

Best Practice

Assessing Lead Source Effectiveness



Executive Summary

One of most hotly contested issues between the Sales and Marketing disciplines is the topic of lead source quality.

Marketing believes they are supplying quality leads in sufficient quantity to Sales who cannot seem to close them. Sales, on the other hand, believes Marketing is not producing enough leads and those that are provided are of poor quality. Organizations faced with this strategic conflict have had difficulty finding a means to arbitrate the dispute.

Sales benchmarking, however, provides just such a reliable mechanism, in that it reveals to an organization which of its own leads are 'the best', allowing sales leaders to compare their performance to that of a relevant peer group to determine weaknesses and strengths. It is one thing to know that the leads coming from marketing are 'better' than those coming from business development; it is quite another to realize that all lead sources are less effective than those leveraged by a peer group.

If you are not evaluating lead location in your current lead assessment process – do so now.

The remainder of this paper discusses the techniques needed to conduct this lead source assessment.

**For mid-market sales leaders,
lead location is paramount:**

Unlike their enterprise-scale cousins, mid-market sales leaders usually do not have a representative in every geographic location and, therefore, location is a major deciding factor in a campaign's speed, intensity, and likelihood of success.

Problem Statement

Mid-market sales leaders face an almost impossible challenge – they must increase their book of business with existing sales representatives, current support staff, frozen budgets, and static customers. The best hope to make the number is to leverage the 'new' leads received from marketing, partners, or business development.

Since these leads are the lifeblood of new business, it would stand to reason that sales leaders would have evolved a sophisticated, dependable, and accurate method to evaluate these leads. In fact, most do not or at least if they try, their efforts are not systematic and repeatable.

What sales leaders crave, therefore, is a process to **assess which leads lead to net new business the most reliably and swiftly and which ones are the least expensive to obtain.** Putting these lead measures together – effectiveness, speed, and costliness – results in a trustworthy technique to ensure that resources are devoted to the 'best' lead sources, which are sometimes not what one would think.

Solution Summary

The method to achieve effective lead source evaluation is sales benchmarking and, specifically, the application of a unique metric known as the Sales Lead Source Effectiveness (SLSE) benchmark.

The SLSE allows organizations to first determine the breakdown of new sales revenue production that originates from each from each lead source as well as the costs of generation. With both of these values known, specific lead source returns can be objectively calculated and a determination made as to the relative *quality* of each lead.

Not only can organizations then compare between its various internal lead sources, but also they can compare these to other peer group companies.

What does a Sales Leader do with this information?

Most pressing, he or she can redirect investment into lead generation programs which are proven to be more cost and quality effective. This is a point 'solution' of sorts in that it only addresses what can be done at one time based on a static snap shot of data. The more diligent Sales Leaders who are focused on ongoing improvement will institute a continuous benchmarking process of lead sources such that industry trends, internal improvements, and costs factors are assessed periodically and over time. This is the best means to ensure sales staff has a steady stream of high quality leads.

Solution Detail

Definitions

1. **Number of Leads by Lead Source.** Each individual source for a lead needs to be separately identified and all leads from that source counted. Possible lead sources include: Print advertising, Internet ad words, Internet searching, Tradeshows, Direct Mail, Email, Webinars, Telemarketing, Partners, Public Relations, Sponsorships, and TV/Radio.

This variable is known as 'L'.

2. **Total New Sales Revenue Generated By a Lead Source.** It is crucial to be able to determine and segregate the revenue generated from each individual lead source.

This variable is known as 'LSR'.

3. **Lead Source Generation Cost.** This reflects the cost the organization incurred to generate an individual lead from a specific lead source. It is usually calculated by adding up the total fixed costs in a lead source generation program and adding any variable costs specific to all individual leads within than lead source type.

This variable is known as 'LSGC'.

