

The Economics of Social Media Marketing (SMM) in the B2B Market

By Jeffrey L. Josephson

The introduction of Social Media Marketing (SMM) represents a sea change in the solutions being offered to and used by business-to-business (B2B) marketers. The “Web 2.0” hype is loud enough. But before investing tens, or hundreds, or thousands of dollars in SMM, it should be recognized that for most companies in the B2B market SMM represents a dubious investment of time, effort, money and opportunity.

To understand why you should question the value of SMM in B2B, there are the two simple questions to ask:

- 1) Why do B2B companies believe that they need Social Media Marketing in the first place?
- 2) Is SMM better than the traditional solutions it purports to enhance or replace?

The enthusiasm for SMM is clearly a reflection of the success of Facebook, Twitter and other services in the consumer, entertainment and personal spheres. But is LinkedIn anything more than a vanity site? And are blogs and networking sites any more than an outlet for narcissism and PR? The answer may surprise you; but, more importantly, the costs and risks, based on a study by JV/M of both advocates and users of SMM on Focus.com, should shock you.

Why Do Businesses Think They Need SMM?

According to the study, most B2B companies (i.e. users) invest in SMM programs in order to generate sales leads. In many cases, their salespeople and channel partners can't or won't make cold calls. And their traditional marketing programs (such as direct mail, advertising, PR or trade shows) aren't generating the quantity or quality of leads that they need in order to meet their revenue goals. All of the other purposes cited by advocates of SMM such as creating brand awareness, driving traffic, educating the market, and so on, are intermediate - if not wholly irrelevant - objectives, according to users, because the singular goal of any B2B marketing program, according to users, is to generate *qualified* sales leads.

A case is made by advocates that SMM, like PR and advertising, is intended to enhance the lead generation and sales processes; that is, that SMM is an adjunct to other programs. Advocates cite the ability of SMM to identify potential prospects, create awareness, uncover

needs, and educate the market in order to drive inbound traffic, or make it easier for salespeople to establish a relationship or close a sale. But not only does this require that there pre-exists a functioning lead generation or sales program to enhance, but a review of results demonstrates that SMM is uniquely uneconomic in that support role.

What Is a Lead?

In order to compare alternative or enhanced approaches to lead generation on an apples-to-apples basis (and to measure their relative effectiveness), we need to agree on a definition of a qualified sales lead that works for both traditional and new media. In the B2B market, and for purposes of the study:

A qualified lead is an appointment with a decision maker who has a need for your company's products or services, and who wants to talk with a salesperson about how they can help.

While many advocates of SMM disagree with this definition (for reasons that will become clear in a moment), most users of lead generation solutions (particularly the salespeople who are the ultimate “customers” of the information) are firm on this issue. In the users' view, the purpose of any B2B marketing program is to create opportunities that the salespeople can close. And the ideal (and logical) hand-off point, therefore, is an appointment, either via telephone or in person. A “real” lead to these users is thus a meeting with a decision maker who has a need, and an interest in talking about how the vendor can help solve it. And while there may be assumptions made about lead qualification criteria, deal size and potential close rate, salespeople universally agree that any lead that doesn't meet these criteria is not a “real” lead, but is a “soft” lead for which they wouldn't pay, if asked.

Once we have a definition of what is a real sales lead, then in order to compare programs economically you simply need to add their set-up and implementation costs, and divide by the number of qualified leads (i.e. appointments) produced, to get an average cost-per-lead.

The Economics of Lead Generation

As shown in Figure 1 below, a review of dozens programs and campaigns has suggested that, for most companies, when measured and compared on a cost-per-lead basis, and including all costs, Social Media Marketing (SMM) is spectacularly expensive on a cost-per-lead basis.

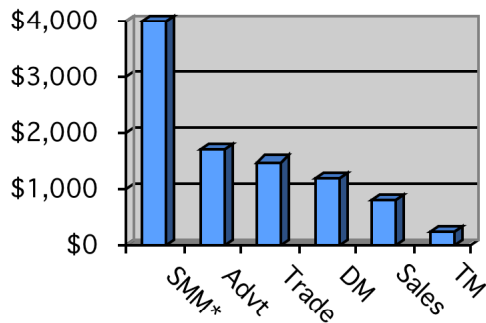


Figure 1 - Cost-per-Lead

Results suggest that the cost-per-lead for programs that include SMM is as much as an order of magnitude greater than traditional methods, when the full set-up costs are included. In most cases, not one qualified lead could be credited, directly or indirectly, to the program. And in fact, a survey of several dozen SMM companies and over 40 so-called experts online identified **zero** results exclusively attributable to Social Media Marketing.

