

The Economics of Business-to-Business (B2B) Telemarketing

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Abstract

For most companies in the business-to-business (B2B) market, telemarketing can be the fastest, most reliable and most economical way to find new sales. But many companies have difficulty achieving success with telemarketing. One of the reasons for failure is because of the way companies set their budgets and expectations. Many set their budgets based on prior sales. This is inappropriate because the budget should be based on what future sales are needed. Similarly, many companies use metrics that can actually depress sales by emphasizing activity over results. This white paper shows how to set budgets and expectations, as well as how to compare different options and programs, and maximize the return on your investment in B2B telemarketing.

Setting the Budget

There are two fundamental formulas that describe the economics of lead generation (and B2B telemarketing in particular) at a high level. The first is shown in Equation 1, which describes the conversion of suspects into prospects.

1	Number of Targets	100
2	<u>x Response Rate</u>	<u>15%</u>
3	Qualified Leads	15

Equation 1 - The Economics of Lead Generation

The framework for this equation is quite simple:

- Every business in the B2B market has, by definition, a limited number of suspects in its market (line 1) – whether it’s the 100 companies in the Fortune 100, or the 10 million SMBs in the US. This target market is the population of other businesses from which your sales will be drawn.
- For most businesses, the sales process starts with an expression of interest (line 3) from a prospect who has a need for your products, and who wants to talk with you about how you can help – thereby identifying him as a qualified prospect.
- The fraction of suspects that can be expected to be converted to qualified prospects (line 2) is your

response rate. The higher is your response rate, the more leads you will have with which to work.

Some form of this equation is applicable regardless of what promotional method you’re using. For example, if you are using advertising, there is some fraction of the target demographic or readership from whom you would like to get an inquiry. If you are exhibiting at a trade show, there is some percentage of the attendees whom you would like to get into the booth and engaged in a follow-up conversation. If you are using e-marketing, you would aim for a particular click-through rate. And if you are using direct mail, you usually have a minimum response rate that you are seeking. Each of these is a simple fraction of the target population whose attention you need to get in order to justify the program, and jump-start your sales.

In the case of B2B telemarketing, the desired response rate is usually measured as the appointment rate, i.e. the fraction of suspects with whom you can get an initial appointment or conversation.

Once you’re “in the door” with the prospect (regardless of which method you use to get them there), a second equation describes the conversion of prospects into customers, shown in Equation 2 below.

1	Number of Leads	15
2	<u>x Close Rate</u>	<u>20%</u>
3	Closed Sales	3

Equation 2 - The Economics of B2B Sales

As with Equation 1 and lead generation, Equation 2 is highly simplified in order to illustrate the high-level objective of the sales function in the B2B market. That is, the primary objective of the sales function is to close the leads that have been generated by the lead generation program (even if the salespeople are generating their own leads). The more leads you have to work with, and the higher the close rate is, the more sales you’ll get.

Obviously, both equations require qualifiers and detail, but it’s critical to understand (and agree on) the high-level economic framework of both lead generation and sales

before delving into the details – a point that cannot be over-emphasized. In fact, the inability of companies to achieve their desired sales results is often directly due to the neglect of these the high-level relationships in the operations plan. Many companies, for example, prioritize dial-rate over response rate, and therefore fail to generate enough leads. Likewise, many companies focus on sales activity rather than close rate, and end up missing their targets. To be successful, the business must not only set goals (e.g. for their various metrics like their response rate and close rate, as well as for dial rate and activity,) but they must prioritize them properly, or risk an expensive failure.

The Economics of B2B Telemarketing

Looking now at the economics of B2B telemarketing, we can not only illustrate the underpinnings of a successful program at a more detailed (but properly prioritized) level, but we can gain the ability to compare programs, as well.

1	Number of Targets	100
2	<u>x Dials/Contact</u>	<u>x 4</u>
3	Dials Needed	400
4	<u>÷ Dials/Hour</u>	<u>÷ 8</u>
5	Hours Needed	50
6	<u>x Appointment Rate</u>	<u>x 15%</u>
7	Appointments	15
8	Hours-per-Appointment	3.3
9	<u>x Cost-per-Hour</u>	<u>x \$25</u>
10	Cost-per-Appointment	\$83.33

Equation 3 - The Economics of B2B Telemarketing

As you can see, Equation 3 starts with a specific target market, usually a list of companies (100, in this example, on line 1). On line 7, our goal is to end up with some number of appointments or leads (15, in this example, on line 7) based on some expected appointment rate (15%, on line 6), analogous to lines 3 and 2 on Equation 1.

Given that the goal of the economic analysis, of course, is to calculate and minimize the cost (and maximize the ROI) of the program, we can calculate the cost on a per-lead basis (\$83.33, on line 10) by figuring out how many hours the program will take (3.3 hours per lead, on line 8) and multiplying it by our loaded cost-per-hour (\$25/hour, on line 9). This can be aggregated by multiplying the number of leads (15, on line 7) by the cost-per-lead (\$83.33, on line 10) to get the total cost of the program, or \$1,250.

