MEASURING B2B LEAD GENERATION CAMPAIGNS

By
John M. Coe, President & Founder
Sales & Marketing Institute

OVERVIEW:
In the past 50 years and probably in the next 50, the primary role of B2B marketing communications is to generate inquiries and leads for the sales groups to follow-up and close. Yes, brand advertising and PR is important, creating collateral is always an activity, website development is needed, and developing an effective trade show exhibit is always required. But, when it comes time to justify the marketing communications budget the only result that matters to management are the leads that have been generated and turned over to the sales groups for conversion.

This is where the problems start! First, **what to measure** is the first question? On one end of the spectrum is the recorded data that marketing communications has on the number of inquiries generated and qualified leads handed to the sales group. On the other end are the sales groups who will generally point to the few leads that were "worth anything", and frequently don't provide the feedback necessary to measure sales results.

Secondly, **how to measure** is fraught with even more problems, as when inquiries and/or leads are sent to the sales group they frequently disappear into a "black hole". At best, some feedback is obtained from the field, but almost never is the feedback system tight enough to track all the inquiries or leads to their final disposition and thus measurement. Frequently, no closed loop process exists, and thus no measurement of results is possible.

The following white paper details the acknowledged **best practices** found in B2B marketing. Obviously the identification of "what to measure" and "how to measure" requires customization to any companies' situation, as there are substantial differences in the marketing and sales models. What follows is be a solid foundation to not only start the internal discussion, but also provide a **"measurement ladder"** to climb as well.

In addition, any system that is constructed needs to be fully discussed and agreed to by marketing, sales and even the CFO, as without consensus it has virtually no chance of actually working. The marketing communications department cannot propose a process that the sales group doesn't see in their own self interest, as this skeptical view will surely doom any measurement system, since the sales group will never close the feedback loop.

Finally, the sales lead process has the most opportunity for dramatic improvement in **marketing and sales productivity** than any other area in the entire B2B marketing and sales arena. When the sales lead process is optimized, companies will then move toward achieving the seemly impossible twin goals of "selling more" by "spending less". The knowledge gained through measurement, as to which programs and campaigns produce the best results, will lead to not only productivity improvements, but closing the gap between sales and marketing as well.

THE MEASUREMENT LADDER

Surprisingly, there are a relatively large number of measurements in the inquiry-to-sale process. Starting at the ground level and proceeding higher, these measurements could be called a "measurement ladder". The goal is to reach the highest possible rung on the ladder. Here's the complete measurement ladder organized sequentially by **activity**, **value** and **result** measurements.

Activity Measurement:

- Cost per thousand or CPM
- Response rate
- Cost per inquiry
- Cost per lead

Value Measurement:

- Value per lead
- Value of market opportunity

Result Measurement:

- Breakeven
- Cost of sale
- Value of the sale
- Expense to revenue ratio or E/R
- Return on expense or ROE
- Lifetime value or LTV

ACTIVITY MEASUREMENTS:

This category of measurements is frequently the only one that is calculated, as the data resides in the marketing communications department, and therefore is more easily accessed for calculations. The problem is that activity measures only give quantification to a marketing activity, and the cost of that activity. Therefore, it does not satisfy the management question of "what are we getting for our money?" Activity measurements lay the foundation for the higher "rung" calculations of **value** and **results.**

Cost Per Thousand (CPM)
The CPM is one of the most common advertising and marketing measurements as it simply states the cost to communicate to or reach 1,000 people. When purchasing magazine advertising, this CPM number allows the comparison of the cost to reach 1,000 readers between different magazines.

While used in advertising, this CPM is not satisfactory to direct marketers, as it is unknown how many of these 1,000 people actually read the advertisement, as no response measure in associated to CPM.. Non-the-less CPM it is a useful planning and analysis advertising statistic but not very useful for direct marketers.

In direct marketing, the CPM is much higher than in advertising. For instance if a letter package costs $0.75 each then the CPM is $750 vs. a typical advertising CPM typically below $100. This direct mail CPM usually does not reflect the agency fee, but rather just the variable production cost - monies needed to produce and mail the package. At times, the agency fees are included if the mailing is not to be repeated. If the package is to be re-mailed, then these one-time charges could be amortized over the total number of mailings to arrive at a CPM that reflects both the fixed agency and variable costs.

