TOP TIP: Calculating ROI

A way to calculate return-on-investment on communication (reprinted by permission from material copyrighted by Angela Sinickas):

Calculating a return on investment (ROI) for something as intangible as internal communication has long been considered nearly impossible. If we try to calculate the return for an entire communication program, then the scope of what we do and the variety of other organizational initiatives directed at the same goals often makes it difficult to single out the value of communication. But the trick to calculating ROI is to focus on small elements of our communications that are directly targeted at changing some measurable behavior that has a bottom-line impact – either on increasing the organization's revenue or reducing its costs.

Generally, these behaviors are already being tracked by HR, sales, operations, quality or other departments in our organizations. We simply need to track our communication interventions against improvements in those behaviors.

A formula for calculating ROI

Here's one way to calculate the return on investment for a specific communication campaign or channel.

Step 1: Start with the total financial value of an organizational outcome the communication was intended to achieve. To make this more meaningful and easier to isolate the impact communication had, the outcome should be very discrete and specific. For example, focus on one project or initiative that contributes to a revenue or cost control goal, rather than the entire goal, or one behavior-impacting article in a publication or Web site rather than the entire communication channel.

Step 2: Reduce this total financial value by the percentage credit that can be attributed to communication. This can be calculated in many different ways depending on the situation:

- Take 100% credit if management can identify no other inputs that affected the outcome. For example, former internal communication director Deborah Globerson at Conexant developed two communication campaigns that reduced the company's telecommunication costs by US$840,000 in the first year, which is about the same as the annual cost for the whole communication department. One campaign got employees to use special long-distance dialing access codes they had been ignoring (saving US$20,000 a month). Another communicated the pros and cons of when to use videoconferencing, audio conferencing and Web-Ex technology. The reduced reliance on expensive videoconferencing saved the company US$600,000 in the first year alone.
- Ask management in advance: "Considering all the other organizational inputs planned to achieve the objective, what percentage do you think communication

would contribute to a successful outcome?” Even an expected contribution of 1% can show a large return because typical communication budgets are often small to begin with.

- Ask the individuals whose actions contributed to the goal being achieved how much credit they would ascribe to the communication leading to their changed actions. For example, communicators at one financial services company ask customers in their annual readership survey which new services/products they purchased from the company that year because they learned about the products in the company’s customer publication.
- Conduct a pilot/control group study. The incremental increase in the pilot locations over the control groups would be communication’s contribution. Sometimes you have unintended retroactive pilot/control groups when you discover that not all elements of your campaign were implemented by local management. Just track the differences in outcomes against the differences in communication inputs.

Step 3: Multiply the figure from Step 1 with the figure from Step 2 to calculate the proportional financial value of the outcome that could be due to communication. Be very conservative in taking credit. Take credit for less than you think you deserve, rather than more. If you don’t, someone in your financial department will.

Step 4: Subtract the cost of the communication from the figure produced in Step 3. Be as aggressive as possible in calculating this. Include staff costs, production costs and the cost of any research.

Step 5: What’s left is the net financial value of communication to your organization, after the cost of communication.

Step 6: Divide the net financial value (from Step 5) by the total communication cost (Step 4). The result is your estimated return on investment.

In addition to all this, it helps to measure the volume and timing of the communication activities you initiated. If you can’t demonstrate that you did communicate, you can’t prove that communication affected the financial outcome.

You should also measure changes in knowledge levels and favorable attitudes related to the desired behavior changes. These should be measured both before and after the communication, or in both the pilot and control groups. This helps link your increased activities to improved audience perceptions, which leads to their changed behaviors.

Anatomy of an ROI calculation

In the early ’90s, I was VP of communication for the parent company of Westec Security. We focused much of our communication effort at all four of our business units on improving operational outcomes.

Kristain Mills, the communication manager at Westec, thought she could help reduce vehicle accidents and related insurance premiums through a change in how safety communication was handled. Rather than just launch a new campaign everywhere, she piloted the campaign in just three of the company's seven California branches so she could measure the impact her communications had.

She worked with the safety and loss prevention manager to ensure that anything else he did to improve safety during a year's period he implemented in all seven branches to avoid tainting the pilot study.

By the end of the year, accidents went down in the three pilot locations to the extent that the vehicle insurance premium was reduced by US$1 million a year. There was no change in accident levels at the other four branches. The safety manager requested an expansion of the same communication program at all seven locations the next year. See Figure 4.4 for how we were able to calculate a 1150% ROI on communication for this project.

Focus on business outcomes

The secret to calculating ROI is to think about what business outcomes your communication is intended to affect before you begin, and conduct some baseline measures on current levels of the behavior you are trying to change.

In other cases, you might want to establish pilot and control groups to show the impact communication has versus an absence of communication on a particular topic or the absence of a particular information channel.

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Fig 4.4
Calculating communication's ROI at Westec Security

1.	Annual insurance cost savings	$1.00 million
2.	Percentage credit due to comm.	x 100%
3.	Cost savings due to communication	$1.00 million
4.	Annual salary of communicator plus campaign's cost	–$ .08 million
5.	Annual net cost savings	$ .92 million
6.	Annual salary of communicator plus campaign's cost	÷$ .08 million
7.	**Annual ROI**	**= 1150%**

TOP TIP: Proving your value

Craig Jolley, former director of marketing and communications and operations at The Valen Group, has a neat tip worth remembering if you are trying to get a handle on how you add value. It is, perhaps, to apply a stricter business metric than would be conventional, but it cuts to the heart of the issue. "I've always thought," he says, "that this was the ultimate measurement: work out how much money the company invests in you, then go back and say 'Is the time I spend really adding value for what the company is putting into my employment?'"

He offers this as an example: "Calculate the cost of them employing you. Let's say, when you work out your salary, benefits and the ancillary costs that you bring in terms of budget and spend, you work out that the company invests, effectively, US$50 per hour in you. Knowing that, treat yourself as a consultant and work out what it would be like if you had to account for your work and bill for every 15 minutes of your time. Then audit your activities for a week – put them down in a mock timesheet. If you discover that it took you three hours to write a press release one day, imagine – really think seriously – if you actually had to go to your boss and say 'Can you give me US$150 to put together a press release?' Imagine his or her response. It would certainly make you question the validity of what you're doing; what you spend time on and what you don't. But that's exactly the analysis you need to do on your work – is it worth it to my company for me to spend time doing this? Because, if you can't think of a good reason for them to give you the money, you really shouldn't be doing it."

Craig Jolley
Formerly of The Valen Group