2 Business Rules to Live By

As I discussed in the Introduction, sales and marketing departments are out of control because basic processes are not being applied consistently to fundamental business issues, the key among them being sales and marketing accountability. But, however you phrase it, billions of dollars of investment are being wasted, and billions more in lost opportunities are being squandered.

The first step is to understand the value of the sales lead assets being created. This can only happen if you understand the Rule of 45 and how to use it. Only then can you know how to predict a return on investment so that you can report on the results.

The Rule of 45: How to Predict the Future

The Rule of 45 is the basic premise from which you can measure the effectiveness of virtually all lead generation programs.[1] It is a steady, reliable benchmark number that, simply stated, says that 45% of all inquirers will buy *someone's* product. The percentage of that group that buys your products is equal to your own market share. I have been involved in over 100 Did You Buy studies on a variety of products, and the Rule of 45 has consistently been proven, regardless of product (In the simplest terms, a Did You

Buy study is a study that asks prospects and inquirers "did you buy." More on this later.)

If you follow up 100% of the inquiries, the biggest variable in this formula is the time frame needed to reach the 45% threshold. For large-ticket items (over $100,000) the time to conversion can be as long as 18 months (sometimes longer), but for the great majority of products a one-year time frame is accurate. For products under $1,000 the inquiry conversion to a sale may be shorter and the conversion ratio higher (especially on business-to-consumer inquiries). See Exhibit 2.1.

On average the following rules-of thumb apply:

- Within three months 10% to 15% of business-to-business prospects will buy someone's product.

EXHIBIT 2.1
The Rule of 45: Predicting Sales from a Particular Group of Inquiries

Formula:

Inquiries x 45% x
Follow-up % x
Estimated Market Share % x
Average sales price (ASP) = Sales

Example:

1000 Inquiries x
45% x = 450 x
100% Follow-up = 450 x
25% Market share = 112 x
$10,000 ASP = $1,120,000 in Sales

Note: Numbers are rounded.

- Within six months 26% will buy someone's product.
- Within one year 45% will buy someone's product.

The decision to buy one product over another has more to do with follow-up by salespeople than any other single variable. After all, if you don't show up, you can't compete in the sales process.

As you view research from various sources that discuss the subject of conversion ratios of sales inquiries, you will run into varying statistics. Time frames, quality of inquiry, and other factors can influence specific outcomes, but regardless of variations, the inquiry closing ratios are predictable within a relatively tight range.

While 45% of the total inquirers will buy, this does not mean 45% of the qualified leads you receive will buy from you. The percentage that buy from you will depend on one of the great frustrating variables: sales lead follow-up by the sales force. Follow-up of the inquiry by finicky salespeople can make the difference between presenting to only 10% to 25% of the available buyers and presenting to 80% to 100% of the available buyers. Sales lead follow-up has always been the largest uncontrollable—or, more precisely, uncontrolled—variable.

How important is it to control this "invariable variable?" The following example shows lost revenue for a group of 100 inquirers with only a 25% follow-up.

There are 100 inquiries for a product with an average sales price of $10,000. If you want to know the total amount of product that will be sold from this group of inquiries, the formula is:

Inquiries × 45% × follow-up % × estimated market share % × average sales price = Sales

For example:

1000 inquiries × 45% = 450 potential buyers
× 100% follow-up = 450 buyers
× 25% market share = 112 buyers
× ASP of $10,000 = $1,120,000 in Sales

Reduce the follow-up percentage to 50% and the inquiry sales yield drops to $560,000. Drop the follow-up to an average of 25%, and the sales yield drops to $280,000.

1000 Inquiries × 45% × **25%** FL-UP × 25% Mktsh
× $10,000 ASP = $280,000

1000 Inquiries × 45% × **50%** FL-UP × 25% Mktsh
× $10,000 ASP = $560,000

1000 Inquiries × 45% × **75%** FL-UP × 25% Mktsh
× $10,000 ASP = $843,000

1000 Inquiries × 45% × **100%** FL-UP × 25% Mktsh
× $10,000 ASP = $1,120,000

Of course, salespeople will say they have a sixth sense about sales inquiries and that they only follow up on the *real* buyers. If they were that good, they'd be at the racetrack—betting on the ponies and winning a lot of money. Nobody's instincts are *that* good.