In either advertising or direct marketing, the CPM is an expression of the cost to hopefully reach 1,000 individuals within the targeted audience. Much more can be written about this cost, but what can be distressing is when someone in the marketing communications department feels that reducing the cost per thousand is a good objective. It is not! In fact, frequently the higher the CPM the more effective the campaign is in producing responses. The CPM number could be known, but otherwise not useful in measuring marketing communication results.

Response Rate:
This common measure is almost exclusively used in direct marketing, as it is the first measurement demonstrating the result of a targeted communication. The advertising world does not want to use this calculation, as response rates would be so small as to undermine the value of advertising to effectively generate inquiries. Of course, creating awareness or brand building is generally the rationale for advertising and not responses rates – potentially a waste of marketing dollars.

Simply, the response rate equals the number of responses divided by the total number communicated to by mail, email or telephone. Each media has different response rates, as each has a different impact. For the purposes of this white paper, direct mail will be used as the media for the example calculations that follow.

Sample Calculations:
The following sample calculations are offered to provide a real sense of how the measurement ladder can be used. The first one in response rate and for our example a high impact mailing of 5,000 has been sent with a compelling "white paper" offer. Therefore, a high response rate of 250 has been achieved.

$$\frac{\text{250 responses}}{\text{5,000 mailed}} = \text{5\% response rate}$$

This number, while very useful, can be very misleading, as no evaluation of the quality of these responses is yet possible. In direct marketing, the offer for responding is the key determinant in the quality and quantity of responses. The offer is the second most important element in DM success (the list is the most important one), and the debate to determining the offer should be centered around the issue of which is most desirable – quantity or quality of response. If the offer is of low risk and high personal value to the targeted individual then the response rate will be higher, but the quality lower. On the other hand, if the offer for response is for a sales call then the quantity of responses will be very low, but conversely the quality high.

All marketers instinctively attempt to increase response rates, and there is nothing wrong in this objective, as many times the larger number of "fish caught in the net" will improve final results. This is particularly true if the product or service is new, as a wide net should be cast when introducing new products. But do not shoot for quantity only when quality of response is really the better result.

Cost Per Inquiry/Response:
This measure is the first in the line of cost measurements that, if calculated, can also alert managers to the high cost of lead generation – more about that later. Again, the costs in direct marketing are usually only those associated with the variable costs of producing and launching the mail, email or telemarketing program. These costs are then divided by the raw number of inquires or responses to arrive at the cost per inquiry or response.

In the preceding example, a 5% response rate was in part created by a high impact mailing, and thus cost is similarly higher than a standard mailing. Therefore, let's assume a $2.75 per package cost. This is multiplied by the 5,000 pieces sent for a $13,750 total. The cost per inquiry is calculated as follows:

$$\frac{\text{\$13,750}}{\text{250 responses}} = \text{\$55 per inquiry}$$

A good use of this measurement is to serve as a way to compare different marketing communication efforts. This cost per inquiry comparison could even be extended to trade shows, seminars or advertising. It is not a measure of quality, but rather a relative measure of the cost to generate inquiries. If the target audience and the offer remain constant, then it is a good measure to judge the effectiveness of each of the media or campaigns launched against the audience.

Cost Per Lead:
Now here is where some of the fun begins. It starts when the question of "what is a qualified lead?" is asked. Here's a good exercise to try. Ask 3 or 4 individuals in the sales organization what they would define as a qualified lead. At least 3 or 4 different answers will most likely be received. So the first job is to define a qualified lead in terms that can be agreed to be all.

Definition of Terms:
While there are a variety of terms to define in the attempt to get everyone on the same page, the following generic terms and definition might be helpful.

- **Suspect** – companies that you believe have need for your product and/or service
- **Inquiry** – an individual who has responded to any form or marketing communication – e.g. responses to direct marketing efforts, search inquiries, advertising, trade show visitors.
- **Lead/Prospect** – an individual and/or company who posses the attributes of a potential good customer.
- **Qualified Lead –** an individual and/or company who not only posses the needed attributes, and have expressed need for the product/service, and a job function sufficient to influence or make a decision.
- **Sales Opportunity –** an individual and company who posses all the qualities of a qualified lead, and the time frame for the decision is within the "sales window".

