Return on investment (ROI) is derived from two things: increased revenue, or decreased costs. Increased engagement is not an attributable measure of return. Return on investment for non-profit organizations can also include the fulfillment of the organization’s mission.

The formula for measuring ROI includes:

\[
\text{ROI} = \frac{\text{returns} - \text{investment}}{\text{investment}}
\]

There are three rules for measuring ROI:

1. A return is a financial metric which means either increased revenue or decreased costs. Any non-financial metric (e.g. engagement) is not included in the ROI.

2. An investment is a financial metric of cost incurred. Any non-financial metric is not applicable.

3. A return must be directly attributable to the investment. Correlation is not causation.
Increased revenue can be attributed to an increase in spending from existing customers, an increase in new customers, and/or an increase in staff productivity. These returns are achieved by specific actions, which can then be measured by specific antecedents.

<table>
<thead>
<tr>
<th>Return On Investment</th>
<th>Achieved By</th>
<th>Visible Antecedents</th>
</tr>
</thead>
</table>
| Increase spending from existing customers | • Increased frequency of purchases  
• Purchases of new products/services  
• Purchasing premium products/services  
• Increased retention rates  
• Selling community merchandise | • Higher engagement (comments(clicks/likes)  
• Greater brand loyalty (sentiment/connections between members)  
• Customer insight/innovation to develop  
• New products for existing customers |
| Increase in new customers | • Lead generation  
• Lead conversion  
• Advocacy  
• Advertising  
• New revenue streams | • Higher community traffic/increase in members  
• Web traffic (SEO, Word-of-mouth)  
• Positive sentiment  
• Sharing  
• Direct approaches |
| Increased staff productivity | • Knowledge sharing  
• Reduced duplication of work  
• Higher morale  
• Reduced turnover  
• Innovation | • Active knowledge management groups  
• Knowledge sharing throughout different group sectors  
• Increased sentiment amongst employees  
• Contribution of positive ideas  
• Staff productivity ratios  
• Production of staff generated material |
Online communities are known for helping to reduce costs across several departments. These returns are achieved by specific actions, which can then be measured by specific antecedents in the community.

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| Reduced marketing costs | • Less spending on advertising  
                           • Less spending on PR | • Increased membership of the community  
                           (# visiting members)  
                           • Higher levels of referrals via community  
                           (shares, recommendations, reviews) |
| Reduced customer support costs | • Call deflection  
                              • Reduced customer service staff | • Product questions answered by community  
                           • Response rate to questions  
                           • Resolved rate to questions  
                           • Speed of response to questions  
                           • Enhanced customer knowledge  
                           • Customer satisfaction surveys |
| Reduced recruitment costs | • Less spending on headhunting  
                            • Reduced training needs | • Recruitment via community  
                           • Headhunting top community members  
                           • Hiring more knowledgeable and  
                           passionate employees |
| Reduced focus group costs | • Community-generated innovation  
                            • Questions via community | • Survey responses  
                           • Poll contributions  
                           • Community-highlighted problems  
                           • Community-highlighted opportunities |
Non-profit organizations can also consider the fulfillment of their mission as a measurable return on investment. Fulfillment of a non-profit mission is achieved by specific actions, which can then be measured by specific antecedents in the community.

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<th>Return On Investment</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Fulfillment of Mission</td>
<td>Non-financial return</td>
<td>Satisfaction surveys</td>
</tr>
<tr>
<td>(non-profit)</td>
<td>• More informed members</td>
<td>• Observational analysis</td>
</tr>
<tr>
<td></td>
<td>• Proven world change</td>
<td>• Milestones achieved</td>
</tr>
<tr>
<td></td>
<td>• Happier members</td>
<td>• Greater happiness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Online collaboration</td>
</tr>
</tbody>
</table>

Related articles (links are case sensitive):