One Exception

There is one exception: It is possible to generate large quantities of inquiries that close below the 45% ratio. The reason for a lower closeout rate is most often due to using borrowed interest to solicit a larger-than-normal response, especially in direct marketing. For example, a company offered a free memory device to anyone who filled out a form, regardless of their need for the product. Of course, the response rate was far above the norm. The company's goal was to build a database with profile information as well as to find immediate-need buyers. They did both, but they created a lot of waste and "noise"—i.e., inquirers who were in no way going to buy their product and would simply be a waste of time following up.

The only way to get the total yield from your valid inquiries is to follow up 100% of them. If you do, you will gain market share at an exponential rate in comparison to your competitors (unless, of course, they are also following up 100% of their inquiries). If they only follow up 25% and you follow up and engage 100%, who will be the winner?

Identifying Sources and Leads and Converting Them

The typical marketing manager wants to find sources of sales inquiries that will produce the most buyers. That manager looks for magazines that have the greatest number of buyers, lists that give the best response, and shows that have genuine buyers walking the floor. Once you have good sources and you know that you are finding the predictable percentage of inquirers who buy, you have to work on your own ability to convert a higher percentage of inquirers than your competitors.

If you have a response management system in place to measure the sales conversion of inquiries from a particular source, you will be in a position to consistently improve your ability to pick better and better sources for your sales leads. If, however, you do not have a system of measurement and/or have not convinced your sales channel that they must follow up 100% of the inquiries in order to get your average market share, you will continue to waste money and lose to your competitors. But more important, you will suffer anemic revenue and consequently weak profit contributions. Your cost of customer acquisition will simply be greater than it should be.

Two Business Rules

So far I have described a basic operating rule, the Rule of 45, for managing sales and marketing and for getting the most out of sales leads. If you understand that rule, here are two others that will also help you meet those objectives:

1. 100% Follow-up Rule: Corporations that have a 100% inquiry follow-up policy will sell more than those that don't.
2. 100% Accountability Rule: Corporations that have a 100% accountability policy for lead generation marketing expenditures will spend their investors' money on marketing tactics that can be proven to find buyers.

The combination of 100% follow-up by salespeople and 100% accountability by marketing is the only way to be sure that the company is getting what it is paying for: a predictable return on investment.

The 100% Follow-up Rule

If you believe in the Follow-up Rule, you will need a policy for managing your salespeople. Here is a sample policy statement that can be used to manage salesperson follow-up:

> Salespeople will follow up 100% of all sales leads and grade each inquiry with a sales resolution code.

This is easier than you think if your sales manager is strong. Admittedly, implementing this into your sales force policy and philosophy is difficult. It takes a stubborn sales manager who will not listen to excuses as to why an inquiry wasn't reached and spoken to. Of course, we know about leads with no phone numbers, those that are geographically undesirable, those on low-priced products, and those from people who inquire but never buy. In spite of all of these excuses, the sales manager's ability to staunchly believe that all prospects are created equal and all deserve to get what they asked for (contact from someone in your company) is the rule that cannot be broken.

The following definition of follow-up will help avoid misunderstanding and provide a common-sense compromise: A salesperson has made at least five conscientious attempts to speak with an inquirer either in person or on the phone but failed. More about this later.

The effort must be made to complete the circle and speak to the person who inquired. How you word this "policy" to your salespeople, and how you enforce it, is up to you. Making it a business rule for the sales department is one way to get the point across.

Once stated, you must have a tool for reporting and enforcement. In the worst of cases you give the salesperson an inquiry by email and ask them to report back. Salespeople will often count on you having too many tasks to bother to follow up with them, so reporting by email for each individual inquiry is haphazard and does little for anyone. It is a constant battle to ask what happened to the inquiries. To solve this you need a process that will allow the salespeople to report with a few clicks and sales management can check, at will, on the results. It must be easy for both sales and marketing to execute.

