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The Truth About Sales Leads

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The business purpose of a customer relationship management (CRM) system is to capture new customers faster, grow them more predictably, and keep them as loyal repeat customers. A CRM system should streamline the revenue business process and make every dollar of revenue more profitable. And it will — providing you focus on optimizing *the overall revenue business process*, not individual point measurements like "new leads."

"If you can't describe what you are doing as a business process, you don't know what you are doing" — W. Edwards Deming

So let's take a look at the revenue business process. It starts with market planning, audience targeting and outreach campaigns, and it ends with collections. The process spans the marketing, sales, customer service, delivery/fulfillment and accounting departments. While the sales cycle may take only a few weeks, the complete revenue process cycle is several months (if not several quarters) in B2B environments. A flow-chart of the revenue business process will often take up an entire wall, and will include a surprising number of question marks. Trust me, it's more complicated than you think.

So Why Do Leads Lie?

Leads lie because we think they're saying something they aren't. A lead is not ready to buy. They're typically not even ready to talk with one of your sales reps. A lead is merely somebody who indicated "tell me a little more" by clicking on a link, responding to an email, or registering on a site.

Marketing wants to look good, so they market the value of the leads they generate. They're easy to measure. Some companies even will sell you leads. So declare victory.

Unfortunately, Sales wants to make money this quarter, not "sometime in the future." Sales will optimistically jump at the idea of 100 new prospects a day. But they quickly find that those 100 leads don't want to take a meeting, aren't ready for a serious conversation, and feel totally unqualified. So the inevitable frustration with marketing starts to set in.

If you think of the revenue business process as a refinery, it takes in low-grade ore and purifies it to gold. Leads are the low-grade ore — often with conversion rates of 1 percent or less — that is ready for refining but not for final use. Until the Leads are cultivated, nurtured, qualified and converted into Contacts, there is no sales cycle. In many B2B and B2C businesses, the unqualified leads that are in the nurturing cycle may be numbered in the millions. Industry statistics show that up to 40 percent of leads may do their first purchase after having been in the "remarketing database" for 18 months or longer. Of course, the exact statistic depends on your industry and target market, but this principle applies equally to B2B and B2C markets. This is the whole purpose of marketing automation systems that integrate with your CRM system.

When Do Leads Lie?

For most companies, a large number of leads is — by itself — almost always meaningless for the big picture. Leads are a nice indicator of market interest, but like measures of "visibility" or "market impressions," it is not a direct predictor of pipeline, let alone sales volume.

Leads start to get meaningful when you include measurements of lead quality, such as conversion ratios, scores, and frequency of activity. Leads get more and more significant as the leads pass through qualification and conversion steps. But understanding and assessing all the subtleties takes way too much time for most users; they just want to see a single number that's meaningful.

And the meaningful number — both for Sales and the overall business process — is the *number of sales cycles started* in a period. The number will be much lower than what the execs like to throw around — and it's throttled by the speed and skill of the sales reps. But by focusing attention on the number of sales cycles started, it forces the marketing, pre-sales and sales teams to work together. They have to think about what it takes to create and execute a first customer meeting, and figure out how to do that more repeatably. Instead of trying to load up the CRM system with 10,000 new leads, marketing will be trying to figure out how to get 100 people interested and motivated enough to take a call. They'll collaborate on scripts for the telesales folks, work to solve conversion rate problems and try to optimize the number and cost of those sales-cycle starts.

But I Still Like Looking at Leads

Of course, leads are a good thing. But there's one more problem with them: Despite what you think, they don't really connect with the revenue pipeline. Here's why:

- When a Lead matures, it doesn't become an Opportunity (deal). It becomes a Contact in your CRM system.
- When a Contact matures and starts a sales cycle, it doesn't become an Opportunity either. The Contact might be *connected* to an Opportunity, but in real world CRM systems this happens less than 40 percent of the time (in B2B, it may happen less than 10 percent of the time).
- So when you look at your revenue pipeline, most of the deals won't refer back to leads. This type of analysis will make your lead gen look less important than it really is. This goes double if you use the Named Account model of selling.

Even though leads are part of the revenue business process, in most real-world CRM systems, you can't connect Lead analysis to Pipeline analysis.

The bottom line: By focusing on sales-cycle starts (Opportunity-creates) rather than Leads (visibility events), you'll be able to measure something that's meaningful and provide a solid basis for collaboration among marketing, pre-sales and sales teams. And isn't that the whole point of CRM.

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