Image not found or type unknown

The Most Dangerous Metric In Marketing

Description

Marketers love metrics. We love beating the Sirius Decisions benchmarks, and we use this as proof that our marketing programs are (or will be) effective. But, there is one metric that we should not look at in isolation. If we do so, we might be fooling ourselves with dangerously misleading data.

What is this dastardly metric that threatens to destroy our credibility and force us into making poor decisions? It’s cost-per-lead (CPL).

Why is CPL so dangerous you ask? Because, stand-alone, CPL has zero relevance. In fact, **you need four other modifying metrics to make CPL relevant** and to put it in context. That’s correct – you heard me right – you need four other metrics to make CPL meaningful!

What are these magical four other metrics?

1. Closed WON conversion rate
2. Average deal revenue
3. Average deal margin
4. Investment hurdle rate

If you are like most marketers, you don’t use these additional metrics. Investment hurdle rate? That’s for Finance! Average deal margin? That’s for Product Management! Well, think again. **Executives look at Marketing spend like any other investment, and so should Marketers if they want their programs approved.**

But don’t just take my word for it! Let’s use some examples to illustrate my point.

CPL EXAMPLE 1: AVERAGE CONVERSION RATE

Example inputs:

1. Cost per lead = $100/lead

2. Closed WON conversion rate = 2.9 out of 1,000 leads = 0.0029 *(SiriusDecisions Avg. Conversion Rate, 2014)*
3. Average deal revenue = $50,000
4. Average deal margin = 50%
5. Investment hurdle rate = 2x or 200%

How the math works:

- ROI % = (Deal Margin – Cost per Win) / Cost per Win
- Average Cost per Win = $100/0.0029 = $34,400
- Average Deal Margin = $50,000 * 50% = $25,000
- **ROI % = ($25,000 – 34,400)/ $34,000 = (27.4%)**

/// INSERT IMAGE HERE ///

What are these numbers telling us?

- In order to beat your corporate hurdle rate for ROI (the GREEN zone) you need a $150k deal at 70% margins (ROI = 204.8%) or you need a $175k deal at 60% margins (ROI = 204.8%)
- In order to not lose money (the YELLOW zone) you need more than $50k deal at 70% margins (ROI = 1.6%) or you need more than a 175k deal at 20% margins (ROI = 1.6%)
- Everything less than that is losing money for the company (the RED zone)

CPL EXAMPLE 2: BEST IN CLASS CONVERSION RATE

Ok, not all Marketers are only average. So, let's try this – let's use the Sirius Decision best-in-class conversion rate – 14.2 WINS per 1,000 leads – and change *nothing else* about this example.

How the math works:

- ROI % = (Deal Margin – Cost per Win) / Cost per Win
- Cost per Win = $100/0.0142 = $7,046
- Deal Margin = $50,000 * 50% = $25,000
- **ROI % = ($25,000 – $7,046)/ $7,046 = 254.8%**

Note: the example case is circled in BLUE

/// INSERT IMAGE HERE ///

What are these numbers telling us?

1. In order to beat your corporate hurdle rate for ROI (the GREEN zone) you need a $75k deal at 30% margins (ROI = 219.3%)
2. In order to not lose money (the YELLOW zone) you need more than $25k deal at 30% margins (ROI = 6.4%) or you need more than a 75k deal at 10% margins (ROI = 6.4%)
3. Everything less than that is losing money for the company (the RED zone)

MAKING IT ACTIONABLE: WHAT CPL CAN YOU AFFORD?

I recommend flipping this on its head to make it more approachable. I would use your company information to calculate the following metrics – Closed WON conversion rate, average deal revenue, average deal margin, and investment hurdle rate – then I would run the math to tell me what CPL I can afford.

Let's assume that your business looks like this:

1. Closed WON conversion rate = 14.2 out of 1,000 leads = 0.0142 *(*based on*SiriusDecisions Best-in-Class Conversion Rate, 2014)*
2. Average deal revenue = 30,000
3. Average deal margin = 50%
4. Investment hurdle rate = 200%

Based on those inputs, you can afford a CPL of $213.00 to not lose money, and you can afford a CPL of $71.00 if you want to beat your investment hurdle rate.

Here is a reference table of your CPL required to not lose money, given a best in class Closed WON conversion rate

/// INSERT IMAGE HERE ///

WHAT CPL CAN YOU AFFORD TO SURPASS YOUR CORPORATE HURDLE RATE?

Here is a reference table of your CPL required to beat a 200% ROI hurdle rate, given a best in class Closed WON conversion rate

/// INSERT IMAGE HERE ///

CONCLUSIONS

Cost-per-lead is a useless, misleading, and perhaps value-destroying metric without understanding Closed WON conversion rate, deal size, deal margin, and ROI hurdle rates. You should understand these metrics to answer the question – **what CPL can you really afford?**

Share this post:

- LinkedIn
- Facebook
- X

Category

1. Growth Economics

Date
2025/04/03

Date Created
2019/12/08
Author
jcastelli