When the frustration level or the volume of inquiries gets high enough, sales managers start to send inquiries out on spreadsheets and ask that the salesperson complete a disposition for each inquiry. Eventually getting the inquiries back with a disposition on the spreadsheet wears out its welcome because it eats up valuable sales time, and someone in marketing has to transfer all of the information back into some sort of inquiry versus sales comparison program.

Once the company has outgrown the spreadsheet version of accountability, it can follow one of several routes:

1. Use a purchased software product that is just for response management.
2. Use a sales force automation software product that is essentially a contact management program with a calendar, etc., that tracks and reports on campaigns.
3. Use the corporation's CRM program if it has a marketing module for management inquiries. Check on cost to customize and time to complete installation.
4. Go to a customer acquisition management company that provides response management as an Application Service Provider service. Very often these companies offer other services such as fulfillment, inbound telemarketing, and outbound inquiry qualification.

If the company has one of these four options, compliance becomes easier for the salespeople. Depending on the software used, marketing may be able to easily comply with the Accountability Rule and be held answerable for the demand they have created. Compliance by the sales force is in direct proportion to how serious sales management is about the 100% Follow-up Rule and how easy the reporting system is to use.

Many corporate managers want to believe that by spending hundreds of thousands of dollars for CRM software they have solved the issue of inquiry management. Unfortunately, having a CRM (Customer Relationship Management) or SFA (Sales Force Automation) program isn't an automatic solution. Some programs don't have all functions (including the sales campaign management portion) installed. In some cases multimillion dollar "solutions" aren't able to deliver a sales inquiry to a salesperson (much less the resellers). Also, the larger issue is the difficulty of using these programs. The sellers of these programs will insist that “it isn’t us” when, after months and years, proper lead distribution still hasn’t taken place. But someone is to blame and frankly the salespeople and the prospect don’t care about slow installations, etc.; they just want their needs met.

If these programs are not delivering as promised—if a salesperson can’t get inquiries from the system in a timely manner—then they should be returned and a refund given. One way around this problem is to give the vendor clear, precise specifications for the program being purchased. In most cases it is just a matter of priorities: Make the management and delivery of a prospect to the salesperson as first priority rather than the last application to be installed.

The definition of follow-up may vary with the product, market, and customer. For instance, the salesperson might need a face-to-face meeting. For some situations this is not possible or economical. The alternative is that they require a salesperson to make as many as five phone calls to reach an inquirer. If the average person were to call 100 people by name within a corporation, they will get through to 25% on the first try, and the same percentages on each attempt. After five calls, they will have reached about 76% of the inquiries. Common sense tells us that there is a diminishing return if a salesperson makes more than 5 calls and never hears back from the inquirer. If the rep has called and left messages and not received a return call, the prospect most likely does not have buying plans. At this point the salesperson can feel justified in closing out the inquiry and giving it a resolution that indicates “could not contact” or “not qualified.”

Every sales team will create its own set of rules and methods for complying with the 100% Follow-up Rule. What’s most important is that the rule is in place, that there is a system of reporting and measurement, and that the salespeople must comply with this rule as a condition of employment.

Depending on your sales stages, the disposition terminology you use (sold, bought other, could not contact, etc.), and the system of closing out the inquiry, the final resolution language will depend on the system you have built or bought to give you the reporting you require. (See Chapter 6 for more about resolution codes.)

In order to make the best use of a direct salesperson's time, some companies only follow up on the inquiries that are the most qualified and nurture the rest. This nurture strategy is most often used by companies that produce more inquiries than a typical salesperson can follow up. Nurturing (also called drip irrigation) is the weeding and feeding of an inquiry until that inquiry is "Sales Ready." This can be done through any combination of inside sales, contact center (inside or at a vendor), email, and/or mail. The result is that nothing goes to the representative until the inquirer has agreed that the time is right to talk to a salesperson.