This is also not a report on how to determine the definition for a qualified lead but to help in obtaining agreement, here are the most common four criteria used in developing the definition of a qualified lead. They are:

- **Need** level for the product or service
- **Timing** of the purchase decision
- **Authority** of the individual to make or influence the purchase
- **Budget** available to purchase

Each of these four areas is a subject of specific definitions, as each product or service offered will have different qualification definitions and parameters.

Once the qualification criteria have been established, then the next task is to contact and qualify all those inquiries to determine if they meet these pre-set criteria. This sounds simple, but in practice is rather difficult. Frequently an out-bound telemarketing effort is started to actually talk to the individual who responded. An email effort should be combined with this telemarketing effort once the initial conversation has taken place. Frequently, the combination effort will produce the highest contact rate.

So let's take our example one step further. But first this "cost of lead" calculation needs to consider several other issues. Here they are:

- Any follow up effort also has a cost, and that should be added to the cost side of the equation. Let's assume a telemarketing follow-up at $40/hour and a call completion of two/hour. Remember callbacks will be needed, and that's why only two completions per hour are estimated. Therefore, ever inquiry contacted now costs another $20.

- Even with three callbacks not every inquiry will be reached. After three attempts, a reasonable percentage reached might be 70%. We will use that for our calculations, so of the 250 inquiries, only 175 will be reached and qualified based on the pre-set qualification criteria.
- Not all inquiries will either be at the same stage of the buying process or progress through the sales cycle at the same rate. Here is where many lead programs are sub-optimized, as some inquiries are not yet at the point of being able to meet the definition of a qualified lead. That doesn't mean that given some more information and/or time this inquiry will not become a qualified lead and this is called **lead development.** For calculation purposes, this extended process will not be factored into this example.

Keeping these issues in mind, normally 10-20% of the initial inquiries are qualified leads. Remember that this is without a lead development effort where more of the inquiries might become qualified. Studies have shown that approximately 40% or more of all B2B inquiries will buy the product or service they inquired about within a 12-18 month time frame. There's more "gold" in those inquiries!

Let's assume that 20% of the inquiries contacted are found to be initially qualified, as we'll assume this campaign had excellent targeting and a great offer. Using our prior statistics, then the cost per lead would be calculated as follows:

250 inquiries x 70% contact rate = 175 completed calls

175 x $20 for telemarketing = $3,500 additional cost to add

20% qualification rate of 175 inquiries = 35 leads

$13,750 campaign cost + $3,500 telemarketing cost = $17,250

$\frac{\$17,250}{35} = \$492.85$ cost per lead

This may seem like a high cost and maybe it is, but all too often companies have not calculated true lead costs. Frankly, it is not unusual to have a lead cost exceed $1,000 each. The knowledge of the real lead cost will alert the sales groups as just how much money has gone into each lead before they receive it. Hopefully this will add motivation to their follow-up and feedback efforts.

VALUE MEASUREMENT:

This is a new calculation that will close the gap between the cost of a lead and sales revenue for measuring marketing communication results. Here's the problem. While it is desirable to measure actual sales and return on expense/investment, the length of the sales cycle frequently is far too long to suit management's desire to know if the campaign worked. Thus, many lead measurements are attempted before all the leads have had a chance to convert to sales. As a consequence, many lead programs are measured only against partial sales results, and therefore judged to not be effective.

In addition, the prior inquiry and lead cost measurements do not indicate the potential sales and profit margin contained. When faced with "costs" all managers want to reduce costs. Thus what frequently happens is that year after year the objective is to reduce the cost of the inquiry or lead without any reference to the "value" being created. Therefore, those forward thinking companies that want to support and grow lead campaigns and sales are attempting to put a value on the lead vs. just a cost.

Value Per Lead:

This approach requires a reference to a prior campaign with known results. Another approach is to calculate a lead-to-sale model that places a value on the lead. Here are the questions to answer in building a value per lead measurement.

- How many qualified leads can be reasonable expected to convert to a sale? National averages for qualified lead conversion are in the 10 – 30% ranges. The conversion percentage will depend on the strictness of the lead qualification criteria that is used to define the qualified lead.