In other words, there were no cases cited by either advocates or users where SMM generated a single qualified lead by itself. And in those cases where SMM was working in concert with other lead generation programs (indicated by the asterisk in the graph), the only thing SMM did was *increase* the cost-per-lead by at least a factor of four.

Even more problematic was the time and energy expended by companies and vendors. Rather than making cold calls, salespeople tasked with supporting SMM programs frequently spent hours each week blogging and networking online – but generating no real, qualified leads. And marketing staffs that dedicated many man-months to creating an online presence found no meaningful increase in qualified inbound traffic as a result. There was, in other words, not only no return on users’ financial investment, but there was no return on their investment of time either.

What’s Really Going On?

Social Media Marketing allegedly works in the B2C world, so why doesn’t it work in the B2B market? Here’s what we found:

- While B2B decision makers are active online, virtually none of what they do includes looking for vendors of products or services for their business – especially for problems they don’t know they have. Over 95% of their online activity was the same as any other consumer: watching movies, reading the news, buying consumer items, and doing email.
- The vast majority of the people that you meet on B2B networking and social media sites want to *sell* you something; they aren’t looking to *buy*.

While this makes for obvious common sense, like many overhyped solutions over the years SMM is more of an opportunity for its advocates than for its users. The thousands of marketing and IT professionals laid off in the recession simply appear to have attached themselves to “the next big thing,” albeit with a deliberate lack of willingness to accept accountability, which dooms its – and their customers’ – future.

As alluded to above though, the failure to produce qualified leads by SMM advocates is cleverly hidden in the definition of a lead that they use. A study released by one prominent SMM company, for example, counted the following as leads, with the associated average costs:

“Lead” Type	Average CPL
White Paper Download	\$60
Webinar Registration	\$40
Event Registration	\$50
Demo Request	\$175

Table 1 - CPL for “Soft” SMM Leads

In contrast, professional B2B telemarketing firms, for example, typically produce confirmed *appointments* with decision makers who have a need, and who want to talk with a salesperson, for around \$150-\$350 per lead, as shown below.

Appointment Type	Average CPL
Industrial	\$150
Commercial, IT	\$200
High-end Consulting	\$350

Table 2 - CPL for “Real” TM Leads

Unless white paper downloads, Webinar and event registrations, and demo requests convert to confirmed appointments at least 35% of the time with no additional cost, leads of this type are a huge drag on performance.

In fact, the conversion rate of these soft leads to appointments was reported to be less than 10%. And

they required just as many telephone calls to convert to an appointment as a cold prospect without using SMM – demonstrating (at least using the self-reporting by SMM firms) that the SMM process was superfluous. Considering that in most cases the cost-per-lead did not appear to include set-up costs, it is clear that SMM programs waste marketing dollars, squander opportunity, and are an enormous time-sump.

Perhaps most worrisome, though, is the risk involved. For while a traditional B2B telemarketing program can be designed and implemented for less than \$10,000 and can easily generate 20-40 highly qualified leads, even a small SMM program will cost in excess of \$50,000 – and likely will produce no meaningful results whatsoever. For this reason alone, anyone considering an SMM program must understand the output (i.e. what is meant by a lead), and how – if at all – it converts to a real sales lead, and then ultimately to a sale.

What Should You Do?

Having a Web presence is certainly a good idea. But in deciding how, and where, to spend your scarce marketing dollars, the only thing that matters in B2B is your cost-per-lead – where a lead is defined as an appointment with a decision maker who needs your product or service, and who wants to talk with you about how you can help. You also need to consider your close rate and your margin, but the definition of a lead matters a lot, when considering costs.

If your SMM staff or vendor refuses to be accountable for generating “real” qualified sales leads (i.e. appointments with decision makers), or if the net effect of the program is to increase your cost-per-lead, then what you’re buying is fluff, and a ticket to failure.

Jeffrey L. Josephson is President of JV/M B2B Telemarketing, and also holds a patent fundamental to social networking.