

Measuring the success of an online community

Joseph P. Cothrel

Joe Cothrel is vice president of research at Chicago-based Participate.com, which provides online, community-management services for Fortune 500 companies and leading dot-coms (www.participate.com). He formerly served as a research director in Arthur Andersen's Next Generation Research Group and as a senior researcher in the firm's global best practices initiative.

Abstract *This article presents a new way of thinking about assessing the value of online communities. The author examines both the different kinds of communities and the specific ways in which these communities might be evaluated. Three concepts are important to measuring the value of these communities: the incremental value a community generates, how to determine community membership, and the importance of converting visiting members to using members.*

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As with any business initiative, the success of an online community can only be judged in light of the business goals it is intended to support. However, when it comes to the key business goals of revenues and profitability, online community is often found wanting. The real reason for this may surprise you: as it turns out, return on investment (ROI) analysis is almost never performed.

There are many reasons for this, not the least of which is a general lack of experience overall in creating and managing these communities in business. In some cases, there are concerns about appearing to attach a dollar value to human relationships, as well as a fear that calculating ROI for community efforts is so difficult as to be impossible for most companies.

These concerns are understandable, but misplaced. Contrary to popular belief, community ROI is not about "monetizing" community members or performing other unnatural-sounding acts. It is also not about achieving the impossible, even if you have the proper tools and expertise. What it is about is putting a process in place for recognizing the value that online community

members create. More specifically, it is about measuring how well the community is meeting the business challenges it is intended to address.

This article presents a new way of thinking about online community ROI. First, we will look at the different kinds of community success and the specific kinds of communities to which this approach applies. Then we will look at how online communities are measured today and a framework for a more comprehensive measurement effort. The discussion concludes with some data points that underlie ROI calculations for four real-life, online communities. These data points reflect what we call the incremental value of community – the additional value that a business generates as a result of its community efforts. In the next section, we discuss the concept of incremental value, along with two other concepts that underlie ROI calculations using the incremental approach. In the final section, we look at four simple dynamics that are responsible for the value community creates.

What is success?

There are many kinds of online communities in business and, therefore, many kinds of community success. Examples of business-oriented online communities include a community of:

- ◆ independent resellers sharing sales tips and ideas;
- ◆ buyers and sellers in an Internet marketplace, exchanging information related to purchases or sales;
- ◆ customers on an Internet commerce site, united by a common interest in topics related to the products offered on the site;
- ◆ people who subscribe to an online information service, discussing information provided on that service;

- ◆ employees sharing best practices to improve processes, products, and services.

A useful way to segment business-oriented online communities is by member composition: consumers (B2C), business customers or partners (B2B), and employees (E2E). As shown in Exhibit 1, the objectives of these three segments are distinct, but overlapping.

As the Exhibit shows, two objectives span all three types of communities: stronger relationships and insight. Executives often say their goal in creating an online community is to increase customer loyalty or to create greater “stickiness” for their site; both are encompassed by the notion of stronger relationships. Companies also talk about communities as creating new “feedback loops” or enabling better “two-way communication” with customers, suppliers, or employees; this is what we label “insight.”

Relationships and insight are the most common objectives of community. They are also arguably the most important. However, neither can be entirely captured in an ROI calculation. In fact, ROI never captures all the benefits of an online community, or even the most important benefits. But that reason has nothing to do with the fact that we are measuring the impact of community. Rather, it is a characteristic of all types of financial measurement. Last quarter’s profits, for example, do not tell much about a company’s long-term prospects, yet they play a critical role in the value the market assigns to a public company.

The focus here is on online communities created by businesses to effect a positive, measurable impact on either revenues or profitability. Regardless of whether they are financial or non-financial, the objectives of these online communities must be clearly defined and measurable. Poorly defined objectives are perhaps the most common reason businesses find community ROI so difficult to measure. Communities created to accomplish specific non-financial objectives like increased brand awareness or higher customer satisfaction are sometimes, after a period of months or years, expected to demonstrate how the community has

produced higher revenues. It should not be surprising when this turns out to be a daunting task.

Common measures

The Internet is frequently called “the most measurable of business media” because of the wealth of data that Internet applications can capture on the activities and interests of customers or other users. Although ROI is not widely measured in online communities, many other things are, and some of these metrics play an important role in ROI calculations. Some community measures are specific to a single type of community program. Types of community programs and examples of each are presented in Exhibit 2.

