

Not All Leads are Created the Same:

Conversion Rates Drive the Bottom Line



September 2011

Dennis Fromholzer, Ph.D.
CRM Associates
Boulder, CO 80303

303-938-8788

www.crmassoc.com

“Not all leads are created equal. To illustrate this point, which lead generation program is more appealing? Would you prefer 1,000 anonymous email addresses where you eventually determine only ten to be good prospects? Or would you like one that delivers 100 leads, each of whom is an ideal prospect?”

As the quote above suggests, leads from the second source (the one that delivers 100 ideal prospects) would be worth 100 times more than leads from the first source (the one whose leads had only a 1% chance of being a good prospect). If a business is willing to pay \$1 per lead for the first source, then they should be willing to pay \$100 per lead for the second.

There are two important messages from this story. First, when comparing media, it is not enough to simply compare total leads. One must consider the **CONVERSION RATE** associated with each type of lead to properly assess the value of each alternative. Big numbers of leads are meaningless unless some of those leads are converted to final sales. Second, businesses are - and should be - willing to pay a premium for advertising alternatives that are more effective at bringing in sales.

Conversion rates can vary dramatically. The typical online conversion rate is in the range of 1% to 4%. The "top 10" sites have conversion rates that average between 10% and 15%. Traditional Yellow Pages, on the other hand, have conversion rates of between 40% and 50%.

The online world uses a broad definition for conversion rate, which is generally defined as:

Conversion Rate is the percentage of people that take the action you want them to take, such as buy a product, fill out a form, provide their email for future contact, sign up for free offers, or make some other contact or commitment.

Conversion to sales (purchases of a product or sale) typically represent only 35% of the desired responses for online sites. Furthermore, businesses report that roughly 22% of online leads come from bad, unwanted, or irrelevant clicks. Thus, when comparing leads from various sources, one must not only compare conversion rates, but one must consider the type of conversion being measured. For a 10% total conversion rate, the "sales conversion rate" would be $10\% \times 35\% \times (100\% - 22\%) = 2.7\%$.

Since the ultimate goal of all businesses is to sell products or services to customers, this paper compares the "ratio of sales to total leads" whenever possible. This will be referred to as the "sales conversion rate."

The tables below compare the conversion rates for Direct Mail, Email, Paid Search and Ecommerce, Social Networks, and Yellow Pages. There is no one standard source for measurements of Internet effectiveness. When considering conversion rates, estimates from different sources generally fall within a consistent range. Rather than quote a single source, this paper presents the consensus values from multiple sources¹. The purpose of this paper is to provide the currently accepted values for conversion rates for different alternatives available to advertisers for reaching consumers, particularly in comparison with Yellow Pages products.

According to Marketing Sherpa's 2011 Search Marketing-PPC Edition, the average cost per click for paid search is currently \$3.57.

Summary Table

<i>Advertising Medium</i>	<i>Total Response rate</i>	<i>Sales Rate</i>	<i>\$/sale</i>
<i>Direct Mail - house file</i>	3.4%	2.5%	\$135
<i>- prospect file</i>	1.4%	1.0%	
<i>Email - house file</i>	1.7%	1.1%	\$16
<i>- prospect file</i>	0.6%	0.4%	\$83
<i>Paid Search*</i>	3.9%	2.5%	\$143
<i>Ecommerce</i>		2.2%	\$162
<i>Top 10 Ecommerce sites</i>	10-15%	6-9%	\$45
<i>Social Network ads</i>	0.05%	0.02%	NA
<i>Yellow Pages - display</i>		42%	\$48
<i>Yellow Pages - space</i>		42%	\$18
<i>Yellow Pages - IYP</i>		42%	\$20

*Paid Search Categories

	<i>Total Rate</i>	<i>Sales Rate</i>	<i>\$/sale</i>
<i>Business/Consumer Services</i>	9%	1.7%	\$210
<i>Retail/Ecommerce</i>	6%	4.9%	\$73
<i>Computer Hardware/Software</i>	6%	0.9%	\$397
<i>Education/Healthcare</i>	12%	2.9%	\$123

General Search Categories

	<i>Keyword</i>	<i>Email</i>	<i>YP</i>
<i>Software</i>	3.1%	1.5%	33%
<i>Outdoor & Sports</i>	2.6%	3.4%	34%
<i>Travel</i>	2.1%	NA	44%
<i>Home & Furnishings</i>	2.0%	NA	39%

¹ The list of sources used is found at the end of the paper.

