

Lead Recycling™ :
A More Cost Effective Approach
to Marketing Strategy
for High-Technology Companies

A Connect Direct White Paper

Background

Modern corporations have long been accused of focusing on the short-term, to their detriment. Nowhere is this tendency more acute than with technology companies. High-tech organizations have short-term horizons for a number of reasons:

- Many are private and depend on short-term results to prove viability and therefore ensure their ongoing funding.
- Many are competing in early-stage markets and need to get in front of their competitors quickly before consolidation and attrition occur in the marketplace.
- Technology changes rapidly, and tech companies often have "windows of opportunity" to realize revenue from products or services before they become obsolete.

This short-term outlook is inevitably reflected in a company's marketing strategy. Many tech marketers don't feel they have the luxury to build a customer base over the long term, so instead of cultivating and nurturing prospects, they focus instead on marketing programs designed to seek out "hot leads".

The hidden cost of short-term marketing

A myriad of challenges and problems can occur when a company focuses its marketing activity solely on driving short-term sales activity:

- It's difficult if not impossible to target a message exclusively to those prospects who are ready to buy. Direct mail lists, e-mail lists, Web sites and other media enable a company to focus on specific job titles, industries, even demographic and psychographic criteria, but "budgeted to buy (insert your product or service here)" isn't among them.
- Many high-tech products are first-of-breed solutions and/or of a complexity that demands a more long-term, consultative selling process. Prospects may simply not be ready to buy a solution because either 1) they don't know such a solution exists, or 2) they may not even be aware they have the problem in the first place.
- Focusing on only the most qualified prospects leaves many potential (albeit, more long-term) deals on the table. A potential customer might have precisely the problem that a particular product or service solves and are anxious to solve that problem, yet may not feel as though they're ready to buy and so fail to respond to the campaign.
- Similarly, even if less qualified prospects do respond to the campaign, they'll likely be ignored by sales reps focused exclusively on meeting a monthly or quarterly quota and who therefore don't want to spend the time cultivating more long-term opportunities.

- Generating hot leads is expensive. A typical cost per lead for B2B high-tech products can range from \$100 to \$200. Because hot leads comprise only a small percentage of the responses from any campaign, an effective "cost per hot lead" can be well over \$1,000.

In addition, response rates from tactical campaigns are likely to be lower – for the reasons outlined above – so companies need to spend more money to generate relatively few opportunities. Lastly, because the campaigns weed out all but those prospects in active-purchase mode, it leaves the sales pipeline empty once those deals have been either closed or eliminated. This requires a constant re-loading of the sales funnel with new, expensive leads.

Generating more leads at a lower cost

An effective lead-generation strategy is one that not only captures hot leads but also maximizes the value of more long-term prospects that otherwise would be ignored by the sales force. We call this approach Lead Recycling™.

Lead recycling requires the following changes in strategy:

- Casting a wider net to include those prospects not actively in purchase mode
- Building a database of both short- and long-term prospects that at minimum have the specific problem that a company's product or service can solve
- Focusing campaigns and resources on both generating new leads *and* nurturing existing prospects

Note that this doesn't require reeducating or refocusing the sales force. Sales reps are driven by quotas, and no argument short of financial incentive will convince them to focus on anything but those activities that drive short-term deals. No matter. With lead recycling in place, sales reps can be fed a constant diet of short-term prospects at the same time marketing is generating both short- and long-term opportunities at a much lower cost per sale.

Properly implemented, lead recycling can dramatically improve marketing ROI by:

- Increasing response rates
- Lowering the cost per sale
- Decreasing the number, scale and cost of lead generation campaigns
- Reducing the constant demand from the sales force for new leads

5 steps to increasing return from marketing programs

The following outlines 5 key steps to implementing an effective lead recycling program:

1. Establish a formal lead qualification infrastructure

Ideally, this takes the form of a telesales department (as small as one person) whose sole objective is to qualify and requalify incoming and existing prospects, and thereby generate new, qualified opportunities for the sales force. Do not expect your primary sales force (field or channel reps) to

fulfill this function unless you plan to pay them the same amount for a qualified lead as a closed sale.