The most common measures for an online community include:

- ◆ unique visitors;
- ◆ page views;
- ◆ session time;
- ◆ community click-through (what percentage of visitors to the home page click through to a community program);
- ◆ registered members;
- ◆ postings per day/week/month (in member-to-member interaction programs);
- ◆ read-to-post ratio (in member-to-member interaction programs);
- ◆ page additions (in member-generated content programs);
- ◆ page revisions (in member-generated content programs);
- ◆ peak number of concurrent users (in live events);
- ◆ total number of users (in live events);
- ◆ audience penetration (if the total size of the target population is known);
- ◆ repeat visits;
- ◆ frequent visitors.

Most of these measures describe what is happening in the community, but they do not tell much about what it means to the business. They are activity measures – one of three kinds of metrics shown in Exhibit 3 that every community should track. Economic metrics measure the ongoing financial value or ROI for the community. Activity measures describe the general health of the

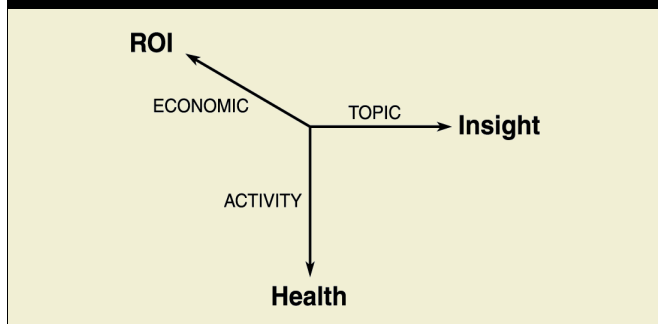
Exhibit 1 — Community segments

	B2B	B2C	E2E
Members	Customers, suppliers, distributors, etc.	Customers	Employees
Objectives	Stronger relationships Insight Efficiency Innovation Revenues	Stronger relationships Insight Low customer acquisition costs	Stronger relationships Insight Efficiency Innovation Revenues

Exhibit 2 — Community programs

Member-generated content	Member-to-member interaction
Member profiles Home pages Product reviews	Discussion forums Technical Q & A Chat applications
Events	Outreach
Guest events Expert seminars Virtual meetings/trade shows	Newsletters Volunteer/leaders programs Programs Polls/surveys

Exhibit 3 — Three dimensions of community measurement



community and aid in managing the community on a day-to-day basis. Topic measures assess the ongoing insights that the community offers into the business's products or processes.

Topic measures may be the most difficult to define. They include measures of the most heavily trafficked community areas or discussion threads and the most commonly discussed subjects, based on content analysis across the community. They can also address concentration of interest, describing how member activity is distributed across the most commonly discussed subjects. What percentage of total community traffic flows to the ten most heavily trafficked topic areas? How is community interest spread across the top ten subjects? Does the top subject represent 5 percent of conversations last month, or 75 percent? If the latter, does this represent a success, an opportunity, or a problem for the business?

In a commerce-related community, economic measures typically require data not only from the community, but also from transactions systems and the site as a whole. Lack of a strong measurement program for the e-business overall may be the second driver of difficulty for calculating community ROI. Where a strong measurement program does exist, the results can be dramatic. Here are some data points from four actual commerce-related online communities:

- ◆ *Company A:* Online community members are only 5 percent of the customer base, but make more than 30 percent of purchases.
- ◆ *Company B:* Average transaction size is twice as large for community members as for non-community members.

- ◆ *Company C:* Online community members are almost twice as likely to refer others to the site.
- ◆ *Company D:* Customer retention rates are 50 percent longer for community members than for non-community members[1].

You may have noted that each of these metrics involves a comparison of community member activities versus the activities of other site visitors. The question that each of these data points helps to answer is, “What additional, or ‘incremental,’ value does the business generate with an online community than it would without it?”

Three key concepts

Three concepts are central to thinking about community ROI: incremental value, conversion rate, and community member.