Specialty Stores	1.8%	6.3%	42%
Catalog	3.8%	4.3%	NA
Electronics	0.9%	NA	33%
Fashion & Apparel	1.7%	3.6%	40%

Direct Mail, Paid Search, and Ecommerce sites each have a sales conversion rate of about 2% to 3%. Email has a sales conversion rate of about 1%. Yellow Pages has a sales conversion rate of 42%. **In other words, search needs to deliver 18 leads in order to have the same effectiveness as one lead from Yellow Pages.**

In direct marketing, businesses have shown a willingness to pay more when the prospects for making a sale are higher. Telephone marketing to new prospects has the highest conversion rate of all direct marketing alternatives at 6.61%. Businesses pay a premium for this higher effectiveness - \$309.25 per lead, the highest cost of all direct marketing alternatives. It follows that business should be willing to pay a significantly higher rate per call (lead) from Yellow Pages than they pay per click from online sources.

Yellow Pages

The issue of quality of leads is critical for the Yellow Pages industry to understand because Yellow Pages delivers the highest quality leads of all media. Consumers only use Yellow Pages when they have a need and are ready-to-make a purchase. Roughly 85% of those that seek out either print or internet Yellow Pages will ultimately make a purchase. Users of Yellow Pages typically look at 5 ads and contact 2 businesses. About 93% of Yellow Pages users will make contact with a business by calling while the rest will make contact either in person (walk-in) or online.

The median estimated conversion rate from a contact to a sale for Yellow Pages users across the top 210 headings is **42%**. Based on the 2011 Metered Ad Study results, the median cost per sale across the top 210 headings is **\$48** for local display ads, **\$18** for local space ads and **\$20** for IYP ads.

Direct Mail

Direct mail is the most commonly used method for direct marketing. Roughly 60% of businesses that do direct marketing use direct mail. The median volume of direct mail campaigns is 50,000.

The response rate for a house list direct mail campaign is 3.4% and for a prospect list is 1.4%. Only about 50% of direct mail campaigns are designed for a direct order response; the others are designed to encourage consumers to visit the web site, to try free offers, to

provide contact information for future promotions, and so on. The "effective" sales response rate from Direct Mail campaigns is thus 2.5% for house lists and 1.0% for prospect lists.

Compare these response rates with Yellow Pages: while 1-3% respond to Direct Mail pieces, 85% of Yellow Pages users will make purchases, and 42% of those that directly contact a business will become paying customers of that business. A contact from a Yellow Pages user is **17 times more likely** to end up as a purchase than each piece of direct mail sent out by a business.

The average cost per response for direct mail is \$96 and the estimated cost per sale is \$135. Compare that with \$48 per sale from Yellow Pages display ads, \$20 per sale from IYP ads and \$18 per sale from print Space ads.

The cost per sale for Yellow Pages display ads is less than half that of Direct Mail. The cost per sale for Yellow Pages space ads and Internet Yellow Pages ads is less than one sixth that of Direct Mail.

Email

Email is the second most commonly used method for direct marketing. Roughly 53% of businesses that do direct marketing use Email.

The response rate for a house list Email campaign is 1.7% and for a prospect list is 0.6%. Only about 38% of Email campaigns are designed for a direct order response; the others are designed to encourage consumers to visit the web site, to try free offers, to provide contact information for future promotions, and so on. The "effective" sales response rate from Email campaigns is thus 1.1% for house lists and 0.4% for prospect lists.

Compare these response rates with Yellow Pages: while 1-2% respond to Email pieces, 85% of Yellow Pages users will make purchases, and 42% of those that directly contact a business will become paying customers of that business. That is a factor of over 40 in increased effectiveness.

The average cost per response for Email house lists is \$11 and Email prospect lists is \$54. The corresponding cost per sale is \$16 for house lists and \$83 for prospect lists. Compare that with \$18 per sale from Yellow Pages space ads, \$48 per sale from Yellow Pages display ads, and \$20 per sale from IYP ads. Email to house lists has a similar cost per sale to that of print space ads and IYP ads. All Yellow Pages ads are more cost-effective at bringing in new customers.

