

# Social Media Effectiveness for Small Businesses: Concept and Measurement

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**Abstract:** Recent research on social media effectiveness is reviewed to determine where major gaps exist. Approaches to the measurement of social media effectiveness are reviewed and critiqued. A conceptual model of the social media marketing process is developed. Key results measures for awareness, engagement and performance are proposed for influencers, consumers and customers.

**Keywords:** social media ROI; small business; marketing; promotion

**JEL codes:** M3, M30, M31, M37

## 1. Introduction

Social media platforms have become an intriguing phenomenon in the 21st century. The participation rate among Internet users is eye-opening to say the least. According to the Pew Research Center, 46% of entrepreneurs use social media to connect with existing or potential customers (Pew Center, 2011). Facebook is the most popular means of making a connection, given its more than one billion active monthly users (Smith, 2013). In a recent study, *Marketing Charts*, a publication of Watershed Publishing, reported that 88 percent of marketers say that their social media marketing efforts have generated exposure and other benefits for their companies (2011).

While a variety of social media exist, the most popular as measured by number of users are Facebook, LinkedIn, and Twitter (Scarborough, 2014). Google+ has also reported a rapid increase in users (Smith, 2013). One cannot question the sheer magnitude of the interactions that occur on social media platforms on a daily basis. The numbers are simply staggering. Yet, in spite of the large numbers associated with social media, the extant research literature has not sufficiently established whether the use of social media has a measureable impact on the performance of small businesses. In fact, a report by the *Social Media Examiner* notes that the number one most important question among marketers is, "How Do I measure the Effect of Social Media on my Business?" (Stelzner, 2012). This question is not surprising given that 59% of these respondents indicated they use social media 6 hours or more per week. In fact, a third of the marketers indicated they used social media 11 hours or more per week. Clearly, it is critical for a small business to know their managers are being both effective and efficient in using their resources, including their time. Questions about the effectiveness of social media are not surprising given that many of the reported benefits are somewhat subjective: business exposure (reported 85% of

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marketers), followed by increasing traffic (69%) and providing marketplace insight (65%). Performance data such as increases in profits or sales are reported much less frequently. Fewer than 10% of companies tie social media efforts to sales measures, and only 4.5% measure profit per customer (CMO Survey, 2013).

Essentially, what we know about the use of social media by small businesses is largely anecdotal (Arkeny, 2011) or subjective, such as the industry report by the Social Media Examiner (Stelzner, 2012). The purposes of this paper are (1) propose a conceptual framework for research regarding the use of social media by small firms, (2) compare that to the literature on measurement of social media effectiveness, and (3) determine where major gaps exist in social media measurement research. Establishing a theoretical framework is a critical first step in building theory about this important topic, and can guide effective empirical investigation into the performance implications of the use of social media by small businesses.

## **2. Toward a Theoretical Framework**

The practical literature contains several models for the deployment of social media, but these have not been designed to guide academic research. Representative of many examples of this approach is the process model guiding the practitioner through the concept, definition, design, deployment and optimization stages of social media marketing (Murdough, 2009). The proposed measurement pillars of this model are: Reach, Discussions and Outcomes. However, the specific measures (Sentiment, Site Traffic and Purchase Intent) do not address core business performance measures such as return on investment or customer profitability.

Another approach common in the literature seems to eschew the use of profitability oriented measures in favor of those that track consumer engagement (Awareness, Engagement and Word of Mouth) with the brand in social media (Hoffman and Fodor, 2010). This research suggests a number of important consumer engagement measures such as site visits, tweets, followers, product reviews and other similar items. Although we agree that these are requisite measures for determining the value of social media, they do not rise to the level needed to clearly document return on investment.

More comprehensive models focus on the need to measure across multiple environments to fully determine the value and return associated with social media marketing efforts. Although they are indirect contributors to the bottom line, qualitative activities on social media platforms may affect long term profitability. Examples of suggested measures include: Activity, Tone or Sentiment, Velocity, Attention and Participation (Owyang, 2007). The unique contribution of this approach is an attempt to capture the attitude of the social media participant and whether the comments are positive or negative, in addition to the number and type of interactions.

In some of these models, the relevance of social media actions on the part of influencers is also addressed. An influencer is typically described as having “an activist approach to life that extends from the community to the workplace to leisure time; a network of contacts broader not only than the norm for the society but also broader than the networks of people often labeled as demographically desirable” (Berry & Keller, 2003). As this description implies, influencers are valued for their potential to drive the opinions and purchases of large numbers of potential customers.

To develop an effective measurement model for social media, it is necessary to first understand the stages typically employed in the process of creating added value for the business. The stages of the social media marketing process are illustrated in Figure 1 to focus attention on the key constructs that require academic research.

