager’s wages	–	Labor
Programming new and maintaining existing Facebook apps to improve fans’ experience	Labor, expense	
Applications used to manage Facebook more effectively (e.g., conducting polls and contact forms)	Expense or overhead	
Conducting fire drills: ensuring strategies developed for worst-case scenarios within your crisis management plan work in practice by testing them out (e.g., how employees should respond to negative comments about the company and products on the Facebook page)	Labor	Expense
Learning from negative feedback to improve your product(s)—regular discussions with engineering and sales	–	Labor, expense
Mobile Internet access to manage Facebook on the weekend and during your commute	–	Expense or overhead
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

Note: This table groups together some major cost items to better illustrate the full cost accounting approach (for more information, contact the author). Thanks to Susanne Ulrich for improvements made to an earlier version of this table

Learning from negative feedback is critical, but necessary procedures must be in place to take advantage of such information (see Table 2.1).

Another example is using polls to elicit feedback, while giving fans the chance to share their assessment of certain issues. Such feedback is rapid and invaluable, even though responding to it properly takes some time—crowdsourcing at its best.

Finally, it is *not always clear whether costs are direct or indirect*. For instance, if people already have mobile Internet to answer e-mail, it might not make sense to charge direct costs for people using the service to work on the company’s fanpage, but noting an overhead charge might suffice.

Each company must decide such issues for itself to ensure the effort made to assign costs is not higher than the expense or material spent. Nevertheless, depending on where your company resides within the social business maturity model (see Table 1.2), costs will be more or less easily traceable (i.e., the higher up in the model you are, the easier it will be to trace).

2.5 Running a Promotion

Lots of people suggest that some advertising is needed to promote your Facebook page.

Transforming a Facebook fan into a customer takes hard work. Facebook's own guidelines dictate that anyone running a sweepstakes on their Facebook page must get written approval from a Facebook account representative. In order to get one of those, you have to spend about US\$10,000 on advertising with the company. Some have suggested that Facebook has eased up on these rules, but as long as they remain listed, one should probably abide by them to avoid trouble.

Remember that setting performance objectives is critical for the campaign, and metrics must be developed and agreed upon as outlined in our blog post, *Measuring Facebook engagement: What is good?* (published March 14, 2011). Accordingly, if you have less than 10,000 fans (individuals that clicked Like), increasing engagement from about 0.6% to 1.2% could be considered a success. However, depending on which study you look at and how engagement is measured (e.g., clicking the Like button is passive engagement, writing a comment takes more effort), studies suggest an average of less than 0.4% of readers or fans engage with your comment. Of course, free product will change this. Whether those fans who are attracted by that free product will stick around after the sweepstakes is another question. Most important, are they the type of clients you as a tool and die maker, consultant, or coffee shop are after?

2.6 Account for All Campaign Costs

In Table 2.6, we outline the costs of handing out these deals or product samples. For instance, content to give away, such as eBooks, must be created and readied for distribution. Running a Facebook campaign also requires an advertising budget, as well as product to give away. Moreover, a discount voucher may reduce your profit margin and, most importantly, nobody likes to give discounts to clients that would have made a purchase regardless.

Remember the “Buy 2, get the 3rd FREE” promotion? Even though we might not need that many of whatever is for sale, we still buy them because people always love specials. But this also means lost revenue and any other costs incurred by the campaign must be assessed, as outlined in Table 2.6.

2.7 What About Pinterest, Twitter, Second Life, and Others?

Most questions listed in Tables 2.1, 2.2, 2.3, 2.4, 2.5, and 2.6 can be used to assess the cost of being active on many different platforms by simply replacing Facebook as a word in the sentence. However, for small companies, this is not much of an

Table 2.5 What Facebook really costs you: Promotions

Description by ComMetrics.com	Direct costs	Indirect costs
Brainstorming and planning a new campaign (e.g., discount coupon)	–	Expense or overhead
Setting objectives for improvement in engagement levels as a result of the campaign (Like(s), comments, uploaded of user content, etc.) and monitoring these engagement metrics (e.g., post engagement or reach rate, post interaction, and unsubscribe rate)	Labor, material, expense	–
Designing the campaign (e.g., special discount for people who Like the page)	Labor, expense	–
Preparing texts and layouts for the campaign/ sweepstakes	Labor, expense	–
Planning and organizing a sweepstakes that requires some action for participants to qualify	Labor, material, expense	–
Obtaining legal approval for the campaign/ sweepstakes	Expense	–
Time spent monitoring the campaign and responding to requests by fans	Labor	–
Monitoring participants' level of engagement 60–90 days after the campaign's end (fighting the give-me-the-freebie-now-so-I-can-disappear-until-the-next-campaign syndrome)	Expense or overhead	–
Measuring and monitoring the campaign's new user generation (i.e., clicking Like to participate), vs. engaging paying customers (those who regularly purchase your product)	Labor, material, expense	–
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

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issue. For starters, it is highly unlikely that it has the resources to be active on several platforms, and you must first ensure your clients are already active on whatever platforms you may be considering. If you manufacture screws or build boats, your clients may not want to connect with you on Facebook, but they might be willing to view pictures on Flickr or Pinterest. They might even be interested in reading your blog, which includes additional unique content, such as a 2-minute video. Of course, they might also want to listen to a short podcast downloaded from iTunes.