4. **Lead Source Closure Cost.** This reflects the fact that some leads are more costly than others for the sales team to close. An example might be that a lead that comes from a relatively unqualified source may take more time and energy from a sales representative to close than one that originates from a prepared buyer. In addition, lead follow-up costs can vary by geography, especially if face-to-face meetings are required in the sale process. Travel time to and from prospect sites is a key component of this variable.

This variable is known as 'LSCC'.

5. **Lead Source Closure Speed.** This value is the average time it takes to close a lead from a given lead source as measured in business days and reflects the fact that some leads take more time to close than others. Sometimes longer closure times do not imply increased costs, they just mean deferred revenue.

This variable is known as 'LSCS'.

6. **Total New Sales Revenue.** This is the total annual revenue derived from all lead sources. Such revenue can occur from within an existing account as a result of a lead to different part of the customer organization not covered by existing sales activities. The key is not to include revenue stemming from organic account growth or from direct prospecting by a sales representative.

This variable is known as 'TNSR'.

Calculations

- Revenue Contribution of the Average Lead within a Lead Source (RCL):
 - $RCL = LSR / L$
- Average Cost to Generate a Lead within a Lead Source (GCL):
 - $GCL = LSGC / L$
- Average Closure Cost of a Lead within a Lead Source (CCL):
 - $CCL = LSCC / L$
- Total Cost of a Lead within a Lead Source (TCL):
 - $TCL = CCL + GCL$
- Average Cost Effectiveness for a Lead within a Lead Source (CEL):
 - $CEL = RCL / TCL$
- Average Lead Turnover for a Lead within a Lead Source (TS):
 - $TS = 251^1 / LSCS$
- Average Overall Effectiveness for a Lead within a Lead Source (LE):
 - $LE = CEL * TS$
- Revenue Contribution Share of all leads within a Lead Source (RC):
 - $RC = LSR / TNSR$

¹ Number of business days in a non-leap year

Limitations

- 1. Lead Source Segregation.** If an organization does not have the processes in place to separately identify, track, and report on different lead sources, the SLSE benchmark cannot be derived. For those organizations where this is an obstacle, it is not required to deploy a sophisticated software tool or process. Instead, simply *direct marketing to begin tracking its cost and spend activity along these categories.*
- 2. Lead Source Tracking Origination.** Organizations must have the systems and process discipline in place to record lead source *as it is generated*, not after the fact when the deal nears closure.
- 3. Lead Source Differentiation.** It is true that sometimes multiple lead sources may contribute to a new sale, as each mutually reinforces the other in terms of messaging, brand awareness, or information content. Still, organizations must choose the originating source in order to complete this analysis. Some more sophisticated organizations chose to also identify which lead sources provided crucial 'support' to a new deal, even though they were not the originating lead source. This is analogous to a player receiving an 'assist' in sports; they did not score but their contribution is worth tracking. For the remainder of this analysis, however, we will focus on lead sources only.
- 4. Costing Methods.** Some organizations have developed internal Activity Based Costing (ABC) programs and can leverage these to record and report on their lead costing items. Many other organizations, however, do not boast this capability. Instead, whatever rudimentary approaches are used to gather, analyze, track, and report sales and marketing costs should be extended to capture lead-specific information. The key aspect of this effort is to ensure consistency and transparency in the collection and assessment of these costs.

Solution Example: Acme, Inc.

Acme's Assumptions

- As shown in Chart 1 below, \$18.0 million of new sales revenue originated from sales leads generated by Internet marketing campaigns (LSR).