The strategies outlined below are pointless without first putting this lead qualification process and infrastructure in place. Without it, you'll be generating thousands of unqualified leads that will be roundly ignored by the sales force, wasting valuable marketing resources by creating sales leads nobody wants.

2. Use offers that educate rather than sell

Examples of offers that sell include: free demos, free trials, and purchase discounts. The only reason a prospect will respond to one of these offers is if he or she recognizes the problem, wants to solve it immediately and is interested in the solution. That's asking a lot from your campaign. Inevitably, the result will be an extremely low response rate from all but a small group of very highly-qualified prospects.

Examples of offers that educate include: white papers, case studies, analyst reports, and seminars (providing they're more than just product demos). An effective information offer says, "Here's how to solve a problem" vs. "Here's why you should buy our product."

Presented with an information offer, prospects who are ready to buy will respond anyway, but in the meantime, you'll also generate leads from companies or individuals who at minimum have the right problem (the one your product or service can solve) and want to do something about it.

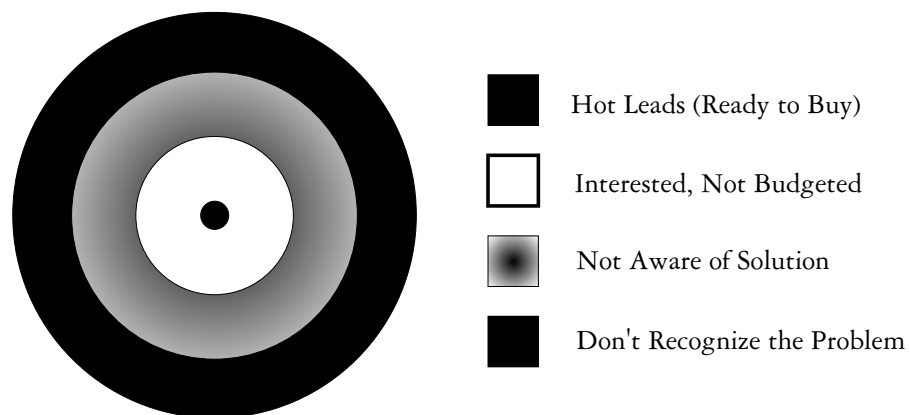


Fig. 1. Hot leads represent only one small subset of the total lead universe. Offers that educate, rather than sell, can serve to attract the much larger subset of prospects that have the problem your solution solves, but just may not be aware of either the issue or that your solution exists.

3. Cast a wider net

Typical of the type of campaign that attempts to capture hot leads is the so-called "executive" program that sends dimensional mailers, complete with noise chips, golf balls and other attention-getting devices to key executives at a handful of select companies. Response rates can be quite high; cost per lead is usually astronomical.

A more cost-effective approach is to use techniques that reach a wider range of prospects at lower cost. An example would be placing sponsorship ads in e-mail newsletters. Newsletter ads are often exceptionally effective on a cost-per-lead basis. Because they're less targeted than other media like e-mail or direct mail, leads can be less qualified – initially – but they're a great way to help build a database of both short- and long-term prospects.

4. Establish a regular dialogue with existing prospects

Besides periodic phone calls from telesales, create an opt-in e-mail newsletter and send it to existing prospects as a way to keep them informed about your company, as well as providing strategies, techniques and issues relating to your product category. As with your initial offer, keep the tone informative rather than salesy.

E-mail newsletters are a key ingredient to any lead recycling strategy. First and foremost, they're a cost-effective way to stay in front of prospects and give those individuals a reason to contact you when and if they have a need. In addition, e-mail newsletters can help:

- identify additional new prospects with an interest in your type of product or service (using devices like "Forward to a Friend");
- highlight areas of interest (through response tracking) that in turn can drive more targeted campaigns;
- generate response from prospects (ex: Web visitors) who may not respond to other types of offers; and
- help establish your company as an expert or "thought leader" in your product category or industry.

5. Create "next step" offers that requalify existing leads

Promotional events like seminars and webinars, if used for lead generation, can tend to over-qualify leads by limiting response to only those prospects interested enough to dedicate the time required of such an event. As offers made to existing prospects, however – perhaps through an e-mail newsletter – they can serve an important role as motivators for prospects who responded initially to information offers and now feel ready to take the next step.