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Incremental value

This is the difference between the value created by a business with an online community and the estimated value that the business would generate in the absence of a community. It involves a comparison of community members and non-community members in terms of the activities that are most relevant to the business objectives of the community. Incremental analysis for a B2C community centers on metrics like visits, return visits, purchases, frequency of

purchase, transaction size, and referrals. Incremental value analysis is not unique to online communities – it can be used whenever a merchant or manufacturer wants to understand the purchasing behavior of one customer segment relative to another[2].

The value of incremental analysis is not limited to a consumer setting, or even a commerce setting. A company creating an online community among its new product development personnel may want to measure performance differences between those who are involved in the community and those who are not. Differences might be reflected in product development cycle times, retention rates, or employee satisfaction figures. When the difference is quantified on an individual basis, it allows not only a point-in-time measure of the value created by community, but also a method for quantifying the value of future growth in community membership.

One question typically arises in an incremental analysis of community. Does online community produce better customers, or are better customers simply

attracted to community programs? There are two answers to that question. The first answer is a simple one: it probably does not matter. If a community is helping customers buy more, then the company will want a community. If the community is meeting the desires of a company's best customers, then the company will also want the community. The second answer is: once incremental value is known, the objective of community management should be to "move the needle." Progress above the established baseline can then be assigned directly to community efforts.

Incremental value requires that a distinction be made between community members and non-community members. Of course, there are many ways to define community members. They can include all registered members, all users of community programs, only frequent users, only long-time users, or only active participants. It may be meaningful to look at community from any of these perspectives. We should note, however, that defining community too narrowly could omit much of the value that is created. For example, people who are not active participants in a community are still obtaining information that may better enable them to make purchases or engage in other value-creating activities. It is also important to remember that, in most communities, active participants are less than 10 percent of the total membership, so that choosing to count only active members may radically underestimate the true impact of community on the business[3]. A good starting point is to define community members as users who have visited the community and returned. It excludes people who have come once and never returned, and therefore are unlikely to have benefited the business or themselves.

Conversion rate

While many people think of conversion as the process of driving commercial transactions, the notion can be applied to any situation in which a business is seeking to motivate action on the part of the user[4]. Web commerce leader Amazon.com has long segmented its users into three categories: visitors, users, and customers. Visitors include anyone who comes to the site; users include anyone who has offered information, from providing feedback on the site to writing a book review; and customers are people who have made a purchase. Amazon.com focuses on conversion at each level, despite the fact that only customers put money in the till[5]. In community ROI calculations, conversion rate is an important input to calculating the impact of

community management. Once the incremental value of an individual community member has been established, the value created by converting additional members can also be quantified.

Community

The word "community" is used so variously and in so many different contexts that defining "community programs" or "community areas" is not as simple as it sounds. In Exhibit 2, we list some of the most common community programs, but community programs can differ a great deal, particularly across the B2C, B2B, and E2E segments. In our analysis, community consists only of those elements that permit many-to-many interaction.

Or, to put it another way, community programs are those elements that allow any member to create something that other members can see. It includes member-generated content like home pages or member-created product reviews; member-to-member interactions like message boards or chats; or events that include member participation. Only many-to-many interaction produces the dynamics that drive community value.

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Four dynamics

How is it that community members create more value for the business than other visitors or customers? Well, there's really no mystery here. Community members always include a core group of what we call "hyper-affiliates" – people who are passionate about the topics, products, or companies that are the focus of that community. There are many ways that the activities of these hyper-affiliates help a business address its ongoing objectives. Let us look at four dynamics in detail:

Assisted buy/sell dynamic

Community provides the information members need to buy or sell. In communities of sales professionals or independent agents, members help each other sell more products by sharing best practices related to the sales process. In consumer commerce, studies show that many people come to communities specifically for help in making a purchase. According to a study conducted by Andersen Consulting, 62 percent of Internet purchasers said customer reviews and recommendations drive them to purchase online[6]. This finding is confirmed by Forrester Research, which found that 30 percent of community users say they engage in community because "it helps me decide what to buy"[7]. These findings effectively refute the notion that commerce and community do not mix.

Referral dynamic

As you might guess, hyper-affiliates also tend to spread the word about products and companies they love. Experience at Participate.com suggests that community members are much more likely to refer others to the site and much more likely to refer in volume – as many as 20 or more referrals is not uncommon. In B2C e-business, word-of-mouth is the No. 1 driver of traffic to Web sites, according to Jupiter Communications[8]. In a B2B context, high customer acquisition costs make referrals even more valuable. In both cases, customers obtained via referral represent a significant savings in marketing and sales expense.