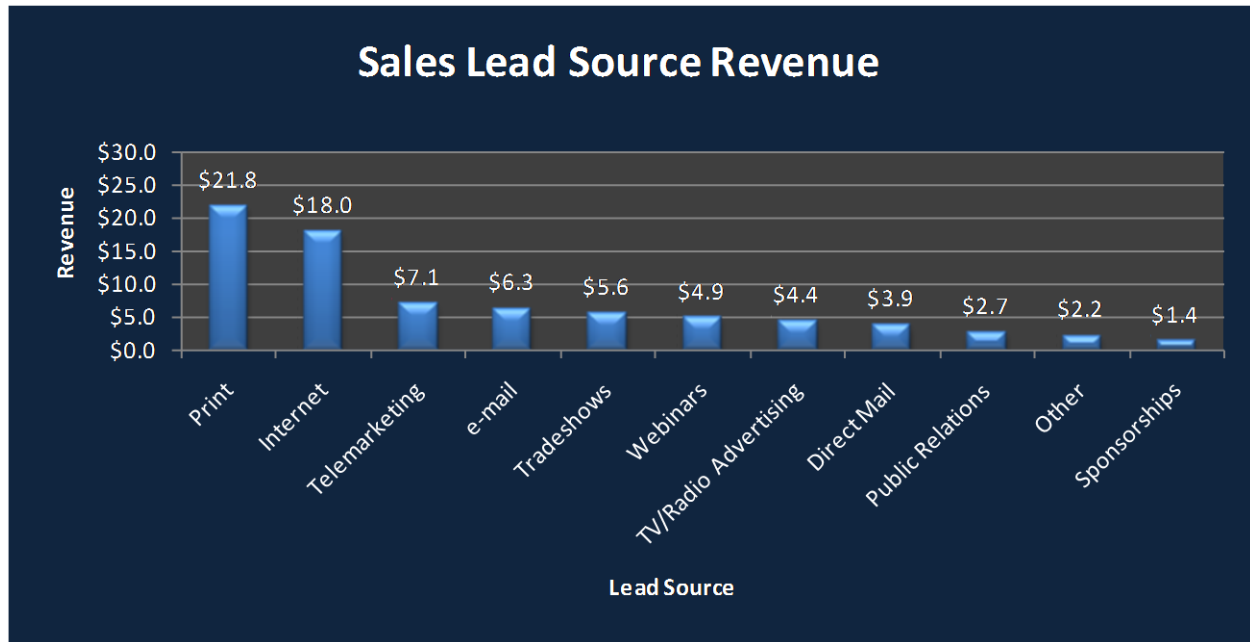


Chart 1: Sales Lead Source Generation Revenue Chart

- As shown in Table 1 at right, there is a total of \$78.3 million in new sales revenue production per year (TNSR).
- Acme generated 430 leads from the Internet Marketing campaigns (L).
- It costs \$8.7 million generate an individual lead from the Internet marketing campaigns (LSGC)
- It costs \$1.1 million to close all the deals for leads generated from Internet marketing campaigns. (LSCC)
- It takes, on average, 58 days to close a lead for the deals originated from Internet Marketing campaigns. (LSCS)

Lead Source	Revenue (Millions)
Print	\$21.8
Internet	\$18.0
Telemarketing	\$7.1
e-mail	\$6.3
Tradeshows	\$5.6
Webinars	\$4.9
TV/Radio Advertising	\$4.4
Direct Mail	\$3.9
Public Relations	\$2.7
Other	\$2.2
Sponsorships	\$1.4
Total	\$78.3

Table 1: Sales Lead Source Generation Revenue

Acme's Individual Lead Source Metric Calculation

Step 1: Revenue Contribution of an average Internet Marketing lead is **\$41,860**:

$$\text{RCL} = \text{LSR} / \text{L} \quad \text{or} \quad \$18.0 \text{ million} / 430$$

Step 2: Average Generation Cost of an Internet Marketing lead is **\$20,233**:

$$\text{GCL} = \text{LSGC} / \text{L} \quad \text{or} \quad \$8.7 \text{ million} / 430$$

Step 3: Average Closure Cost of an Internet Marketing lead is **\$2,558**:

$$\text{CCL} = \text{LSCC} / \text{L} \quad \text{or} \quad \$1.1 \text{ Million} / 430$$

