

Calculating the Return on Marketing Automation



For a marketing automation investment, demonstrating return means more than showing an increase in campaigns and leads

For a meaningful performance uptick, proper skills and processes must be wrapped around the technology

Companies using technology alone to solve their demand creation issues may actually experience negative return where it matters most

Every year, b-to-b organizations spend millions upon millions of dollars on technological tools and platforms that they hope will cure whatever ails their businesses. Ultimately, the proof of whether these purchases “worked” is often difficult to measure, time-consuming and subject to significant debate.

One of the roadblocks to establishing technological return on investment (ROI) is the lack of an agreed-upon framework that will be used to measure performance. Increasingly in the technology crosshairs is the marketing automation platform (MAP), as more organizations have purchased one in an attempt to make demand creation more systematic, repeatable and predictable. In this brief, we will share a framework for establishing a return on marketing automation, and discuss why the purchase of technology alone without the proper processes and skills wrapped around it will likely produce disappointing results.

THROUGH THE WATERFALL

Nearly four years ago, SiriusDecisions introduced its Demand Waterfall model, a multistage, end-to-end view of an organization’s new business health shared by marketing and sales. We have used this model as a beachhead for processes, metrics and strategy, assuming that the worth of specific demand creation-related moves that an organization makes must manifest themselves in waterfall performance improvement.

This assumption certainly doesn’t change when it comes to enabling technologies. Unfortunately, we still see organizations purchase a MAP in an attempt to automate processes that don’t exist; in instances where this has occurred, the technology has struggled to demonstrate results. As a result, our journey into MAP return must compare organizations where a MAP is implemented without strong surrounding processes; those that wisely combine tech-

nology with process; and those with no MAP. The results are both stark and startling; they include the following:

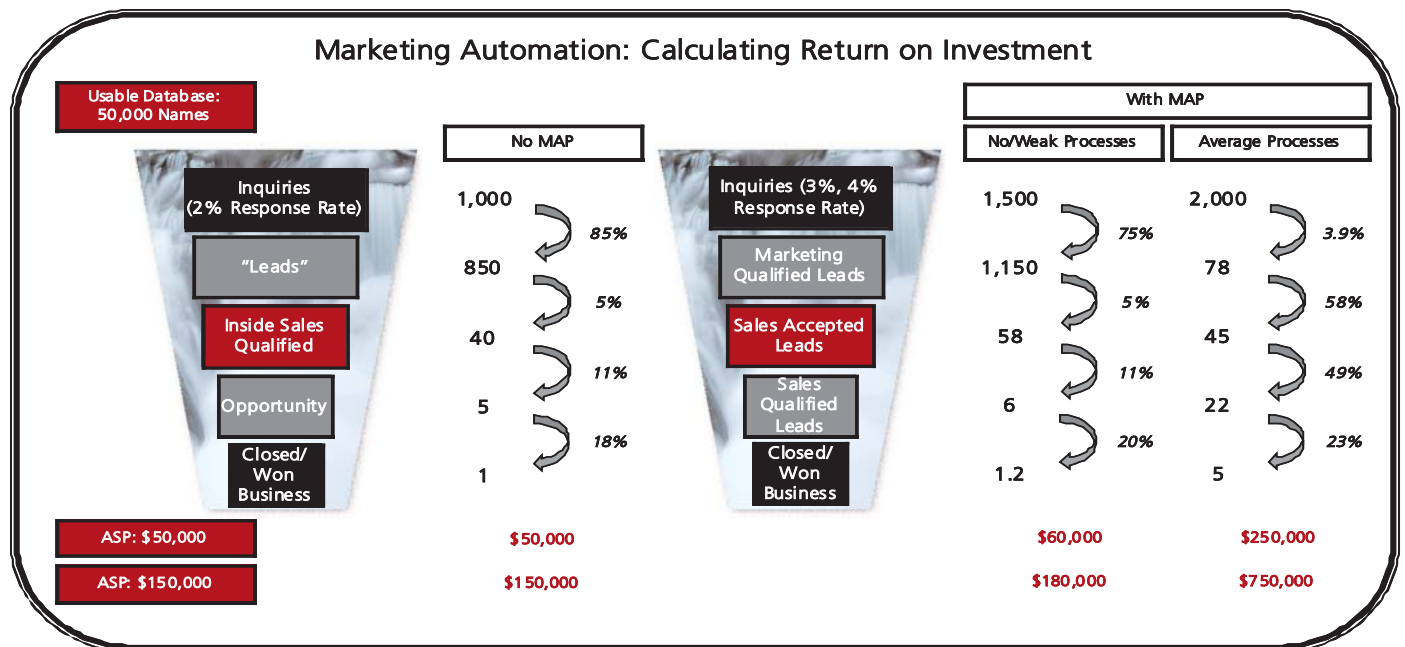
- *No MAP, no processes.* Our first group features organizations that exhibit a complete set of “legacy” demand creation tendencies. Here, there is no true demand waterfall, per se, but rather a funnel with an extremely wide top that quickly narrows to a trickle by its end. With no shared processes in place between sales and marketing (e.g. target market, lead definition, lead handoffs, service-level agreements), demand creation leaders have little choice but to flood the waterfall with hand raisers from outbound efforts. An email tool is the most typical technological mechanism to do so, yielding a blended response rate (prospects and customers) of roughly 2 percent. Because all but the most apparent inappropriate responses (students, competitors and the dreaded Mickey Mouse) are passed on to a qualification function such as inside sales, conversion rates from response to “lead” can range as high as 85 percent. This lack of quality at the demand waterfall top is immediately seen in the conversion rates at its middle and bottom, as an average of only 5 percent will be qualified by telespecting; many of these leads are simply never processed by inside reps. Our historical data indicates that only 11 percent of what telespecting qualifies make it to opportunity, and 18 percent will convert from opportunity to close. Given a starting marketing database of 50,000, this scenario yields roughly one closed deal per marketing program.
- *MAP, but no/weak processes.* Our second group is made up of organizations that