Similarly, offers like free trials, consultations, audits and the like would scare off all but the most qualified prospects in a lead generation campaign, but as

part of a lead recycling strategy, can be effective in helping to flag pending decisions within your existing database.

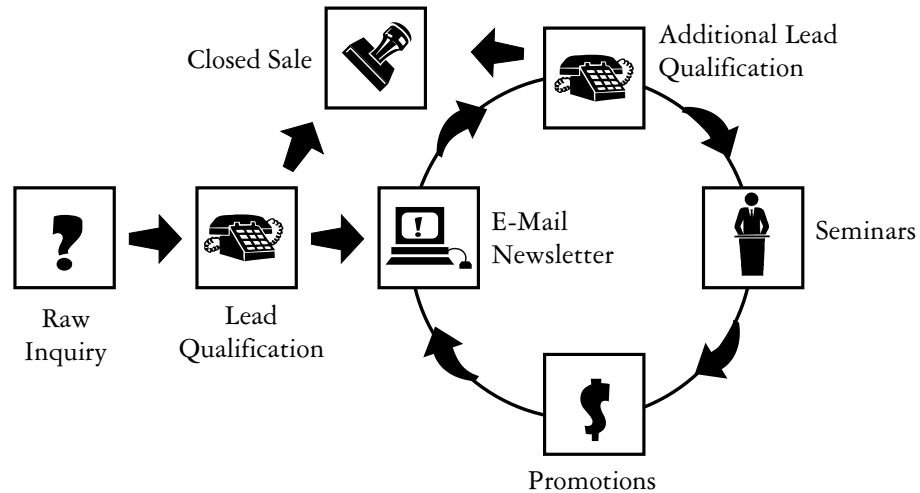


Fig. 2. Following initial lead qualification, an effective lead recycling program (including e-mail newsletters, seminars, promotions and ongoing qualification) can serve to uncover new sales opportunities without the expense of generating new leads.

A long-term approach for long-term success

Lead recycling requires a fundamental change in marketing philosophy, from a short-term, tactical approach to one that takes a more long-term, strategic view.

Ironically, taking a more long-term approach to marketing, rather than extending the sales cycle, tends to create a greater number of short-term sales opportunities. This is because it doesn't rely on the ability of prospects to self-qualify, to determine that your product or service is a good fit solely on the basis of your marketing message and their perceived needs.

Effective marketing strategies that don't focus solely on generating hot leads typically end up capturing not only those same opportunities, but also other prospects who don't perceive an immediate need and might well become short-term opportunities given the benefit of a conversation with a company's sales force.

Taking the long-term approach is less expensive. It lowers the cost per lead by generating more inquiries for the same or fewer dollars, and it decreases the demand for new, expensive campaigns. In addition, opportunities are being generated from existing leads, rather than relying solely on a constant stream of new inquiries.

Lastly, a long-term approach is more effective. Given the complex nature of most technology solutions, few campaigns are successful in selling products or in identifying prospects who are ready to buy. The most efficient use of lead generation programs is to simply identify prospects with the problem or issue that your product or service can solve, and then use other resources (telesales, e-mail newsletters) to educate and sell those individuals over time.

About Connect Direct

Connect Direct is a full-service agency located in Redwood City, California, that specializes in direct marketing for high-technology companies. Founded in 1990, the company has produced hundreds of successful print and online campaigns for clients ranging from start-ups to some of the biggest names in high-tech. In 2001, Connect Direct was named one of the "Top 10 Fastest-Growing Private Companies in Silicon Valley" by the *San Jose Business Journal*.

About the Author

Howard J. Sewell is president and founder of Connect Direct. Prior to starting the company, he worked as a marketing manager for software giant Oracle Corporation. Howard is a frequent speaker on direct marketing and contributor to both marketing and technology publications on topics that include lead generation, newsletter strategy, customer retention, channel development and event marketing. Since 1996, he has authored the Connect Direct "Tip o' the Month", a free monthly e-mail newsletter for technology marketers. Howard lives in Menlo Park, California with his wife Elizabeth and children William and Emma.



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