- What is the average sales volume for this type of customer? Sales volume has three levels to consider. First is the initial sale. Second, is the yearly volume that assumes repeat sales. Third, is the lifetime value of the customer. These will be discussed later in this report.

Keeping with our example, let's say that 20% of the leads qualified convert to a sale and that the average sale is $50,000. Only the initial sale will be used for calculations in this example even though many firms use the annual volume. Several firms use lifetime value. Here's how this calculation is developed.

35 leads convert at 20% for 7 sales

7 sales x $50,000 = $350,000 revenue

$\frac{\$350,000}{35}$ = $10,000 value of each lead

Since we didn't know before the conversion to sale effort, which of the 35 leads would turn into the 7 sales, we place the "value" on all leads that have been qualified. This allows for a value measurement much sooner and therefore can be used to answer management's question on "what did we get for our money?"

Value of the Market Opportunity:
Once the value per lead has been established then a logical extension is to add up all the leads, and project a value of the total market opportunity created by the campaign. One approach would be to use the $350,000 as the "opportunity".

But, this only references the seven sales that are expected to be closed by the sales group. In reality, all the leads developed represent the total market opportunity. The competition will sell a portion of these qualified leads since the buyer will most certainly be checking out alternate sources and solutions as well. In addition, not all leads will actually buy as budgets are cut, projects put on hold or the need disappears for some other reason. Therefore, another calculation is possible and in our example it would be as follows:

35 leads x $50,000/sale = $1,750,000

Remember this initial campaign plus the lead qualification cost totals $17,250. Compared to either the $350,000 in the expected seven sales or the $1,750,000 in total market opportunity developed, this expense certainly looks small.

The point in the calculation of these two value measurements is that the discussion between marketing communication and management is now dramatically altered. What's occurred is that instead of talking about "costs" and the need to reduce them, the discussion is now about "value" and how to produce more! This is a critical change for all marketing communication people to achieve as it now emphasis the production of results and not the costs to get there.

These new "value" measurements will be difficult to develop as they require some forecasting of results plus it is a new concept in B2B marketing communications. It has great potential and even the opening of the discussion to develop value measurements will highlight the results of a lead program and not the costs – a much-needed change in the dialogue!

RESULT MEASUREMENTS:

Results, in terms of sales revenue and margins, are what lead programs should be all about. The primary interface between marketing communications and sales has been the lead system, but over the years it's been mostly a one-way street. Marketing handed leads or inquiries to both direct and distributor groups, and then went back to get more leads. The sales groups looked at them, called on the ones they felt were important or interesting and tossed the rest in the "to do" folder if not the "round file". Unless extreme pressure was exerted on the sales group, the feedback to marketing was either non-existent or partial. Therefore, no real measure of final results was possible. Frequently, stories of individual lead results (both good and bad) circulated and were used far too often as a measure of just how good the lead program was performing. What follows are several result measurements that will require a feedback system from the sales groups.

Breakeven:

This is a traditional direct marketing measurement that is frequently not calculated in B2B. Simply, it determines how much has to be sold to pay for the campaign – in other words, breakeven. It is not an objective to achieve but rather a benchmark. In consumer direct marketing, knowing the breakeven is a critical piece of knowledge as it is always used to throttle the campaign spending. In B2B the breakeven percentage is usually unknown.

The calculation is simple but has one decision that can be difficult. That is what "margin" should be used for the sale? The debate is between the gross and net margin. The gross margin is usually determined by subtracting just the variable cost of manufacture from the sales revenue. It does not include overhead costs and therefore is higher than net margin. The net margin is what is left after all variable and fixed costs are subtracted from revenue. Obviously it's lower than gross margin. Traditional consumer direct marketers use gross margin to calculate breakeven as they contend that the revenue created by the campaign is incremental and therefore does not carry the overhead costs with the activity.

Let's look at our example to see how both calculations might appear.

$50,000 sales revenue
@ 50% gross margin = $25,000 margin
@ 15% net margin = $7,500 margin

What's the breakeven using the $17,250 lead campaign cost and both margin figures?

$$\frac{\$17{,}250}{\$25{,}000} = 0.69 \text{ sales required to breakeven at gross margin}$$

$$\frac{\$17{,}250}{\$7{,}500} = 2.3 \text{ sales required to breakeven at net margin}$$

Obviously, by using the gross margin fewer sales are required to "pay for" the campaign expense. The problem is that this approach is a tough internal sale to management and particularly the CFO. What is required though is an agreement on the "margin" percentage that should be used for the breakeven calculation. The good news is that in almost all B2B situations the number of sales required to pay for the campaign is very low. This realization will give the marketing communications group more ammunition to use for budget justification and sales management support.