An important implication of this model is the need to isolate which measures of effectiveness are appropriate

for the differing stages and participants in the social media marketing process. For example, when building awareness a business should focus on traditional advertising measures such as reach and frequency, in addition to the more social media specific measures like web page views and the number of company posts/tweets viewed.

The effectiveness of the company's engagement activities, on the other hand, are more accurately assessed by measures of the degree of interaction with the company's messages (time on site, mentions, retweets, etc.). The engagement of Influencers must also be measured in this stage, as well as consumer to consumer interactions. Only as consumers move to the customer (buyer) stage can the social marketer begin to measure business performance constructs, such as ROI, that drive profitability.

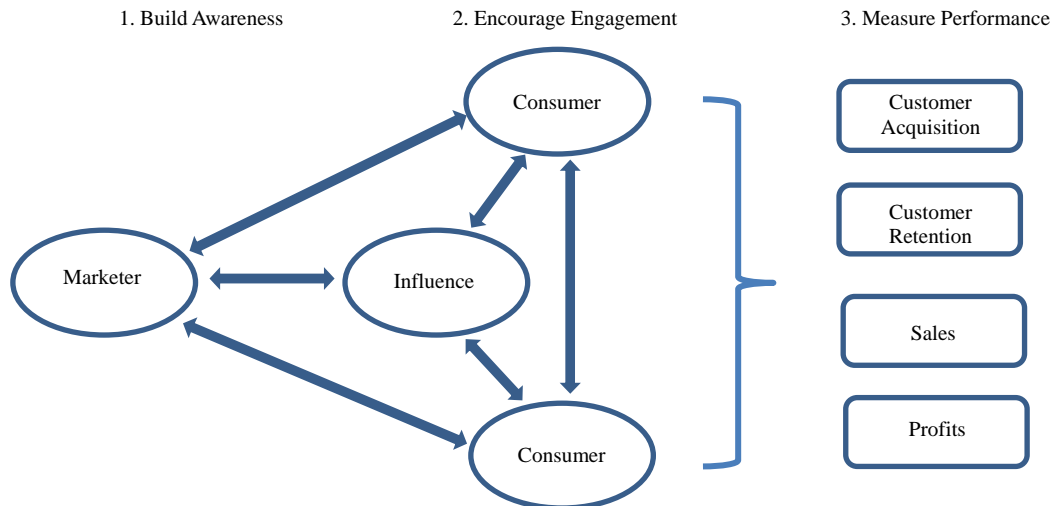


Figure 1 Social Media Marketing Measurement Process

### 3. A Framework for Academic Research

As Figure 1 highlights, research on the effectiveness of social media marketing must address the three stages: Awareness, Engagement and Performance to fully capture the value for marketing purposes. In addition, researchers need to focus on different measures for the two major segments of Influencers and Consumers. Note also that we distinguish between the terms Consumers that must be converted into Customers over time. As Kabani (2013) emphasizes:

“Conversion happens when you turn a stranger into a consumer or customer. And there is a difference between the two! A consumer may take in your information or even sample your product, but he or she may not always buy....Over time, that consumer may become a customer.”

In order to facilitate a more comprehensive research program covering all aspects of social media marketing, we developed the grid shown in Table 1 which provides a summary of key results measures for each of the three stages and the major segments discussed previously. Although measures of Awareness and Engagement are similar across Influencers and Consumers, the suggested performance measures differ, as is also the case for Customers. For Influencers, we focus on outcomes like the quantity and tone of reviews and recommendations, the size of their influence network and the level of credibility. For Consumers, performance should be measured by the rate at which they authorize further contact or convert into fans or members. For Customers, however, the key performance indicators are ROI related items such as purchases, revenue and profit.

**Table 1 Key Social Media Marketing Results Measures**

	Influencers	Consumers	Customers
<b>Awareness</b>	Ad Exposures Number of Company Posts Page Views Click Thru's Time on Site	Ad Exposures Number of Company Posts Page Views Click Thru's Time on Site	Conversion Rate Size of Social Network
<b>Engagement</b>	Number/Frequency/Tone of: Mentions Comments(+/-) Retweets Shares +1's Likes	Number/Frequency/Tone of: Mentions Comments(+/-) Retweets Shares +1's Likes	Reviews (+/-) Recommendations
<b>Performance</b>	Reviews (+/-) Recommendations Size of Social Network Credibility	Relationship Quality Contact Permissions Conversion Rate Size of Social Network	Number of Purchases Revenue Per Customer Profit Per Customer Repeat Purchase Rate Average Customer Life

#### **4. An Assessment of Academic Research Progress**

Academic research on social media effectiveness has entered the empirical assessment stage fairly recently, and is likely to progress more effectively if we compare existing studies to a conceptual organization scheme as presented in Table 1 to discover gaps in our focus. In this section we present a review of extant literature of ROI related performance indicators to determine which of the measures have or have not been empirically tested and conclude with an overview of gaps in the academic research stream.