Step 4: Total Cost of an Internet Marketing lead is **\$22,791**:

$$\text{TCL} = \text{CCL} + \text{GCL} \quad \text{or} \quad \$20,233 + \$2,558$$

Step 5: Average Cost Effectiveness of an Internet Marketing lead is **1.84**:

$$\text{CEL} = \text{RCL} / \text{TCL} \quad \text{or} \quad \$41,860 / \$22,791$$

Step 6: Average Lead Turnover of an Internet Marketing lead is **4.33**:

$$\text{TS} = 251 / \text{LSCS} \quad \text{or} \quad 251 / 58$$

Step 7: Average Overall Effectiveness an Internet Marketing lead is **7.95**:

$$\text{LE} = \text{CEL} * \text{TS} \quad \text{or} \quad 1.84 * 4.33$$

This final value – LE – gives Acme an indication of relative revenue impact, generation cost, closure cost, and closure speed. The higher the number, the better the average lead is from the given lead source.

Acme's Individual Lead Source Metric Comparison

Step 1: Compare the Average Overall Effectiveness value (LE) from Internet Marketing to those of the other lead sources.

Table 2 at right provides a comparison of this value for each Lead Source. From this comparison, Acme can conclude that leads from Internet Marketing are the most effective overall. What cannot be determined yet, however, is whether these leads are receiving their 'fair' share of the budget or how they compare to others in the peer group.

Lead Source	Lead Effectiveness
Internet	7.96
e-mail	6.67
Webinars	5.46
Telemarketing	4.90
Other	4.41
Print	3.67
Sponsorships	3.62
Tradeshows	2.13
TV/Radio Advertising	1.39
Direct Mail	0.95
Public Relations	0.67

Table 2: Sales Lead Source Effectiveness Comparison

Step 2: Determine the Revenue Contribution Share (RC) of all the leads from Internet Marketing and compare that to other Lead Sources along with the Lead Effectiveness value. In order to calculate RC, use the following formula:

$$RC = LSR / TNSR \quad \text{or} \quad \$18.0 / \$78.3 = 23\%$$

Table 3 at right provides a comparison of this value for each Lead Source. From this comparison, Acme can conclude the following:

- Leads from Internet Marketing are the most effective overall and are obtaining a significant share of the budget.
- Leads from e-mail and Webinars, however, appear to be very nearly as effective, but are not receiving much budget.
- Conversely, leads from print sources are significantly less effective, yet they are receiving almost as much funding as the Internet leads.

Lead Source	Revenue Share	Lead Effectiveness
Internet	23.0%	7.96
e-mail	8.0%	6.67
Webinars	6.3%	5.46
Telemarketing	9.1%	4.90
Other	2.8%	4.41
Print	21.8%	3.67
Sponsorships	1.8%	3.62
Tradeshows	7.2%	2.13
TV/Radio Advertising	5.6%	1.39
Direct Mail	5.0%	0.95
Public Relations	3.4%	0.67

Table 3: Sales Lead Source Share vs. Effectiveness

From this analysis, a sales leader can reallocate budgetary resources and organizational focus towards those lead sources (e.g. e-mail) that are more effective and away from those that are less so (e.g. print).

Step 3: Determine peer group comparison for all Lead Sources at Acme as compared to the relevant peer group. The comparison data should be obtained from a 3rd party source who specializes in the collection, maintenance, update, and management of benchmarking information.

Table 4 at right provides a comparison of Acme's Lead Source Effectiveness against the relevant peer group. From this comparison, Acme can conclude the following:

- Leads from Internet Marketing are roughly as effective at Acme as they are for its peers
- Leads from e-mails and Webinars, in addition to being 'under-funded' as indicated in Step 2, are also not as effective at Acme as they are at Acme's peers. This means that, in addition to directing more budgetary spend towards these two lead sources, Acme should also investigate these two lead sources for improvement opportunities, both in the cost, revenue generation, and turnover areas.
- Conversely, leads from telemarketing at Acme are more effective than the peer group. This indicates a relative center of excellence in this area.