Finally, the breakeven is usually expressed as a percentage. Using the 2.3 sales required divided by the 5000 mailed would be a 0.046 percent conversion rate to breakeven. In any marketing circle, this is a very low success rate, and one that should be easily achieved.

Number and Value of the Sales:
These measurements now seen self-evident as in the preceding examples we needed to estimate the number of sales converted and the dollar average per sale. But, remember these were estimates. Now we're talking about the actual number of sales and dollar revenue.

This requires a feedback system from the sales and accounting groups. As pointed out, the actual number and dollar volume of the sales may take a long time to determine. This is a critical subject and requires discussion and agreement with sales management before these measurements can be implemented, and used to judge campaign success. Simply, just how long should the lead be considered a lead? In other words, how long is the average sales cycle for the specific product or service?

The key issue for developing effective result measurement systems is that some reasonable time frame needs to be established before the sales measurements are considered final. This can be complicated by the accounting periods most firms live by. There is always a need to justify the annual marketing communications budget when the yearly planning cycle comes around. The irony is that the potential customer and their need to purchase have no relationship to the internal biorhythm of the annual planning cycle. As a result, many result measurements are taken prematurely. The only answer to this difficult quandary is to establish the average sales cycle and apply it to the "age" of the campaign to estimate final results. In this way a more realistic measure of success is demonstrated vs. shortchanging the campaign due to premature measurement. All of the above is no easy task to complete and may require considerable internal discussions and compromises.

Non-the-less, there is a strong reason to measure all the sales that have occurred from leads generated. But, one final issue needs to be considered by all marketing communicators. Be very careful not to take sole credit for the sale, as without the sales group the lead most likely would not have converted. Many direct marketers have fallen into the "we created that sale" trap by not sharing the result with the sales group. This is also one of the very reasons that sales people don't care to report results, as they feel that it was only their effort that produced the sale and give no credit to marketing communications – touché! In the end, the "lead-to-sale" process is an area that both groups need to share credit with the other.

Expense to Revenue Or E/R:
The E/R calculation can be a replacement measurement for ROI, as most companies talk Return-On-Investment but never really calculate it. First of all, most executives don't view marketing communications as an investment, but rather an expense. Secondly, a true calculation of ROI must consider the lifetime value of the customer and this is also very seldom known or considered.

The E/R measure is simple to figure. Let's return to our example, and assume that the seven sales forecast did close. Then the E/R would be as follows:

$17,250 expense /$350,000 revenue for a 1/20 E/R

This is a good E/R ratio for any B2B marketing campaign. In B2B these ratios normally vary between 1/10 and 1/25. The acceptable E/R for any company, of course, depends on a number of variables such as margin. The acceptable E/R range is another area for discussion and agreement. The E/R ration then can be used to compare different marketing communication efforts as a real measure of cost efficiency.

Before developing the E/R range one other issue should be considered, and it's a big one. Just how should the cost of the selling effort required to close the sale be calculated? Average cost-per-call numbers are in the $300 – 500 range or even higher. Then how many sales calls were required to close these seven sales? Even more broadly, how many calls were expended on all the leads passed to sales? As can be quickly seen, this question and attached sales cost is a "sticky wicket" and is almost always avoided when measuring E/R for campaign effectiveness.

RETURN ON EXPENSE OR ROE:
One might expect to see the famous ROI listed here but as mentioned above this calculation is almost never done so the more realistic approach is to use return on expense. Here the profit or margin on the sale is the number to determine. In our breakeven example, two margin figures were proposed and for ROE calculation the net margin is the only choice.

Using the seven sales at $50,000 each and a margin 15% or $7,500 per sale would equal $52,500 in overall margin. Then the calculation of ROE is as follows:

$$\frac{\$52{,}500 \text{ net margin}}{\$17{,}250 \text{ expense}} = 304\% \text{ ROE}$$

Not a bad return by any standard!