Marketers who have limited control over their channels have challenges of a different sort. They must convince the rep or distributor getting the inquiry that it is in their best interest to not only follow up but also to report on the final resolution. Nevertheless, many companies are doing it today with considerable success. In an article titled "CRM's Missing Link: Acquiring the Customer," Dave Koering, Sales Development Manager for Intermec Corporation (a Seattle-based technology company), said, "The ability to track and refine leads from the inception to an actual sale, and to have that kind of feedback for our marketing group, is one of the biggest positives. And having Web-based access to all the leads that are in the database is important to us."[2]

How Marketing Complies with the Accountability Rule

The marketing department must put in place the rules and tools that can both measure the salespeople's and the marketing department's compliance. Depending on how your company's products are sold (how much direct control you have over salespeople), you can devise ways for marketing to be held accountable either directly for each lead generating tactic or indirectly through an outreach program of research that touches the inquirers (see Chapter 5).

The goal for the marketing department is to:

1. Spend money (put marketing dollars at risk) only if the return on investment is projected and measurement criteria are decided upon in advance.
2. Identify an ROI goal for every project and dollar spent. The goal for most tactics is an inquiry. How many inquiries can be projected? You can have a raw cost per inquiry, a qualified lead cost, and a closed lead cost.
3. Predict how many sales can be expected as a result of each campaign.
4. Have some measurement of success for programs for which an ROI cannot be projected (branding, some PR, charities, lobbying), recognizing them as strategic investments. If the objective has a dollar value attached, all the better. If not, there should be readership studies, etc., done to have some measurable response.

The marketing policies for reporting on follow-up can be as specific as the one designated for sales. For example:

1. Marketing will be held accountable for 100% of the inquiries it creates and the prospects it distributes to sales.
2. Marketing spending will be adjusted and allocated to marketing tactics that show the greatest return on investment.

The question is, how can the marketing manager be held accountable if he doesn't have authority over the person doing the follow-up? This question is based on the assumption that unless the salesperson complies with the 100% Rule for sales follow-up, the marketing manager can't comply with his (or her) end of the bargain. This is the excuse everyone hides behind: They don't report to me.

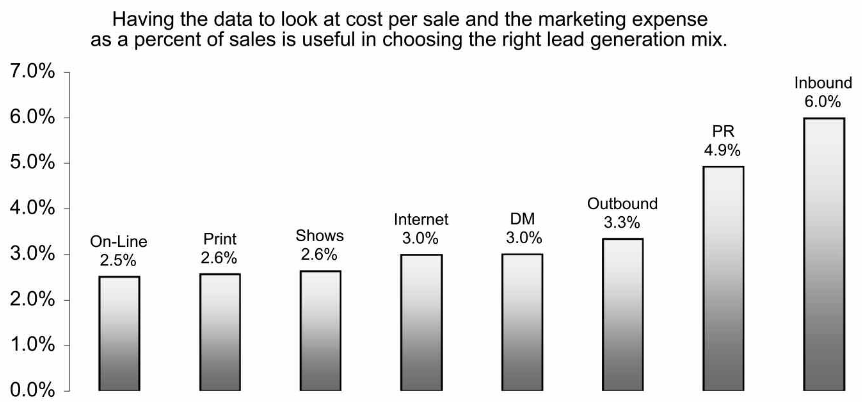
But the answer that breaks this circle is simple. The marketing manager reports to the best of her ability from the inquiry system. If the salespeople are not giving the marketing manager complete compliance, the spotlight turns on them, and responsibility is determined accordingly. Thus, the first rule for marketing—that it be held accountable—leads to the second rule, which concerns spending. Marketing managers must spend money on things that work and let their competitors spend money on everything else. This means that the manager needs performance reports in order to make decisions. If the report in Exhibit 2.2 were from your own lead-generation programs, what would you do? Where would you spend your money?

Would you spend more marketing dollars on trade shows or direct mail? The answer at first glance is to pursue the lead-generating tactic that gives you the most sales. Yet we know that one source of inquiries cannot find all of the available buyers in an industry. The step for most marketing managers is to look at the cost for each tactic; if it meets the criteria for a reasonable return on investment, spend more on that tactic or look for other tactics that can give the maximum return. For marketing, it is a constant search for the best fishing hole. If the hole gets fished out, you have to move on.

