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How to Compare the **Cost-per-Lead** for Different Marketing Strategies

DESPITE ALL THE emphasis that inbound marketing receives in the consumer world, the fact is that it is a far weaker strategy than many traditional methods available in the B2B sector – one that's hard to see until you try to calculate your true cost-per-lead.

One of the culprits is a rogue statistic that's floating around – that buyers go through 58% (or 85%, depending on the source) of the decision process before they ever talk to a salesperson. While that may be true in certain consumer segments, it is demonstrably false in the B2B world. Most B2B decision makers don't even know they have a need until they've talked to a salesperson. So how can most of the buying process have already occurred?

Armed with this bias, though, B2B companies are pouring enormous sums into email marketing, social media, blogs, advertising, networking, Webinars and more – albeit without having a financially rigorous way to compare the results, and actually make intelligent choices.

Sometimes companies, encouraged by their consultants and CRM providers, contort themselves with "lead scoring" systems. And while these systems make a valiant attempt to describe the differences, they generally ignore the financial implications of those differences. Instead, a much simpler method can enable you to make financially sound choices between marketing strategies, and calculate a far more valid Return on Marketing Investment – without using a complex lead scoring system.

The key is acknowledging that it's difficult to compare the cost-per-lead for sales leads produced by different methods to one another. This is because different demand stimulation methods result in different types of sales leads. An impression, a click, an inquiry, an attendee, a bingo card, a referral, an exposure, an email address, a visit, a name on a list, or a confirmed appointment are all different. They all drop you off in a different place in the sell-cycle, and so they all have different value. And so when you try to calculate the cost-per-lead – or worse, compare their ROIs – you can't.

Making matters worse, if you try to pass some of them off to the Sales department as equal, you get rejection. And since most salespeople don't want to waste their time on unqualified sales leads, it can often result in conflict.

To compare your cost-per-lead from different marketing strategies, you need to agree on a common denominator: a standard definition of a sales lead that can enable you to calculate your cost-per-lead regardless of how it was stimulated. And in B2B marketing, the best common denominator – one that works regardless of whether you're doing Internet advertising, social media marketing, email, SEO, direct mail, telemarketing, or networking – is the initial appointment, which can be defined as:

"An initial appointment with a decision maker (or strong decision influencer) who has a need for your company's products or services, and who wants to talk with you about how you can help."

As this definition suggests though, it takes time, effort and money to convert some types of sales leads to an initial appointment; and some more than others. But the fact is that someone has to do it. Someone has to research and qualify the lead, talk to them, and get in the door with a prospect who has a need, and who wants to talk to a salesperson. And the cost of doing so needs to be included in the cost of the lead – not in the cost of selling.

Adding this step in your cost-per-lead calculation, to account for the cost of converting the output of the demand stimulation program into an initial appointment, is easy. Most companies use telemarketing, but email and snail mail can also work. Depending on the nature of the lead, some research may have to be done to get a phone number. But, after that, the cost of qualification is simply a function of the dial rate (at some cost/hour), the contact rate and the appointment rate of the qualification process, illustrated in the following, typical examples:

Demand Stimulation Method				
	Email	Inbound	Networking	Telemarketing
Acquisition Cost	$1,000	$5,000	$500	$2,500
Quantity of Leads Produced	1,000	25	10	10
Cost/Unqualified Lead	$1.00	$200	$50	$250
Lead Qualification Cost				
Research (minutes/lead)	3	3	0	0
Research Hours	50	1.25	0	0
Research Cost	$2,000	$50	$0	$0
Appointment-Setting				
Dials/Contact	10	5	3	2
Appointment Rate	1%	10%	20%	90%
Hours Needed	1,000	12.5	3	2
Appointment-Setting Cost	$40,000	$500	$120	$80
Total Cost	$43,000	$5,550	$620	$2,580
Total Appointments	10	2.5	2	9
Cost/Qualified Lead	$4,300	$2,220	$310	$287

A Standardized Cost-per Lead Comparison

Using this method, you can easily compare the costs of different ways of stimulating demand on an apples-to-apples basis, which makes it far more valid. And, conveniently, this approach of including the cost of lead qualification in the cost of the lead fits nicely with most companies' budgeting processes.

As you can see, how the lead was generated can have a huge impact on the amount of work needed to qualify and convert it to an appointment, as well as on the conversion rates. Therefore, it can have a huge impact on both the cost of the program and on the ROI.

For example, let's say you promote a White Paper for $1,000, and get 1,000 email addresses requesting a download. You still have to follow-up on them, (potentially even researching their companies and phone numbers) call them, and see if they need your product. Some will, and some won't. But the response rate will determine your lead qualification cost, and the ROI.

Similarly, an inbound program might cost $5,000, and generate 25 inquiries. They, too, need to be researched and called to see if they have a need (or persuade them that they have one). But because the response rate is likely to be different from the email program, it matters.

The same holds for networking, telemarketing, SEO, PPC, and every other marketing method. Whatever the deliverable, if you have to spend money to convert it to an initial appointment, you have to include that cost in the cost-per-lead.

And while the cost of qualification – converting a lead into an initial appointment – can often dwarf the cost of generating the lead in the first place, only if you include it can you then make a legitimate comparison between strategies.

To ignore the cost of converting a lead into an initial appointment — however it was produced — makes it almost impossible to develop a rational marketing strategy. Even if the cost of conversion was to be borne by the sales team, that only moves the cost around. It doesn't somehow justify an ineffective marketing strategy.

To be sure, some companies may be averse to networking or cold calling. Or they may have a preference for one type of promotion over another. But regardless of how you generate sales leads, it's important to recognize that not all leads are created equal.

Because the bottom line is, as they say, the bottom line. BR