purchase a MAP, but do not spend the time building all – or even any – of the processes that drive true MAP performance. In and of itself, a MAP *will* help marketers refine their targeting and the more surgical application of content to prospects; both combine to drive greater response rates. Thus, in this example, we use a rate of 3 percent; improved data quality within the MAP also typically means that marketing will reject more inquiries, dropping our conversion rate at the first juncture to 75 percent. This rate is still much, much too high, overflowing the telespecting function with even more under-qualified leads – one could argue that things have actually been made worse to some degree – leading to the remainder of the conversion rates remaining unchanged from our first scenario. Working the numbers all the way through, we yield a 20 percent increase in closed deals, a fact that would likely make many organizations very happy. But should it? We estimate that the typical software-as-a-service-based MAP (the choice of the majority of customers implementing the technology) will run roughly \$100,000 in the first year fully loaded, when one includes the platform, implementation, integration, training and support. In our example, an organization with a database of 50,000 will see revenues increase only \$10,000 to \$30,000 per program when average selling prices of \$50,000 and \$150,000 respectively are applied, figures that are hardly impressive.

- *MAP with average processes.* Our third and final group consists of organizations that purchase a MAP and drive alignment between sales and marketing around target market, lead definition, lead handoff and service-level agreements at even a rudimentary level.

When this occurs, marketers are able to take advantage of broader MAP functionality, including lead scoring, portfolio marketing and lead routing versus the more simple campaign management functionality used in scenario two; the value of this functionality can be seen in performance throughout the waterfall. Agreement by the two functions around which segments are relatively stronger versus others will allow greater marketing focus – both at a company and individual level – raising response rate to roughly 4 percent. While it may seem counterintuitive, a significantly lower first conversion rate of only 3.9 percent – but into what is now truly a “marketing qualified” lead (MQL) – yields much better results. With a handoff process in place, sales now accepts and processes more than 58 percent of MQLs; the higher quality of these leads in turn yield a third conversion rate of roughly 49 percent to opportunity, and an increased close rate of a bit more than 23 percent. Working these numbers all the way to the end of the waterfall, an organization can expect to close roughly five deals per program based on a 50,000-name database. Once again using average selling prices of \$50,000 and \$150,000, an incremental \$200,000 to \$600,000 may be realized; finally, we’re talking real money.

Hidden in the math of our first – and more ominously, our second – example is the “sales fatigue” that sets in over time in terms of leads that come from marketing. If telespecting comes to find out these leads are of low quality, its reps will turn to cold calling, preferring to control the quality of their lead destiny themselves; field reps will likely ignore marketing’s output even more. If marketing raises expectations through a MAP purchase that lead quality will increase in the second



example, a situation where negative return and even greater friction between the two functions not only is possible, we have seen it occur.

THE SIRIUS DECISION

Organizations are often led to believe by vendors that implementing a MAP in itself will not only positively impact their demand creation activities but will also demonstrate return on investment almost immediately. While this may be partially true from a quantitative perspective (in terms

of campaign amounts and response rates), we believe that only in increased conversion rates and closed deals should the true impact of any MAP be calculated. When woven into proper processes created and honed over time, and combined with a re-skilling of marketers to be able to take advantage of the full complement of functionality offered (as described in the brief “Marketing Automation: Mind the Skills Gap”), a MAP can be fabulous. When implemented on its own, it is but another cold reminder that process always should precede technology.