Lead Effectiveness		
Lead Source	Acme	Peer Group
Internet	7.96	6.70
e-mail	6.67	8.90
Webinars	5.46	11.20
Telemarketing	4.90	3.30
Other	4.41	N/A
Print	3.67	3.10
Sponsorships	3.62	2.70
Tradeshows	2.13	1.12
TV/Radio Advertising	1.39	2.76
Direct Mail	0.95	1.35
Public Relations	0.67	0.99

Table 4: Sales Lead Source Effectiveness Comparison to Peer Group

Acme's Complete Lead Source Metric Comparison

Now that we have compared the details on the Internet Marketing leads and their effectiveness, the next step would be to take this approach and use it to review all the leads. Table 5 below depicts for each of the Lead Sources, what their respective scores are for each of the lead source variable discussed in this paper.

Variable	Lead Source										
	Print	Internet	Tradeshows	Direct Mail	Email	Webinars	Telemarketing	Public Relations	Sponsorships	TV / Radio	Other
L	200	430	300	400	500	600	700	900	1000	430	430
LSR	\$21,800,000	\$18,000,000	\$5,600,000	\$3,900,000	\$6,300,000	\$4,900,000	\$7,100,000	\$2,700,000	\$1,400,000	\$4,400,000	\$2,200,000
LSGC	\$15,000,000	\$8,700,000	\$1,000,000	\$2,000,000	\$3,000,000	\$4,000,000	\$5,000,000	\$6,000,000	\$7,000,000	\$8,000,000	\$9,000,000
LSCC	\$1,200,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000
LSCS	92	58	58	58	58	58	58	58	58	58	58
TNSR	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000	\$78,300,000
RC	28%	23%	7%	5%	8%	6%	9%	3%	2%	6%	3%
RCL	\$109,000	\$41,860	\$18,667	\$9,750	\$12,600	\$8,167	\$10,143	\$3,000	\$1,400	\$10,233	\$5,116
GCL	\$75,000	\$20,233	\$3,333	\$5,000	\$6,000	\$6,667	\$7,143	\$6,667	\$7,000	\$18,605	\$20,930
CCL	\$6,000	\$2,558	\$3,667	\$2,750	\$2,200	\$1,833	\$1,571	\$1,222	\$1,100	\$2,558	\$2,558
TCL	\$81,000	\$22,791	\$7,000	\$7,750	\$8,200	\$8,500	\$8,714	\$7,889	\$8,100	\$21,163	\$23,488
CEL	1.35	1.84	2.67	1.26	1.54	0.96	1.16	0.38	0.17	0.48	0.22
TS	2.73	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33
LE	3.67	7.95	11.54	5.44	6.65	4.16	5.04	1.65	0.75	2.09	0.94
Recommended LSGC	\$5,056,792	\$10,948,129	\$15,895,062	\$7,498,880	\$9,159,045	\$5,726,897	\$6,937,804	\$2,266,725	\$1,030,235	\$2,882,072	\$1,298,359

Table 5: Acme Complete Lead Source Analysis

For a summary level view, it is first important to compare the amount spend on a lead source (LSGC) with its Lead Effectiveness. Chart 2 below maps the amount spent on each lead source (LSGC) as a maroon bar and superimposes a blue line with points that represent the LE for each Lead Source. In cases where the blue line is well above the maroon bar (e.g. Tradeshows), this indicates that there is a 'gap' showing highly effective leads that are not very expensive to produce and close. Conversely, in cases where the maroon bar is well above the blue line (e.g. TV/Radio), this indicates that there is a gap showing relatively ineffective leads that are also costly. These should be the least funded lead sources due to their poor return.

