

Tighten Lead Management - Small Improvements Yield Big Results in Revenue and Profit

By Mike Schultz

The Yankee Group estimates that between 40% and 80% of new business leads are lost, not followed up upon, or otherwise mishandled due to poor company processes. As marketing and sales practitioners at professional services firms we estimate that these numbers are right on the mark.

At a professional services firm, a number of factors usually have to be in place for a lead to get the full attention it deserves:

- **Hot or Nothing:** If the lead is not classified as 'hot' from the beginning, it normally receives either marginal attention or is simply ignored.
- **Time Available:** Most professional services are sold, in whole or in part, by the person who will deliver the service. If the particular service provider happens to have a busy, billable month, the follow up time often takes too long thereby causing many 'hot' leads to cool quickly.
- **No Source Prejudice:** Leads that come through certain channels such as tradeshow, networking events, direct marketing, and websites sometimes do not get the same attention that a referral or a direct call from the prospect might. These leads are put in a pile and given little if any follow up.
- **No Process Gaps:** Often, the time it takes for a lead to go from the lead collector (such as an administrative or marketing person) to the business developer is too long. The lead gets lost along the way, or it never gets recorded in a centralized database and marked for follow up.

While none of the above should be treated as lead qualifying factors, they often become speed bumps in the business development process leading new opportunities to lay fallow more often than they should.

The Numbers Don't Lie

"Linking marketing and sales...does provide an enormous payback, according to research conducted by the Yankee Group...

An 11% reduction in dropped/lost leads, combined with a 1% improvement in lead-to-order [lead-to-customer] conversion rate, increased annual gross profit by 136%."^[1]

At first glance this appears to be unrealistic. How can such small changes make that great of a difference in the overall financial picture? Let's run some numbers to see.

Example #1:

1. Start with 100 leads. These leads are handed over to the people at the firm who are supposed to work on them.
2. As referenced above, 40% to 80% of leads are usually lost or not followed up upon. For the sake of argument, let's assume your company gives deserved attention to 60% of the leads that come in.
3. Assume that you close 25% of leads that are followed up on into new customers.

The yield: 15 new customers.

The numbers look like this:

Marketing and Sales Pipeline Data	Percent	Output
Leads		100
Leads followed up on	60%	60
Close	25%	15

Further, we make the following assumptions:

Customer Data	
Average revenue per customer per year	\$100,000
Retention of revenue from year to year	85%
Growth rate per retained customer	10%
Referral effect	7%

1. Your average revenue per year for a new customer is \$100,000.
2. You retain 85% of your customers from year to year.
3. The growth rate per retained customer (i.e. you cross sell and up sell your services each year) is 10%.
4. Your "referral effect" or the percent of your current clients who refer you to new clients is 7%.

Given the above assumptions, your revenue from these new clients generated over the next 5 years would look like this:

Table 1: Lifetime Revenue Value

	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
New revenue	\$1,500,000					\$1,500,000
Retained revenue		\$1,275,000	\$1,281,375	\$1,287,782	\$1,294,221	\$5,138,378
Referral effect		\$105,000	\$105,000	\$106,053	\$106,583	\$423,161
Growth/retained customer		\$127,500	\$128,138	\$128,778	\$129,422	\$513,838
Revenue added/year	\$1,500,000	\$1,507,500	\$1,515,038	\$1,522,613	\$1,530,226	\$7,575,376
Accretive Revenue	\$1,500,000	\$3,007,500	\$4,522,538	\$6,045,150	\$7,575,376	

Your revenue in the first year is \$1.5 million (15 new customers at \$100,000 per customer). In future years, you retain clients and revenue (at 85%), you grow them as an account (at 10%), and they send you new customers via referrals (at 7%).

At the end of 5 years, the customers you generate in the first year have yielded just over \$7.5 million in revenue for your firm.

Example #2

Now, let us assume that we have the same metrics but we decrease the amount of dropped leads by 11% and we increase the lead to customer ratio by 1% (as suggested by the research). All of the other metrics stay the same.

The yield: 18 new customers.

Marketing and Sales Pipeline Data	Percent	Output
Leads		100
Leads followed up on	71%	71
Close	26%	18
Customer Data		
Average revenue per customer per year		\$100,000
Retention of revenue from year to year		85%
Growth rate per retained customer		10%
Referral effect		7%

Table #2 shows the following results:

- Increase in first year revenue: \$300,000.
- Increase in revenue generated in 5 years: \$1.515 million dollars.

Table 2: Lifetime Revenue Value

	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
New revenue	\$1,800,000					\$1,800,000
Retained revenue		\$1,530,000	\$1,537,650	\$1,545,338	\$1,553,065	\$6,166,053
Referral effect		\$126,000	\$126,630	\$127,263	\$127,899	\$507,793
Growth/retained customer		\$153,000	\$153,765	\$154,534	\$155,306	\$616,605
Revenue added/year	\$1,800,000	\$1,809,000	\$1,818,045	\$1,827,135	\$1,836,271	\$9,090,451
Accretive Revenue	<i>\$1,800,000</i>	<i>\$3,609,000</i>	<i>\$5,427,045</i>	<i>\$7,254,180</i>	<i>\$9,090,451</i>	

The result is over \$1.5 million in increased lifetime revenue by making a very small change in your dropped, ignored, or forgotten leads plus a slight increase in close ratio. No matter what your particular cost structure, a good portion of the 20% increase in revenue in the first year will drop directly to your bottom line.

Generating, managing, and measuring leads and sales is difficult work. But the reason for doing so is simple as the numbers speak for themselves—tighten up your lead management and measurement process and the results will be significant gains in revenue and profit.

About the Author

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[1] BtoB: The Magazine for Marketing Strategists, April 14, 2003