
B-TO-B INSIGHTS

By Russell Kern

# Success is in the Numbers

## Base your campaign decisions on marketing math fundamentals

Remember story problems, such as two trains heading toward one another? The problems looked so innocent and easy but usually had some tricky twist. Well, if you attempt to solve my story problem, it could mean the difference between a campaign that sizzles and one that fizzles.

Come with me through the story of sharp marketer Margie and her manager Sue. Using marketing math fundamentals as touchstones, let's see how they tackle their current marketing mayhem and ultimately succeed based on a sound, tried-and-true solution.

### Sue and Margie's Dilemma

Manager Sue comes down the hall to speak to her demand generation employee—marketer Margie. "Margie, we're not going to make the quarter. Our numbers are way off, and the vice president of sales is screaming!" Sue says in a panic. "How can we generate $2 million in gross revenue to hit our targets?"

Sue offers a fix: "I was thinking that we need to launch a new demand-generation campaign immediately! We need leads to start flowing now!"

But Margie knows that marketing investment mistakes are common when decisions are made too quickly. So she quickly unpacks her mathematical tools and historical data, and begins to sort out the real picture.

**For every $1 invested by Margie's company in the demand generation program and conversion activities, it will make $15.58 in revenue contribution — not a bad ROI.**

Here's what Margie knows for sure:

- The product's average sales price is $25,000.
- There are no add-on sales opportunities to increase the average order.
- Given the high-quality brand and the complexity of the product, the direct mail package costs have been running around $1.50 each on quantities of about 75,000 pieces.
- The company's targeted cost-per-sale is 7.5 percent of gross sales, or $1,875 (.075 x $25,000).
- In Margie's three years at the company, response rates have been about 1 percent. Each inquiry receives an e-mail, which costs about 50 cents to deliver.
- Fifty percent of all respondents to an offline campaign go on to demo the product, after they go through an online nurturing and telephone conversion process. To close them, the sales staff calls each respondent who's demoed the product at a cost of about $20 per contact.
- The sales force typically closes 20 percent of all demos.
- The universe for the product is 500,000 contacts.

◗ Margie has 10 inside telemarketing reps starving for leads, trained to conduct product demos and wanting to make big money.

What would you do if you were Margie? What would you recommend to Sue? What would be the marketing ROI on this proposed program?

Based on what she knows, what should Margie tell manager Sue about launching a new campaign?

## Get the Numbers You Need to Manage Your Campaigns

Before we run the numbers, ask how many of these key marketing facts you have at your disposal before you authorize a new demand-generation campaign. Be honest: How often do you use your numbers to guide your decision making?

All too often marketers are called in to solve problems like this, and the demand-generation managers don't have access to or don't know their numbers. They know they need to make something happen but do not know about sales-force capacity, acceptable cost-per-inquiry, cost-per-sale or conversion-to-sales operations—all the essential facts required to manage a direct marketing solution.

Margie starts by inserting the numbers she knows into a spreadsheet to help her see the facts. Now she can conduct a series of relatively simple math calculations to derive the numbers she needs.

At the beginning, Margie sets up her sheet to show she easily can see the number of new sales required to hit the revenue target, based on the average sales price and gross margin.

With the information she has, Margie builds a spreadsheet (at right) to determine the size of the campaign she needs to hit the target. She's also checking to see if she can achieve her target cost-per-sale.

Clearly, she can launch the campaign, because the database is large enough; the sales target is attainable; and the estimated cost-per-sale is below target.

## Cost Worksheet

| Unit Targets | |
|---|---|
| Revenue target | $2,000,000 |
| Revenue per sale | $25,000 |
| Total sales units | 80 |
| Percent closed | 20% |
| Demonstrations required | 400 |
| Conversion rate | 50% |
| Inquiries required | 800 |
| Response rate | 1% |
| Mail required | 80,000 |

| | Total | Quantity | Unit Cost |
|---|---|---|---|
| Total cost for mail | $120,000 | 80,000 | $1.50 per package |
| E-mail follow-up | $400 | 800 | $.50 per e-mail |
| Telephone contact | $8,000 | 400 | $20 per telesales contact |

| | |
|---|---|
| Total | $128,400 |
| Cost per sale % | 6.42% |
| Cost per sale $ | $1,605 |

## Timing is Everything

Something is nagging at Margie. What has she forgotten?