Lifetime Value or LTV:
The final result measurement and the one that requires the longest reach of faith is lifetime value. Again, in consumer direct marketing the calculation of lifetime value is a common and very useful measure. In B2B it is very rare as it has much added complexity and debate as to how this type of customer value can or should be measured.

Here are some of the issues causing the difficulty:

- Just how long should an average customer lifetime be? In many B2B situations customers have been customers for decades. Should we actually use a 10 year or so lifetime? On the other hand, some customers buy only once – how do we tell which way they will go?

- When calculating lifetime value, the on-going cost of sales and service should become part of the cost side of the equation. How can that be measured without an extremely detailed cost and activity tracking system?

- If we try to use lifetime value and the lifetime is 10 years who in management will want to invest for a 10 year result when the emphasis now is on this year and next? Long term investments are reserved for plants and equipment and not marketing communications.

There are other issues as well, but the inescapable fact is that the if management recognizes that the creation of a customer has more value that just the initial or yearly sales revenue, the support for lead campaigns will increase.

A quick example might be useful here. Before the new stadium and the 1990's winning seasons, the Cleveland Indians were struggling with justifying the expense of their season ticket campaign, as the results in tickets sold were minimal. Of course, the effort was launched each year in the dead of winter when no one in Cleveland was thinking of baseball. By the way, most season tickets are sold to businesses so this was a B2B campaign. To generate budget support from the owner, they turned to the calculation of lifetime value of selling a company an average of four seats. Upon shifting the focus to the lifetime value from the yearly sales income, the case was made, as the average customer lifetime was eight years. In addition, the other income produced by the attendance was factored into the lifetime value. This was parking, food and souvenirs. The net result was that the campaign effort was increased the next year rather than decreased once the lifetime value of the season ticket holder was calculated and appreciated.

If the desire to find the lifetime value exists then a practical suggestion would be to **limit the time frame used to three or four years** as most managers will buy-off on this shorter period. By checking the average length of customer retention by segment the proper lifetime can be calculated. If it's longer than three or four years, then cap it so that the agreement can be reached for lifetime value.

SUMMARY:

So there it is – the measurement ladder for you to climb. How high you can get is up to you, but obviously the higher the better!

Activity measures are good base lines and useful for marketing communication comparisons but will never satisfy the management question on what we are getting for the money spent? This question is more serious than ever before, as the focus on marketing and sales productivity is intense today.

If tracking the feedback of leads when turned over to the sales groups is just too difficult to achieve, then moving to the **value measurements** will bridge the gap. This will begin to effectively answer management's questions on marketing communications effectiveness and **shift the dialogue from cost to value**.

Finally, there really is no substitute for knowing **results** of just how many leads turned into closed sales and the revenue achieved. There are two levels of credit here. The first goes to marketing communications for creating the inquiry and qualifying the lead. The second goes to the sales group for effectively selling the customer. These are two entirely different skills and the final result is an integrated effort between marketing and sales. Neither group can or should take credit for the total result as each has a role. It's this sharing of credit that will make measuring results much easier.

John M. Coe
President and Founder

John is President and Founder of the Sales & Marketing Institute. His background includes experience on both the sales and marketing side of this important issue. On the sales side, John was a field sales person, national sales manager and executive in charge of both sales and marketing for two firms. On the marketing side, he ran a B2B direct marketing agency for 10 years, was National Campaign Manager at IBM and Sr. VP of Rapp Collins Worldwide and President of Protocol B2B. He has been measuring lead generations campaigns for a long time and has the broken calculators to prove it. He can be reached at by calling 602-402-6588 or by email at john.coe@b2bmarketing.com

The Sales & Marketing Institute

SMI is a consulting, publication and training firm based in Scottsdale, AZ. The firm specializes in the integration of sales and marketing to create a "new sales coverage model" that is directed at dramatically improving sales and marketing productivity. In addition, the firm focuses on the B2B lead process and the integration of sales and marketing that this demands. SMI offers consulting services, public seminars and internal training on a wide array of topics. In late 2009 the firm will be introducing a 9-moduel online training course titled, ***The Fundamentals of B2B Database & Direct Marketing.*** To learn more, visit www.b2bmarketing.com.

phone | 602-402-6588 • email | john.coe@b2bmarketing.com • website | www. b2bmarketing.com