

5 Essential B-to-B Direct Marketing Metrics

By Ruth P. Stevens

Measurement is a hot topic for marketers today. Everyone is under pressure to demonstrate results, deliver value to the firm—and justify budgets.

Fortunately, we direct marketers have always been measurement-oriented. Our philosophical roots are in metrics and ROI. We set up all our campaigns to be measurable, and we test incessantly—at least on the consumer side.

On the B-to-B side, direct marketers have more trouble with measurement, due to the complexity of the sale and the length of the sales cycle. Sales people don't want to be bothered reporting back to marketing about sales results. And when selling through channel partners, resellers or retailers, sales figures are frequently unavailable altogether.

Even more challenging to B-to-B marketers is the problem of multiple touches. A campaign might involved 5 emails, 3 letters, a webinar, an executive conference invitation, a golf outing and 4 sales calls. How can you ever determine which touches were essential to the sale? Or which were most impactful? It's a rare firm that has the patience and discipline to set up controlled experiments to test all the variables involved.

Despite the difficulties, business marketers muddle through with fortitude and enthusiasm, thanks to a focus on a few key metrics that are fairly simple to gather and analyze. Well, not simple, exactly. But at least straightforward. Let's review the essential metrics for B-to-B direct marketers.

Essential Metrics for B-to-B Direct Marketers

Lead Generation	Direct Sales E-commerce, Mail Order	Retention Marketing
Response rate	Response rate	Repurchase rate
Cost per lead	Cost per order	Lifetime value
Inquiry-to-lead conversion rate	Average order size	Churn
Lead-to-sales conversion rate	ROI	
Expense-to-revenue ratio (E:R)		

For business marketers who are using direct marketing to sell directly, and to retain current customers, the metrics are very similar to those used by consumer direct marketers: Cost per order, average order size, lifetime value and so forth. The differences appear most dramatically in the world of lead generation.

Response rate

For direct marketers, response rates are fairly easy to capture through a variety of media, by using a key code, or a unique landing page or 800 number.

The problem with response rate as a metric is that it doesn't tell you much about campaign effectiveness. There are simply too many variables involved: the list, the offer, the creative—you know the drill. So when your bosses focus excessively on response rate results, it is your job to explain what a relatively meaningless variable it is, and direct them on to more useful metrics, like cost per lead.

For the record, however, we now have useful industry benchmarks on response rates, thanks to three years of tracking by The DMA, which has published its *Response Rate Study* annually since 2003. Here are B-to-B response rates by medium:

Medium	2003	2004	2005
Direct mail	2.24	2.14	2.05
Dimensional mail	4.71	5.14	4.66
Catalog	1.43	1.04	4.39
Email	2.34	2.66	3.39
Inserts	.98	0.34	--
Telephone	6.98	5.53	5.95
Magazine	.27	.09	.07

Note: In 2005, The DMA expanded the number of media reported, so the data reflects a small set of campaigns and may not be as reliable as in the previous two years.

Cost per lead

Perhaps the most fundamental metric in business marketing communications, cost per lead is calculated by dividing campaign cost by the number of leads resulting from the campaign. Sounds simple, right? If only. The conundrum with this metric is the denominator: Should you divide by campaign inquiries or by qualified leads?

In B-to-B lead generation the true test of a marketing campaign's worth is its ability to provide the sales organization with *qualified* leads. It's these leads that improve sales force productivity, reduce cold calling, and increase the amount of time sales people can spend in front of prospects who are actually in the market. So for some marketers, dividing by the number of qualified leads in the most meaningful.

For others, however, it's important to assess campaign results on the "front end." To understand your ability to get prospects to raise their hands and express initial interest in your product or service.

The bottom line? Either approach is valid. Just make sure you are being consistent over time, so you can compare campaigns, keep an eye on trends, and avoid the problem of apples and oranges. You can also keep track of two metrics: cost per inquiry and cost per qualified lead.