The questions then, of course, are how did we get 3.3 hours-per-lead (on line 8), and how can we minimize this time budget? Again, at a high level, the number of hours it takes to generate a lead is simply a function of how many dials it takes to get through to a decision maker, and how fast you can dial the phone. To be sure, most companies ignore the former and focus solely on the latter, which is extremely problematic. But going through the equation allows us to get to the ultimate arbiters of productivity.

On line 2, you can see that we made an assumption that, on average, for every 4 attempts, we'll get a decision maker on the phone. This means that it will take 400 dials to reach the 100 targets on line 1. In actuality, most programs will never achieve a 100% contact rate, and some decision makers will be reached on the first dial. But line 2 is a useful average, which can also be mediated by setting a setting a limit for the number of attempts (which is what we'll do in a moment).

On line 5, we can calculate the number of hours that the 400 dials will take (50 hours, on line 5) by estimating a dial rate, in this case 8 dials-per hour. This is the hours budget that is divided by the number of appointments (15, on line 7) to get the 3.3 hours-per-appointment on line 8.

This basic structure suggests that the fewer the dials-per-contact required (4, on line 2), the less the program will cost, both in aggregate and on a per-appointment basis. That is, if we can make contact on an average of two dials per target instead of four, the program will cost half as much. Likewise, the faster is the dial-rate (8 dials/hour, on line 4), the less the program will cost. While mathematically true, though, digging deeper shows that such is not always the case.

To understand why reducing the contact rate and increasing the dial rate don't always reduce the cost of the program, we next have to refer back to Equation 2 - The Economics of B2B Sales.

The Assumption of Quality

In Equation 2, there is an implicit assumption that all leads are created equal. That is, that all leads are of equal quality, and that (in our expectation) only 15% of them will close successfully for reasons beyond the control of the lead generation program. While this "equal quality" assumption is not necessarily a good assumption in reality, it is acceptable for the present purposes of evaluating the economics of the program. In practice, one should use discrete lead qualification criteria to measure lead quality. But let's look at what aspects of productivity

can be impacted by the elements of the program we've introduced thus far.

Constraints

In fact, there is a significant constraint on the dial rate that is imposed by the formula in Equation 3. For example, is it reasonable to have a dial-rate of 30 dials-per-hour? What if the telemarketer were required to record notes on each attempt? What if a completed call took 15 minutes, or 30? Or what if the telemarketer had to network through an entire organization for each target just to identify the decision maker? While many consumer telemarketing programs are driven to higher and higher dial-rates, such an ethic is almost completely counterproductive in B2B telemarketing.

The solution is to calculate the dial rate. A method for calculating the dial rate (instead of estimating it) is to estimate the length of a completed call, the length of a non-completed call, and the fraction of attempts that result in completions. This would enable you to estimate the maximum dial-rate, as shown below in Equation 4.

1		Targets	100
2		<u>x Max Attempts/Target</u>	<u>x 5</u>
3		Dials Needed	500
4	Length of a good conversation (hours)		.25
5	Length of a non-conversation (hours)		.10
6	Good Conversation Time (hours)		25
7	<u>Non-Conversation Time (hours)</u>		<u>40</u>
8	Total Hours		65
9	Dials-per-hour		7.7

Equation 4 - Estimating Dial-Rate

Again, we start with 100 targets on line 1 (which can, of course, be scaled up for the full program). In this case, though, we'll set a *limit* of 5 on the number of attempts-per-target on line 2, instead of estimating the *average* number of dials (4) it will take to reach a target. (In practice, the average would be revealed quickly by the pilot program, which will enable you to set a reasonable limit). On line 4, we can estimate the duration of a completed call at 15 minutes (including documentation). And on line 5 we can do the same for an attempt that does not result in a completed call (six minutes, or 1/10 of an hour). This will include leaving voice mails, as well as documenting the attempt, so six minutes is not unreasonable for a non-completed attempt.

Assuming that it will only take one completed conversation to qualify a prospect, line 6 is simply line 1 (100 targets) times line 4 (15 minutes per target,) resulting in 25 hours spent in completed conversations. Line 7 assumes that all other attempts (4, or line 2 minus one for the completed call) have the duration on line 5 (six minutes, or 1/10 of an hour) resulting in 40 hours spent trying to reach people unsuccessfully. The sum of the time spent in good conversations plus the time spent trying to reach people is shown on line 8, or 65 hours. Dividing the total number of hours (65, on line 8) into the total number of dials (500, on line 3) results in 7.7 dials-per hour. This is close to what we expected, but it now reflects the actual length and mix of calls.