In a study focused on business to business sales efforts, Rodriquez, Peterson and Krishnan (2012) assessed the impact of social media usage on several key salesperson activities: creating opportunity, understanding customers, relationship management, relationship sales performance and outcome based sales performance. Strong positive effects were reported for creating opportunity (identifying and contacting potential new customers) and modest effects were evident upon relationship management and relationship sales performance. However, the effects upon understanding customers and outcome based sales performance (quota achievement, average customer revenue and revenue gains) were not significant. In the context of Table 1, these results provide support for the Consumer-Awareness, Engagement and Performance components, but not for the measures of Customers. Influencers were not a component of this study.

In the above study, relationship quality was shown to be an intervening construct leading to improved sales outcomes even though no significant direct effects were found for social media usage. This connection was also supported in another study focused on consumer purchase intentions and loyalty (Liang, Ho, Li & Turban, 2011). The relative effects on consumer intentions of Social Support from social media interactions were compared to Relationship Quality and Web Site Quality. The Social Support interactions exhibited the strongest and most significant effects upon purchase intentions and had modest and significant influence on loyalty, while Relationship Quality had the strongest effect upon consumer loyalty but modest influence on purchase intentions. These findings provide solid support for the Consumer-Performance component proposed in Table 1 since Consumers with high purchase intentions and brand loyalty are more likely to become Customers over time.

The importance of Relationship Quality as a critical measure of Consumer-Performance was demonstrated again in research measuring the effects of brand community efforts via social media on brand trust and loyalty

(Laroche, Habibi & Richard, 2013). The results indicate moderate to strong effects of social media community building on the perceived quality of consumer-company interactions. The improvements in Relationship Quality had positive effects on both of the outcome measures (trust and loyalty) providing further support for the Consumer-Performance component of Table 1.

Support for the measurement of the Customer-Engagement component of Table 1 was demonstrated by a comprehensive review of changes in the purchase process for consumer goods brought about by digital and social media (Powers, Advincula, Austin, Graiko & Snyder, 2012). One of the more compelling findings of this study was that the most prominent form of comment fell into the post-purchase/positive category, with “joy” being the predominant emotion expressed. Consumers provided with information via social media that promised smarter decision making found it natural to:

“tout their effectiveness as a shopper to the world. Marketers can leverage this desire by providing forums for consumers to share their stories with others, effectively providing a testimonial for the brand as they toot their own horn: a win-win for brand and consumer.” (p. 488)

In a very impressive time series analysis set in the microlending industry, the long term effects of online social media publicity by traditional media outlets were compared with the effects of publicity in blogs and online communities by consumers (Stephen & Galak, 2012). Both sales and repeat sales were shown to be positively affected by social media activity. Their findings offer strong support for the ROI related Customer-Performance component of our proposed research model in Table 1. Not surprisingly, reviews in traditional social media outlets had a much larger per event effect on both initial sales (894 per event) and repeat sales (403 per event) than blogs (90 and 63) and community forum posts (99 and 48) due to broader reach. The authors note, however, that blog and community forum posts occur with much greater frequency than reviews by traditional media outlets and come to the following conclusion:

“The sales elasticities to community posting are more than 30 times larger than the sales elasticities to traditional activity and approximately 10 times larger than the sales elasticities to blog posting....After we adjust for the differences in the frequencies with which these earned media events occur, it is evident that social earned media is more effective in generating extra sales than traditional earned media.” (p. 635)

## **5. Conclusion**

Most of the focus of social media effectiveness has been oriented toward the initial stages of the social media marketing process, building awareness and engagement with the company and brand. The literature, both academic and practitioner oriented, has clearly demonstrated the positive effects of social media activity on consumer awareness and engagement. Our model and review of performance related research (the bottom row of Table 1) highlights the following gaps in research:

- Few if any academic studies of the Influencer-Awareness, Engagement, Performance components are available. In particular, it would be helpful to examine the effectiveness of various company social media activities on reviews and recommendations by Influencers since these have been shown to have a very positive impact on sales and repeat sales (Stephen & Galak, 2012).
- For the Consumer-Performance component, we identified several studies documenting the relevance of the quality of the relationship between consumers and the company/brand. However, research on the effectiveness of social media activities on contact permissions and conversion rates (becoming fans, members, etc.) is needed.

- Additional research on the Customer-Awareness and Engagement components is also needed, especially regarding how to use social media to encourage reviews and recommendations, and how the size of Customers' social networks affects acquisition of additional Consumers.
- For the critical Customer-Performance component, we need to better understand how social media acquired customers differ from traditionally acquired customers on key ROI indicators such as Number of Purchases, Revenue Per Customer, Profit Per Customer, Repeat Purchase Rate and Average Customer Life.
- Finally, it would be instructive to conduct a survey of small business marketers to determine their level of usage of the suggested measurement indicators and the perceived usefulness among this group.

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