Inquiry-to-lead conversion rate

The rate by which inquiries convert to qualified leads is a function of two factors: 1) the quality of the initial inquiry and 2) the precision of the qualification criteria. This latter factor is likely to be fairly stable over time.

Qualification criteria are developed in concert with sales management, and define the characteristics of a prospect that will allow the sales force to work the lead effectively.

But as a campaigner, your life is run by the first factor. Are you working with a new list? Is the offer too generous? Any number of variables can impact the quality of campaign inquiries. The conversion rate becomes an early warning signal that refinements may be needed. Just don't forget that you may also need some tweaks in the qualification criteria, especially as you shift among various products and audiences.

Lead-to-sales conversion rates

At this point, the sales force is on the hook to close business and convert your leads to revenue. At what rates will they do so? Here's where the life of a B-to-B direct marketer becomes dicey. If the lead-to-sales rate declines, who's responsible? Is sales falling down on the job? Or did marketing deliver inferior leads? This metric can shed some light on this age-old debate.

Expense-to-revenue ratio (E:R)

To summarize campaign effectiveness, marketers need some kind of conclusive metric, such as ROI. But in B-to-B environments, when campaign revenues are often sizable compared to campaign expense, ROI is problematic. The lead generation campaign is often a very small part of the entire cost of sales. Campaign ROIs thus become so large as to be difficult to work with—even laughable.

Consider this example, where you spend \$30,000 on a campaign that eventually generates \$3.6 million in sales. The campaign ROI comes out to be 11,900%, a ridiculous number. This apparent windfall reflects the fact that the marketing expense is only a small part of the total cost of sales. To understand the true ROI on a program, management needs to take into account the direct costs of both sales and marketing. For the marketing side alone, E:R proves to be a much more useful number, allowing you to evaluate campaigns against each other and to serve as a benchmark over time.

Comparing E:R with campaign ROI

Campaign expense	\$30,000
Qualified leads generated	200
Cost per qualified lead (\$30k / 200)	\$150
Lead-to-sales conversion rate	40%
Leads converting to sales (200 x .40)	80
Average order size (or average incremental revenue)	\$100,000
Cost per sale (\$30,000 / 80)	\$375
Sales revenue (80 x \$100k)	\$8 million
Gross margin rate	45%
Gross margin on the campaign revenue (\$8 million x .45)	\$3.6 million
E:R (\$30k / \$8 million)	3.75%
ROI (([\$3.6 million - \$30k] / \$30k)	11,900%

Sidebar: Lead metrics across the sales pipeline

Hugh McFarlane, author of *The Leaky Funnel*, identifies additional metrics that marketing may consider tracking. These kick in after the lead has been passed to sales, and provide more insight into the lead's ability to drive revenue.

- **Sales qualified leads (SQLs):** The percent of the leads the sales organization was willing to accept and work on. Despite marketing's best effort to ensure a lead is qualified before passing it on to sales, some will be deemed unworthy of sales attention. A typical reason for sales rejection: "We were already in that account."
- **First meetings:** The percentage of SQLs that resulted in a meeting, or a similar concrete action.
- **Proposals:** Sales needs to make an offer that can be accepted or rejected. What percent of your first meetings resulted in some sort of proposal being made?
- **Closed deals:** The percentage of sales offers that were accepted, or closed.

Sidebar: Try proxy metrics

In many B-to-B environments, the revenue pay-off can take months, even years. What if you need to assess campaign productivity before the sales cycle has ended? Consider applying proxy metrics to your campaign results. Robert Reneau of National Semiconductor assigns an estimated dollar value to each interim campaign outcome, long before the activity has resulted in a sale. When a customer downloads a piece of collateral, for example, they credit the campaign with \$1,000. A product sample request? That's \$5,000. A lead entered into the sales force automation system earns \$50,000. These numbers may seem arbitrary, but over time, National has found them to correlate with actual sales results. For managers, the proxy metrics allow early comparison of campaign productivity by product or by business unit, and mid-course corrections where needed.