This can then be plugged back into line 4 of Equation 3 as an assumption, or Equation 4 can be embedded directly into Equation 3, as shown below in Equation 5, which also uses a "maximum number of attempts per target" rather than an "average number of attempts per target." Either way, it shows that there is always a practical limit on the dial-rate if you expect to have good conversations.

1	Number of Targets	100
2	Max Attempts/Target	<u>x 5</u>
3	Dials Needed	500
4	Length of a good conversation (hours)	0.25
5	Length of a non-conversation (hours)	0.10
6	Good conversation time (hours)	25
7	Non-conversation time (hours)	40
8	Total Hours	65
9	Dials/Hour	7.7
10	<u>x Appointment Rate</u>	<u>x 15%</u>
11	Appointments	15
12	Hours-per-Appointment	4.3
13	<u>x Cost-per-Hour</u>	<u>x \$25</u>
14	Cost-per-Appointment	\$108.33

Equation 5 - Impact of Call Length

(Note that if we were to use the average number of attempts per target instead of a maximum number of attempts per target, and we were to account for call length, the cost-per-appointment in Equation 5 would have been \$91.67.)

Regardless, the value of including call length in the model is that it prevents us from trying to put five 15-minute conversations and twenty 6-minute non-conversations into a sixty minute hour. And in doing so, it illustrates the

practical limits on dial rate that are so frequently neglected.

Driving Sales

With Equation 5 as background, we can now estimate what it will take to achieve a specific revenue volume by incorporating just a few more, easily known assumptions. Specifically, if we know the following, we can now develop a reasonable business plan:

- Gross Revenue target
- Average sale
- Average Gross Margin
- Average Cost-per-Sales-Call

As shown in below in Equation 6, if the revenue target is \$150,000, and the average sale is \$10,000, then (by dividing line 1 by line 2) we see that we will need fifteen closed sales to result from the program.

1	Gross Revenue Target	\$150,000
2	Average Sale	<u>+\$10,000</u>
3	Required Closes	15

Equation 6 - Closes Required to Achieve Revenue Goal

If we then factor in the expected close rate (e.g. 25%, on line 2, below) we can then calculate in Equation 7 how many leads we'll need (60, on line 3) in order to generate the required number of closed sales.

1	Required Closes	10
2	Close Rate	<u>÷ 25%</u>
3	Required Leads	60
4	Cost/lead	<u>\$108.33</u>
5	Cost of Lead Generation	\$6,500
6	Appointment Rate	15%
7	Targets Required	400
8	Max Dials/target	5
9	Dials Needed	2,000
10	Dials-per-hour	7.7
11	Hours Needed	260

Equation 7 - Resources Required to Achieve Revenue Goal

We can also calculate what the program will cost (\$6,500 on line 5) by multiplying the cost-per-lead (\$25/hour, on line 4) by the number of leads we need (60, on line 3). We can also calculate the number of prospects we will need to

target (400, on line 7) by dividing the number of leads needed (60, on line 3) by the appointment rate (15%, on line 6). And we can estimate the maximum number of dials needed (2,000, on line 8) by multiplying the number of targets required (400, on line 7) by the maximum number of dials-per-target (5, on line 8). This enables us to now estimate the number of hours required (260, on line 10) by dividing the number of dials needed (2,000, on line 9) by the dial rate (7.7, on line 10).

If you need to resource the effort, you can easily calculate the number of man-months, and resource needed to achieve the goal in whatever amount of calendar time you have available.

On the sales side, you can also estimate what your field sales costs are going to be, as well as your sales margins. Your field sales costs are going to be the number of leads needed times the cost-per-field-sales-call, times the average number of field sales calls needed per close.

You can then calculate your sales margin by subtracting sum of the lead generation costs and the field sales costs. And you can calculate your Net Profit by subtracting COGS from the Gross Sales Margin.

Applications

One of the chief applications of this model is to enable a comparison of various promotional strategies, as well as different B2B telemarketing solutions. Because the model uses a common definition of a qualified lead (i.e. an appointment,) whether that appointment is derived from advertising, direct mail, telemarketing, a trade show, SEO or PR, the denominator (qualified leads,) is always the same. The costs will, of course, vary; but each promotional method can easily be fit into this same framework.

This model also allows you to compare B2B telemarketing solutions from different vendors, as well as comparing in-house solutions to outsourced solutions. You can easily add a set-up cost to the model for either an in-house call center (which can be amortized over multiple programs,) as well as for a program from a third party provider.

The model also makes it easy to fine-tune the important coefficients based on experience, either in a pilot program or ongoing. And in so doing, it enables you to develop an effective continuous process improvement program that won't backfire, as many often do because they focus on the wrong metrics.

And finally, this model helps drive more effective training programs, as it focuses the user on those things that will increase the ROI, rather than just activity.

For more information, please contact JV/M, Inc.