How Pay-per-Lead Marketing Can Ruin Your Business

By Jeffrey L. Josephson

We are frequently asked, as a B2B lead generation company, if we would be willing to work on a pay-per-lead basis. Some potential clients call it a "performance basis." Others euphemize it as "partnering." But what they inevitably say is that, "If you're so good, why not put some skin in the game?"

One reason that so many companies ask their vendors to work on spec is because they themselves are often asked to do it. Others are simply responding to the oversupply of telemarketing firms and individual telemarketers for whom lowering their price to zero is their only way to compete. And still others are, understandably, simply calling us out on our own promotional claims.

But ignoring the motivations, it's important to understand how – despite the attractiveness of shifting the risk to the vendor – pay-per-lead (PPL) programs can, and usually do, backfire on the customer.

To start, it's helpful to categorize PPL programs into two types.

In one type, the customer pays the telemarketing vendor a retainer, who holds the money in a sort of escrow account. The firms agree on the definition of a qualified sales lead, and a price. And as qualified leads are produced and accepted, the retainer is credited to the vendor.

The other type of PPL program is where the customer holds the money, and transfers funds to the vendor if, and only if, the leads meet the lead qualification criteria.

As you can see, the first type of program is PPL in name only. The vendor holds the money, and the customer has to argue to get it back if they're not satisfied. And while you're paying on a per-lead basis, this actually tends to increase the price significantly. This is because you've told the vendor that you're willing to pay a lot if the leads are good. But the fact is that there is only an illusion of risk on the part of the vendor, because he's holding the money. And your recourse is limited, and expensive, if you're dissatisfied.

In the second type, of course, you feel that you're more in control because the agreement allows you to release funds only if and when you're satisfied. But that, too, is an illusion. For what most companies do (who engage with PPL vendors) is grade on a curve for the early leads as a way to build the vendor's confidence that you'll pay. But as soon as the vendor feels that the relationship isn't profitable (regardless of whether he's generating good leads for you or not) he'll simply walk away from the deal – leaving you with a bunch of early, poor quality leads, and months of wasted time.

It's this second type of program, however, that can result in significant damage to your business – damage that occurs as the vendor becomes more desperate to get paid. So how does it happen, and why does it happen virtually every single time?

A fact of entrepreneurship is risk, whether you're the client or the vendor. But as the customer in a PPL relationship, you've basically told the vendor that you don't have enough money for marketing. For if you did, you would be able – however reluctantly – to shoulder the risk that's inherent in any marketing program. But just because the vendor is willing to work on a PPL basis, it doesn't mean you should let him.

Marketing is not, after all, like a construction project where a builder puts up a bunch of houses on spec which, even in a down market, can be monetized. It's also not like a custom software development, where the vendor can put in a bomb if the client doesn't pay. Your decision to pay for leads, regardless of the contract, is ultimately subjective. So from the vendor's perspective, it can't be trusted.

And because whatever leads he does produce have value only to you, they can't otherwise be monetized if you fail to pay.

The risk for the telemarketing vendor, therefore, isn't that he might not be able to generate leads. It's that he might not be able to get you to pay for them. After all, you've already told him that you don't have enough money for a "real" program.

Putting this kind of risk on a vendor leaves him no choice but, at some point, to push too hard. And this is what causes the damage. Techniques that telemarketers use when confronted with this situation include overpromising, using hard-sell tactics, and outright fabrication. After all, if they can't generate a good lead, they might as well generate a bad one – and see if they can convince you to pay for it.

Considering the scores of calls a telemarketer can make in a day, how long will it be before every one of your prospects has been offended? And then your only choice is to change your company's name.

Pay-per-lead programs are a classic example of being "penny wise and pound foolish." If you really want a marketing vendor to share your risk, consider offering him equity.

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