There is no way to participate everywhere but, we should never forget that our central hub should be our blog and/or Web site. In turn, our Facebook activities or YouTube videos must always link back to our hub, where people can find more interesting information, such as checklists and/or white papers, blog posts, and so

Table 2.6 What Facebook really costs you: Exclusive deals and discounts

Description	Direct costs	Indirect costs
Deciding how special or unique content will be created and by whom (e.g., eBooks, checklists, coupons, and discount codes)		Expense or overhead
Producing content using internal know-how or outside experts (e.g., eBook: How to write a successful tender for a government contract)	Labor, expense	Labor, expense
Creating an eBook, checklist for free download and/or research report (e.g., company could hire a polling firm to do a survey)	Labor	Expense
Actual costs of providing fans with a product sample or discount coupon (e.g., additional sales minus discount)	Expense	
Measuring converted winner coupons (how many issued, vs. how many redeemed)	Labor, expense	
Cost of buying a prize if you cannot provide it from your own products (e.g., a search engine cannot issue coupons like a pizza restaurant can) and/or time spent finding a partner	Labor, expense	
Lost profits—a discount may nullify profits for that sales transaction. Some might have purchased your product anyway, but thanks to the discount, they pay a price that lowers your overall profit margin	Expense	
Opportunity costs: Determine whether the time and money spent on Facebook might be used more effectively on other platforms (e.g., LinkedIn, Tencent Weibo, Xing, corporate blog)	Labor, material, expense	Labor, material, expense

Note: This table groups together some major cost items to better illustrate the full cost accounting approach (for more information, contact the author). Thanks to Susanne Ulrich for improvements made to an earlier version of this table

forth. For this reason, content can be posted elsewhere, but it should link back to your social media hub (e.g., Web site or blog) to help improve your search result performance. In other words, search engines have an easier time finding relevant content on your blog than on Facebook, Twitter, or Google+.

2.8 Twitter and Social Customer Relationship Management

Lots of companies use Twitter or Facebook as a channel to provide better customer service. What we one challenge here is that most customer service hotline work is outsourced, while social media inquiries are generally handled internally by staff with much more expertise about the company’s products than an employee at an outsourcer’s will ever have. Internal staff also tend to earn more and be better educated than their outsourced peers.

Unless we are willing to *compare apples to apples* (i.e., engineers handling incoming inquiries, whether via Twitter or the call center) things can neither be easily nor fairly compared. Needless to say, valuing a request for help more highly if it comes via social media (i.e., the person publically asks for help), than if it comes through a call center seems unfair. Your clients certainly will not appreciate that. It also ignores the reality that customers still prefer talking to a human being when resolving complex problems (e.g., fixing my Internet modem or getting my SIM card to work on my mobile).

Whenever we have had a chance to figure out direct and indirect costs regarding client service requests, the in-house call center wins. Not only are the costs about the same as for using social media, but more importantly, the customer gets a solution sooner, and will likely tell others about what a positive experience they had (*word-of-mouth marketing*). With Twitter, it takes several tweets that may still result in the client having to speak with the customer service hotline to get the matter resolved. Of course, you can tell the Twitter user to follow you so you can follow them back. Then, they can send you a direct message with their phone number so your competent agent can call them to solve the issue. However, this should be the exception and not the rule. Instead, provide the means and level of service for inquiries via e-mail and the customer service hotline that make using Twitter unnecessary (Gattiker, February 12, 2012).

Of course, if you are a FT Global 500 company, you may still have a Twitter account to provide customers with an opportunity to reach out to you if needed. But for a SME, it does not seem the right way to go considering costs and benefits.

2.9 Conclusion

The above templates combine to provide a step-by-step checklist for assessing what your Facebook or Google+ page might cost. In particular, we addressed the issue of direct versus indirect costs.

In case of unknown prices, one could use a shadow price (a price estimate collected from outside the company). For instance, if one does not know how much it will cost to produce website content, *economists sometimes use as an estimate the price that a third party would charge for maintaining a Facebook page*. While this may only be a rough estimate and not include all possible costs, it provides a good idea. But if your internal costs are higher, you had better streamline things to get budget approval.

Without some type of budget, it will be difficult to set performance targets and achieve them. Unless you have some idea of how much time it will take to manage a Google+ page according to the objectives set, you may be seeing in the dark. For instance, the type of content that must be created, curated, posted, as well as at what frequency mean certain basic cost levels are involved to achieve things well. While many companies might agree that 20–40% of their marketing budget is allocated for

social media, just having a budget is not enough. You must track your costs to accomplish the things you wish to.

The templates presented in this chapter and the issues addressed there in provide a systematic way to achieve better cost transparency for each of your projects, such as a corporate blog, Facebook, or Google+ page.

In the next chapter, we will begin outlining how a company can prepare itself for a social media audit.

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