Self-select dynamic

By joining, visiting, or participating, community members signal their interest, making it easier for sellers to send relevant offers their way. The effectiveness of such targeted selling has been abundantly demonstrated. Forrester has found, for example, that people are more than 27 times more likely to respond to advertisements in e-mail they have volunteered to receive than in regular commercial e-mail[9]. But community offers two additional advantages over other methods of targeted selling. First, community members renew their selection every day by visiting community topic areas or specific discussion threads. Other kinds of targeted selling rely on a one-time expression of interest, and then assume that the customer's level of interest remains the same over time. Second, and perhaps most important, targeting community members does not require collecting data on individuals; sellers can target potential customers collectively in real time by integrating offers with relevant community programs.

Repeat visit dynamic

Evidence suggests that as many as four out of five visitors at the average commercial site are visiting for the first time, and that most of them will never make a return visit[10]. Community members, on the other hand, are by definition repeat visitors. Repeat visitors will buy more over time, simply because the seller has more opportunities to reach them. Studies show that return visitors also make larger purchases. According to Bain & Company, purchases made by return visitors are on average 57 percent larger than purchases by first-timers[11].

Conclusion

Online communities have existed for almost three decades, but managing these communities to meet the ongoing challenges of a business is still relatively new. The ability to manage these communities effectively will depend in part on new kinds of measurement and reporting. The following principles should form the

foundation of any system of measuring online community success:

- ◆ As part of community development, define your business objectives and how success will be measured.
- ◆ Make measurement and reporting an integral part of ongoing management.
- ◆ Use community measures not only to keep score, but also to make fact-based decisions to improve the community over time. [56](#)

Notes and references

1. These figures come from an analysis of Participate.com clients in April, 2000.
2. For example, see Coleman, C.Y., "Ms. Stewart's advice for how to improve Kmart: ask Martha", *The Wall Street Journal*, 1 May, 2000. "Ms. Stewart says that Kmart conducted a survey six months ago that showed that customers who buy the Stewart brand boast higher incomes and spend two to three times more than those who don't. "The average Martha [shopping] basket is more expensive than the average Kmart basket," Ms. Stewart says. In response, Kmart spokeswoman Laura Mahle says it wasn't a formal survey but rather a review of register data. The review did show that customers buying Martha Stewart products tended to spend twice as much as the average ticket of \$25 to \$30, Ms. Mahle concedes."
3. In an Arthur Andersen study of 15 Internet, extranet, and intranet communities, three-quarters of community managers stated that less than 15 percent of total membership were frequent contributors, and one-third placed the number of frequent contributors at less than 5 percent. See Cothrel, J. and Williams, R.L., "Getting the most out of online discussion and collaboration", *Knowledge Management Review*, February 1999.
4. Gurley, B., "The one Internet metric that matters", *Fortune*, 6 March, 2000.
5. "Riding the wild, perilous waters of Amazon.com", *The New York Times*, 14 March, 1999.
6. Andersen Consulting study of 1,492 online shoppers, October 1999. Cited in "Experienced internet shoppers satisfied with online shopping", *CyberAtlas*, 13 January, 2000.
7. Allen, L., Charron, C., Shindler, S., Grimsditch, T. and Shepard, A., *Cashing in on Community: The Forrester Report*, Forrester Research, September, 1999.
8. Slack, M., Terrance, R., Keene, P. and Johnson, M., "Guerilla marketing: breaking through the clutter with word of mouth", *Jupiter Communications*, 8 December, 1999.
9. Sonderegger, P., with Manning, H., Weisman, D.E. and Souza, R.K., *Opt-in E-mail Gets Personal: The Forrester Report*, Forrester Research, March, 1999.
10. See "Four out of five users never re-visit the average Web site", *CyberAtlas*, 5 October, 1999. The article quotes a study by Engage Technologies and Nvision. These figures also comport with my conversations with various research firms and marketing technology vendors in the spring of 2000.
11. Baveja, S.S., "Making the most of customers", *The Industry Standard*, Bain & Co., 28 February, 2000.