

How Much Should A Lead Cost?

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Few executives can tell you what their actual cost-per-qualified-lead is, much less what it should be.

Your cost-per-qualified-lead is higher than you think

Virtually every aspect of our lives is counted: Everything from the calories we consume (too many), to the steps we walk (too few), to the number of Tweets we send in a day.

Businesses are no exception. Supply chain statistics, number of days inventory in stock, A/R aging and hundreds of other statistics are sliced and diced every day. On the top line, sales people have quotas, marketing people have budgets and executives are frantically driven by quarterly results. But with all that measuring going on, the most essential element of the cost of a sale, however, is largely unknown.

The gap between marketing and sales

They may be putting a pleasant face on it in your company, but sales people seem not to like marketing people very much, and vice versa. Sales people complain about the quality of leads produced. Marketing complains that they never get feedback on leads; and that the field fails to follow up on the “good leads” marketing creates. Unfortunately, both sides are right.

The fact is, fewer than 7% of leads passed to sales by marketing should be. That means sales must contact 100 companies to find a handful of real leads. And that’s a problem. Great sales people—often called hunters—are generally not great prospectors (also known as beaters). So, when marketing sends 100 leads to a hunter, it’s likely none of them will be followed up on. If a beater gets ahold of them, there’s a better chance opportunity will be found—but of course, it won’t be effectively sold.

Even when sales takes the time to plow through a stack of leads, and finds a good one or two, they’re not very likely to pass credit along to marketing. So from marketing’s perspective, all leads end up in a dark hole.

As a result of this dynamic, companies default to “buying leads” for the lowest possible price. And they end up measuring marketing by quantity, not quality—a vicious cycle with numerous drawbacks. *What can you do?*

Know the numbers

You probably know, or can find, the cost of each campaign, and the number of responses each yielded. For example:

1. A \$50,000 budget might result in mailing 20,000 direct mail pieces, or hosting a webinar and inviting 21,000 individuals to attend.
2. Being generous, we’ll assume a 1% response on these efforts, so the direct mail and webinar invitations yield approximately 200 and 210 responses respectively. (Remember, responses don’t equate to leads—they still must be qualified.)
3. Alternatively, you could execute a multi-touch, multi-media, multi-cycle calling campaign for the same budget against 1,000 qualified prospects.
4. A good rule of thumb is to assume that 5% of your addressable target audience will have an actionable interest in your offer. If we apply the 5% short-term percentage to the universes described above, we yield 10 (5% of the 200

direct mail responses), 10.5 (5% of the 210 webinar responses) and 50 (5% of the 1,000 qualified prospects) short-term leads respectively.

5. So, the cost for each marketing effort? The cost-per-qualified-lead for the direct mail is \$5,000; the cost-per-qualified-lead for the webinar is \$4,762; and the cost-per-qualified-lead for the outbound calling is \$1,000.

The above cost assumptions associated with a single-touchpoint campaign are consistently optimistic. The cost assumptions associated with a multi-touch, multi-cycle, multi-media campaign (with a focus on outbound calling) directed toward a segmented audience with a high propensity to buy are consistently conservative. You can easily calculate the real cost-per-qualified-lead for your business using the following table:

	Direct Mail	Webinar	Outbound Calling	Your Campaign
Cost per campaign	50,000	50,000	50,000	
Number of targets	20,000	21,000	1,000	
Response rate	1%	1%	N/A	
Number of responses	200	210	N/A	
Cost-per-response	\$250	\$238	\$0	
Qualified lead rate	5%	5%	5%	
Number of qualified leads	10	10.5	50	
Cost-per-qualified-lead	\$5,000	\$4,762	\$1000	

Overcoming objections

The two most common objections I hear when discussing these concepts are:

1. The calculations ignore the residual branding value of direct mail.
2. We do a lot better than the numbers you have used.

How do I respond? First, it's clear in today's economy that brand, or image, marketing is reserved for the Coca Cola's and Microsoft's of the world—not the average business-to-business technology company.

Regarding the second objection, as much as 85% of direct mail to businesses is either not delivered, or never read by the intended decision-maker. Even companies that avoid common mistakes (such as using standard mail instead of First-Class Mail) find that mail delivery and recall rarely exceed 15%. Email is even worse. Too, otherwise rational marketers feel they should enjoy a 2% response on mailings, as though this is an industry standard. The reality is that the average B2B mailing will pull .25% to .5%—which drives the cost-per-qualified-lead even higher.

Recommendations

Calculate and agree on an acceptable cost-per-qualified-lead. Do not accept cost-per-response as a substitute. In our example above, the cost-per-response is \$250 and \$238 for the direct mail and webinar respectively, but those numbers are meaningless. Only the cost-per-qualified-lead (\$5,000 and \$4,762) will provide you with a clear picture of your return on each program. Basing decisions on cost-per-response rather than cost-per-qualified-lead will result in cascading inefficiencies along the sales supply chain.

Finally, hold sales accountable for every lead. Add every lead to the forecast. Take no lead off the forecast without sales management approval.

So, how much should a lead cost? More than you think, but probably a lot less than you are paying.

about PointClear

PointClear is your prospect development partner, providing the strategy, analytics and execution needed to optimize sales and marketing processes, and drive revenue. Companies that achieve Optimized Prospect Development™ are assured virtually 100% of leads delivered by marketing to sales are sales-qualified ... and up to 5 times more deals are closed.



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