Paid Search and Ecommerce

Marketing Sherpa estimates the conversion rate for clicks from a paid search campaign at 9% (most other sources still estimate paid search conversion rates in the 1 to 4% range). Only 35% of paid search campaigns are designed for a direct order response; the others are designed to encourage consumers to visit the web site, to try free offers, to provide contact information for future promotions, and so on. 22% of clicks are considered bad or a nuisance. The "effective" sales response rate from Paid Search campaigns is thus 2.5%.

Compare these response rates with Yellow Pages: while 2-4% of Paid Search clicks become conversions, 85% of Yellow Pages users will make purchases, and 42% of those that directly contact a business will become paying customers of that business. **A business needs to receive 18 clicks from its Paid Search program to have equal value (in terms of likelihood of making a sale) to one contact from a Yellow Pages user.**

The average cost per click for paid search is \$3.57, which leads to a cost per lead of \$40 and a cost per sale of \$143. Compare that with \$18 per sale from Yellow Pages space ads, \$48 per sale from Yellow Pages display ads, and \$20 per sale from IYP ads.

Retail/Ecommerce has the highest paid search sales conversion rate at 4.9% with a cost per sale of \$73, still considerably more expensive than the cost of acquiring a sale through Yellow Pages.

The cost of acquiring a new customer through Yellow Pages display ads is roughly one third of the cost of obtaining a new customer through Paid Search. Search delivers high volumes of leads, but those leads do not offer anywhere near the chance of making a sale than the leads obtained through Yellow Pages. The cost of retaining a customer through Yellow Pages space ads of \$18 is one seventh the cost paid through Paid Search. Similarly, the cost per customer obtained through IYP ads is one seventh of the cost through Paid Search.

Other Direct Media

The experiences of those that utilize other direct marketing vehicles are summarized below.

	<i><u>Sales Rate</u></i>	<i><u>\$/sale</u></i>
Telephone - house file	10.4%	\$81.8
Telephone - prospect file	6.2%	\$309.3
Catalog - house file	3.4%	\$68.0
Catalog - prospect file	0.5%	

Postcard - house file	2.8%	\$107.6
Postcard - prospect file	1.2%	
DR Magazine Space Ads		\$133.0
DR Inserts		\$68.1
DR Radio		\$184.0
DR Newspaper Space Ads		\$62.6

The conversion rate for Yellow Pages is **an order of magnitude or more higher** than all direct marketing alternatives except Telephone marketing to house lists - in which case Yellow Pages is "only" 4 times more effective. The cost per sale through Yellow Pages is significantly lower than all other alternatives.

Even if Yellow Pages' cost per call were twice as high, it would still be competitive with all direct marketing alternatives. And while Yellow Pages does not play the "interest creation" role that direct marketing can play, there is no more effective place to reach and influence customers that are "ready-to-buy" than Yellow Pages. No other medium can compare with the effectiveness of Yellow Pages ads with this valuable segment of the market.

Summary

Clearly, not all "leads" are created equal.

The conversion rate to sales from Yellow Pages is over ten times greater than almost all search and direct marketing vehicles. It takes **18 clicks** from Paid Search to have the same chance of making a sale as one call or visit from a Yellow Pages user.

Yellow Pages remains the most effective medium at reaching and influencing an audience of consumers that are ready to buy and are looking for information to help make their decisions on who to purchase from.

Publishers must take care as they offer bundles of Yellow Pages products along with search products to not just add the "leads" together, but to distinguish the relative values of the leads from each source to a business.

Businesses must similarly be wise in their allocation of their advertising dollars to not focus just on the top line "lead" counts, but to focus on the quality of leads from each source and the effective cost per sale from each vehicle. Large numbers of leads do not necessarily translate to large numbers of sales.

Sources:

Marketing Sherpa, "2011 Search Marketing - PPC Edition"
DMA, "2010 Response Rate Report"
Shop.org, July 2011
"Shopping Carts for Websites," Sept. 2010
Internet Marketing News & Commentary, June 2009
Target Marketing Magazine, August 2007 (Forrester research)
G. Adams, Ezine articles, August 2011
CRI, 2007
K. Gold, "Website Conversion", July 2007
IBM Coremetrics, Cyber Monday 2010, Online detail.
Fireclick, August 2011
Bluecorona.com, June 2010
iMediaConnection, 7/18/11