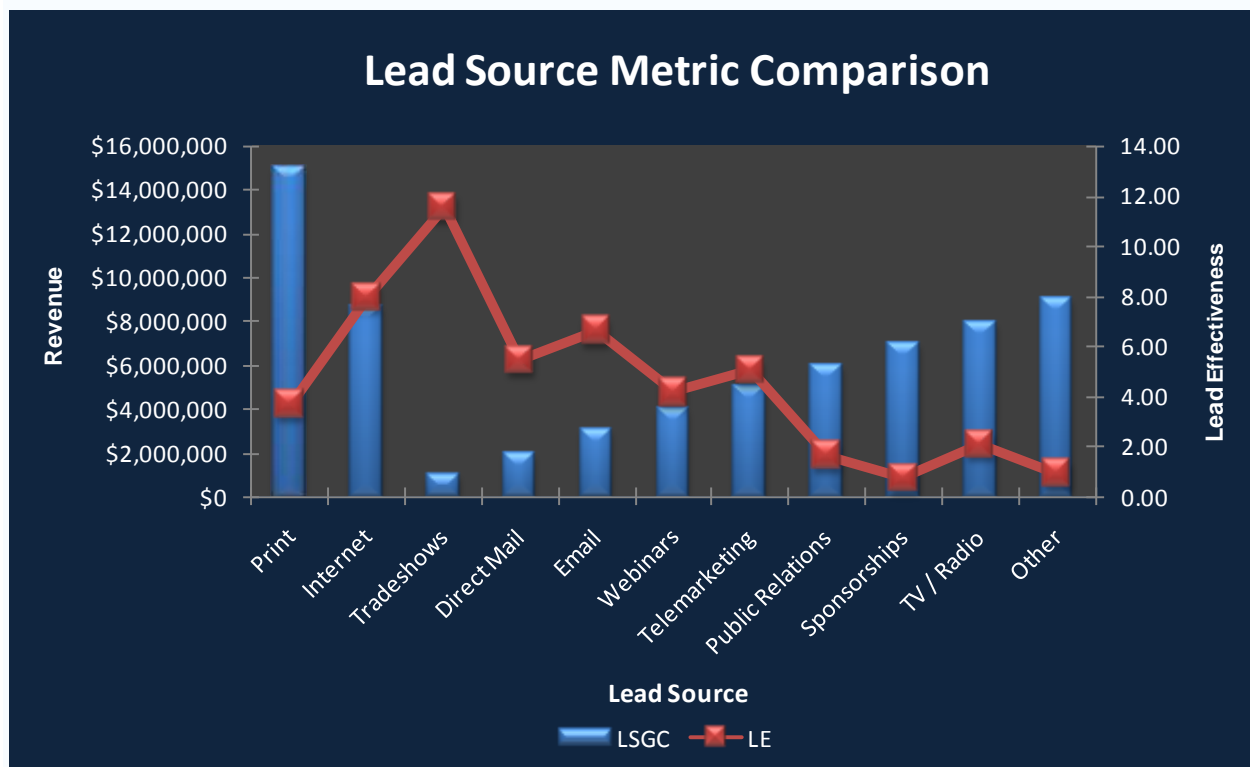


Chart 2: Complete Lead Source Revenue-LE Comparison

With the knowledge in hand about which lead sources were effective but not well funded and those that were receiving corporate resources without the effectiveness to justify it, the next step is to propose a shifting of cost to the higher LE sources.

Chart 3 below provides just such a set of recommendations. As can be seen, the blue lines are now 'synchronized' with the maroon bars. This implies that the most effective lead sources (i.e. high LEs) would be receiving a commensurate share of the funding.

Table 4 above provides the specific numeric values that reflect this 'recommended LSGC' value.