Marketing is often stymied by conversion rates: trying to figure out how many inquiries and sales can be expected from a particular source. The questions are: If I mail a direct mail piece, what percent will inquire? If I am at a trade show, what percentage of the attendees will come by my booth? And so on. Fortunately, the research can identify the numbers, reflected in industry averages and

EXHIBIT 2.2
Sales by Media Source[3]

Sold by Source Type	Unit Sales	Sales Dollars	Mkt Budget	Average Cost per Sale	Marketing Percentage
Online Media	96	$ 960,000	$ 24,000	$ 250	2.5%
Media Print	176	$ 1,760,000	$ 45,000	$ 256	2.6%
Trade Shows (3 40 x 40 foot booths)	456	$ 4,560,000	$ 120,000	$ 263	2.6%
Internet (Website, contact us pages)	127	$ 1,270,000	$ 38,000	$ 299	3.0%
Direct Mail (one mailing)	225	$ 2,250,000	$ 67,500	$ 300	3.0%
Outbound Lead Gen (1 program)	45	$ 450,000	$ 15,000	$ 333	3.3%
Press Releases	65	$ 650,000	$ 32,000	$ 492	4.9%
Inbound 800 2 people in-house	101	$ 1,010,000	$ 60,500	$ 599	6.0%
Web Seminars (Spring and Fall)	42	$ 420,000	$ 28,000	$ 667	6.7%
Total	**1333**	**$13,330,000**	**$ 430,000**	**$ 323**	**3.2%**



other, similar kinds of measures, for virtually every inquiry-generating source. Those specific figures change over time as new lead-generating tactics are created, but they are readily available. What is most important is not industry averages for the response you can expect, but the response you can expect for your products in today's marketplace. Recent history can give you that number.

The important idea here is not the Rule of 45, or the time frame, or even the specific follow-up percentage. The important thing is to benchmark for individual products the time frame for closure, the percentage that buy your product, and the current follow-up by the salespeople. Once you know these three benchmarks, you can take action and credit. Taking credit may require you to find ways to report on final results or statistically significant results from surveys. Six ways to prove the return on investment for marketing follow.

The Six Ways to Prove the ROI for Sales Inquiries

1. **Sales reports: the best way**
   Salespeople report on the disposition of every inquiry through your CRM, SFA/contact management or ASP vendor. If you sell directly to the end user with a direct sales force, you have the control and the management rules to make this happen. The salespeople must realize that if they are to work for you, you must have the final result of every sales inquiry. One simple way is to require that every order placed has a code for the source of the sale. If it is a sales lead, the source must be credited. If the rep can't do it, he cannot place the order.

   In many cases salespeople will report on an inquiry's progress over time, and they will either close it out as dead or give it a disposition code, which shows how it is being worked. We will go over this process in a later chapter.

2. **Compare invoices to inquiries: the most accurate method**
   If you sell direct and you have the names of the people who buy from you, you can compare the name of the company on the invoice (not necessarily the name of an individual) against the original inquiry file. If the sale is made after the initial inquiry, you can claim the connection and credit the source. If the company that bought has inquired several times about the same product, credit the original source.

3. **Did You Buy studies by telephone: a statistically significant way to take snapshots of buying activity for a single product**
This method is important because someone actually talks to the end user and gets first-hand information. This and the following methods are used to get a statistically valid sample from which you can draw conclusions.

   Measuring the number of people who buy within three months, six months, nine months, and one year (and even longer, if necessary) will reveal patterns you can rely on for forecasting future performance.

4. **Did You Buy studies by mail**
Similar to Did You Buy studies by telephone, this method is attractive because it can generate the greatest numbers of potential responses at the lowest cost. For every inquiry that comes into the company over an allotted time (e.g., six months), send a self-mailer survey that, once unfolded and refolded, becomes the return vehicle for the survey. Ask the same questions asked in the telephone survey.