Timing.

She asks the sales manager how long it will take to close a sale for each respondent who's demoed the product. He says it takes about six weeks to close half of them. The second half of the leads will close during the 12 weeks after that. That means only 40 sales and their corresponding revenue will come in during the quarter. The other 40 will come in the next quarter, but she will fall short of this quarter's target.

Since this campaign will launch eight weeks before the end of the quarter, she needs to find a way to hit the target.

She considers doubling the size of the drop from 80,000 to 160,000, knowing that half the sales will come in the subsequent quarter. To make sure she stays within the yearly budget, she takes 80,000 contacts out of her budget for next quarter, knowing the sales will come because of the mail she dropped this quarter.

Margie discusses her plans with the sales manager to make sure she has the capacity to work the leads.

Margie shows the sales manager that, typically, they need to conduct 400 demos in the quarter, which is 400 per 60 working days (20 working days per month x three months = 60 working days = 6.6 demos per day).

However, to make her numbers during this quarter, she must double the mail quantity, which means bringing in 1,600 inquiries as quickly as possible. This also means sales must increase its demo rate and maintain it at a steady pace. Margie and the sales manager calculate they will need 10 demos a day to make this work (400 demos divided by the 40 working days remaining in the quarter). The company has a hungry inside telesales staff of 10, so the numbers seem realistic and achievable.

Margie knows that seeking agreement on the goals and aligning those goals with key sales management stakeholders is a critical step to launching successful B-to-B marketing activities.

## Calculate ROI

To determine the marketing ROI, Margie divides the projected gross income generated by the total marketing investment on the initial quantity of 80,000 contacts.

When she runs the numbers, she sees that her marketing ROI is a solid $15.58 ($2 million/$128,400).

For every $1 invested by Margie's company in the demand generation program and conversion activities, it will make $15.58 in revenue contribution—not a bad ROI.

Now Margie knows that even if she doubles her contact quantity within the quarter, her ROI for the quarterly investment still will be satisfactory.

## Present the Findings to Management

Here's how a confident Margie summarizes her findings and recommendations back to manager Sue.

"We can hit the incremental $2 million revenue target in the quarter, Sue, however, it's going to require us moving the budget around. If we had the time, we would only need an offline demand generation campaign of 80,000 pieces. We can hit our cost-per-sales target and revenue goals. However, after checking with sales, it takes 45 days to close half the leads once we get them, and they then close the other half during the remaining 45 days. Sales needs to conduct 400 demos in the quarter to generate 80 sales. Our biggest problem is timing.

To hit the revenue target, I recommend we double the mail quantity within the quarter. However, the marketing budget won't exactly double, since there will be economies of scale in production that will bring down our cost per unit. We will need to shift money from next quarter into this current quarter to fund the program. Luckily, we've got it earmarked, and this shift also will help us get a jump on next quarter's revenue goals. Our CFO will be happy, because our marketing ROI is projected at a respectable $15.58-to-$1.

We also can consider using less expensive and quick-to-deploy e-mail promotions and other online vehicles, but our history shows the quality of respondents is not as good as our offline responders. I'll be glad to re-run the numbers for you with online as the major campaign vehicle, based on a new set of assumptions. However, it's your call on how to handle the time problem and marketing budget shift."

By taking this final step, Margie presents a solid, financial portrait that bolsters her strategic recommendations, while clearly presenting a solution to the business problem.

## It's All About the Numbers

This story problem has a happy ending. Manager Sue takes Margie's recommendations up the chain of command, and Margie ends up with a big, fat bonus. The moral: Direct marketing is about the numbers. With direct marketing serving as the only marketing discipline that allows us to use hard numbers to plan, engineer and measure program performance, the calculability of the numbers is a constant companion—and the math and how to use it, our greatest ally.

So, know your numbers backward and forward. Run your calculations over and over. Use the formulas I've shared, and manage your program decisions based on them. Then, your calculations will become your keys to success. ◆

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