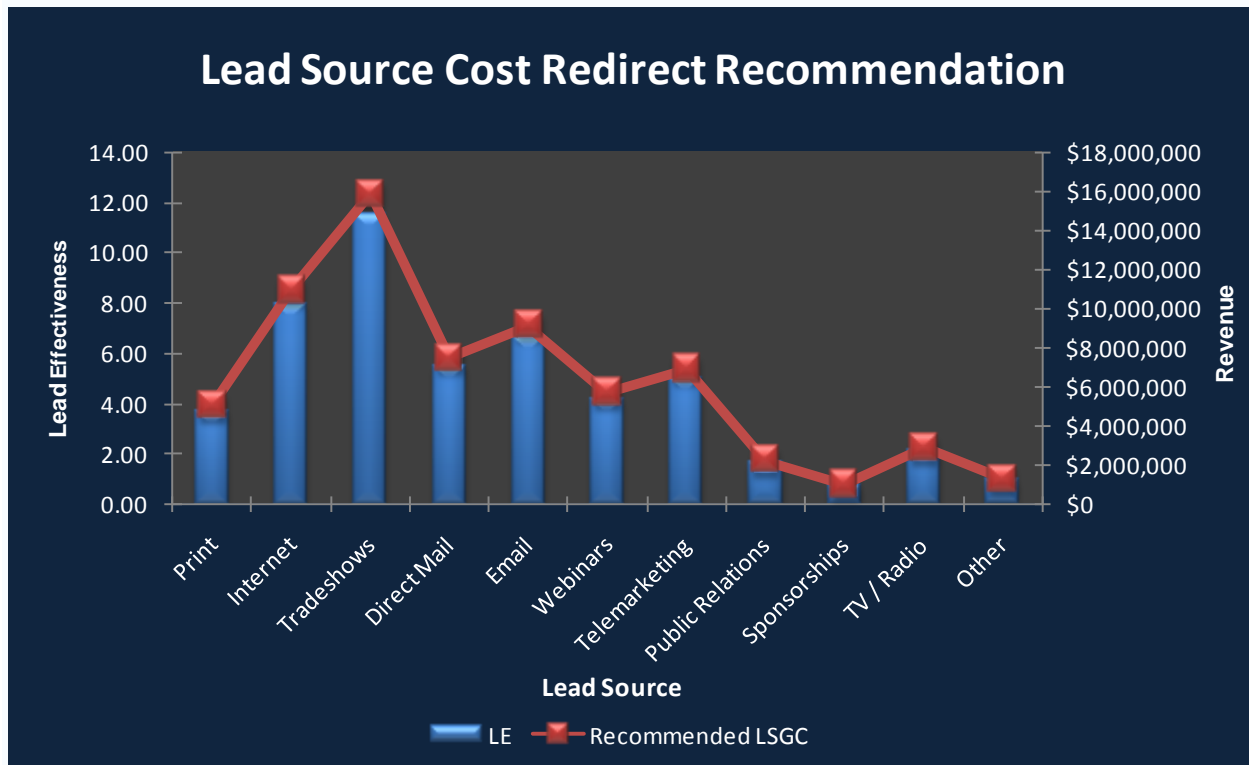


Chart 3: Complete Lead Source Recommended Changes to Cost

Call to Action

Sales organizations who want to know whether their leads are funded appropriately and cost-justified should take note and plan steps towards implementing a program to evaluate sales lead effectiveness.

Accordingly, sales leaders should take the following actions:

1. Work with the Marketing department to determine:
 - The universe of sales lead sources presently generating new sales revenue.
 - How costs are recorded and allocated to each of these sources
 - If new Sales Revenue is attributed to these sources
2. Begin the following for the sales force:
 - Measure cost to follow-up on a lead from a given source
 - Track the time it takes to close a lead from a given lead source
 - Separate the revenue that comes from prospecting and from other lead sources
3. Calculate your first sales lead source effectiveness benchmark
4. Using internal comparisons only, determine if investments are appropriate to lead source productivity
5. Engage a 3rd party benchmark firm to receive peer group data to determine how internal lead effectiveness compares to external entities

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