   Some companies mail from hundreds to thousands of these surveys a month. Sounds like a lot of money? Not really. The person's name and reference number are printed on the survey form (often when the original inquiry is processed), and the surveys are put aside until the allotted mail date. The postage cost is perhaps the most significant investment. The response you can get on these types of surveys can be from 10% to 25%. For highly specialized fields (e.g., medical devices, with surveys being sent to private physicians), responses rates can be as high as 28%.

   Here's an example of the long-term impact: Let's say that you get 1000 inquiries a month, and six months after the initial inquiry you send this group of 1000 a survey. If you get 15% back for 150 responses and keep a running tabulation of the responses over time, eventually, you will have thousands of completed surveys tied back to the initial inquiries in the database.

The downside to this kind of Did You Buy study is that you will get disproportionate responses from people on the extremes who either love you or hate you. These extremes can slightly throw off the results. Over time, however, when the database of results has thousands of responses tied back to sales for dozens of products over many sources, this type of bias will fade.

5. **Did You Buy studies using email**
   This approach is very attractive if people open the email and fill out the survey. Once the button is pushed sending the survey back to you, the results are tabulated and it is easy to take the electronic file and compare it to the inquiry file. The advantages are speed and eliminating the inconvenience and cost of manually processing mailed surveys (data entry of response, etc.). The issue is, can you get people to open the email survey? Proponents of this say they can do it (10–15% average response) with the right subject line. From my experience and given the increasing sophistication of spam filters, I wish them luck.

6. **Comparing warranty cards to inquiries will give you reliable and statistically significant information**
   Compare the warranty card information with the inquiry database. If the date of purchase is after the initial inquiry, credit the source with a sale. This is a statistically significant way to prove the ROI for your marketing programs. It is a snapshot in time that builds a case.

We have covered a lot in this chapter. You know how the Rule of 45 can be used to predict the future return on marketing investments, you have follow-up and accountability rules for marketing and sales, and even how to prove the ROI for marketing's efforts.

Actions to Take from This Chapter

1. Inquiry management must be a formalized process. You require an inquiry management system in order to measure what you are managing. Home grown code, a purchased (most often CRM) or an ASP system provider: regardless of what you chose to manage your inquiries, you must make a choice.
2. Marketing dollars must be accountable. Every marketing dollar spent on lead generation must have the expectation of a return on investment. Strategic investments such as shareholder programs, PR, some branding, etc., should be measured when possible.
3. Sales and Marketing are not immune to process control.
4. Marketing must confirm the follow-up percentage by salespeople (direct or channel) and closing ratios for sales inquiries they have created.
5. The Rule of 45 and its applicability to your product in your marketplace must be benchmarked and confirmed. Only primary research can find the basic numbers you need to predict the future for each of your products. The primary number you are looking for is the percentage of inquiries that will turn into a sale within the average lifetime of a product inquiry. For most, but not all, B2B products this is 45%. For B2C consumer products, the percentage can be higher and the time frame for conversion much shorter.
6. Create two business rules for your marketing and sales departments to ensure that follow-up and accountability are in place.

100% Follow-up Rule: Corporations that have a 100% inquiry follow-up policy will sell more than those that don't.

100% Accountability Rule: Corporations that have a 100% accountability policy for lead generation marketing expenditures will spend their investors' money on marketing tactics that can be proven to find buyers.

7. You must use one of the six ways known to prove the ROI for marketing expenditures:
    a. Sales reports
    b. Compare invoices to sales inquiries
    c. Did You Buy studies by telephone
    d. Did You Buy studies by mail
    e. Did You Buy studies using email
    f. Compare warranty cards to inquiries

NOTES

[1] I first learned about the Rule of 45 from Mike Simon, the president and founder of Inquiry Handling Services. I introduced the Rule of 45 in speeches given at clients' national sales meetings, in articles, and, finally, in the Obermayer, Donath, Crocker, and Dixon book *Managing Sales Leads: How to Turn Every Prospect into a Customer* (Lincolnwood, IL: NTC Books, 1996).

[2] CRM Buyer David Koering in "CRM's Missing Link: Acquiring the Customer," *ECT News Network*, July 22, 2004.

[3] This is only an example to demonstrate how to compare the cost per sale based on media performance and is in no manner a representative cost for the media shown.