
The True Cost of Poor Prospecting

By Steve Richard



VORSIGHT

Start here. End with results.

In survey after survey, VPs of Sales continually cite their top priorities as:

1. Revising lead generation programs.
2. Building sales pipeline.
3. New customer acquisition.

Many sales teams have turned to marketing leads, automated nurturing, and channel partners as a means to address these sales challenges. However, an overreliance on marketing and the channel can be a dangerous thing. Though well-intentioned, these corporate initiatives are ruining your sales team.

Conversations with sales and marketing leaders confirm this notion. A Director of Marketing at a software firm said, *"My team members are like baby birds...they are always just waiting for mama bird (marketing) to drop another worm (lead) in their mouths. I just got an email from my team saying that they have nothing to do because they already called all the leads."*

A VP of Sales at a technology hardware company said, *"My team is completely dependent on the channel, but the channel doesn't care if they sell our solution or Cisco's. Unless we generate demand with the end user directly, the channel has no reason to bring us into the conversations."*

Furthermore, a major CRM provider EVP said, *"My channel partners are always coming back to me asking for more leads. I tell them, 'Hold on...let me go over to my secret vault where I keep all the leads and get some more for you.'"*

In response to missed revenue goals, sales leaders mandate dedicated prospecting times and call blitzes. This makes sense in theory: to close the sales gap, let's rally around the common need for prospecting to build sales pipeline.

You get everyone prospecting and the activity is high, but 30 or 60 days into the campaign, the results in terms of quality opportunities created just aren't there. VPs of Sales presume that the high priced sales reps they hired know how to prospect. This is a very costly mistake. **The reality is that your well-paid sales team lacks the skills needed to prospect in the age of social media and lower connect rates** (22 dials per actual executive conversation).



The True Cost of Poor Prospecting #1:

Direct Cost of Sales Rep Time. Calculate the cost of the time that your sales team spends prospecting. Divide that by the number of quality opportunities created (be sure to eliminate the fluff that the reps enter into your CRM to inflate the number) to see your direct salary cost of each sales generated opportunity.

Example: An enterprise sales team of 120 field reps with an average base salary of \$150,000 spends one day per week on call blitzes using traditional ad hoc prospecting. The call blitz campaign lasts for three months.

$$\text{Cost} = 120 \times \$150,000 \div 200 \text{ business days/year} = \$90,000/\text{day}$$

$$\$90,000/\text{day} \times 12 = \mathbf{\$1,080,000}$$

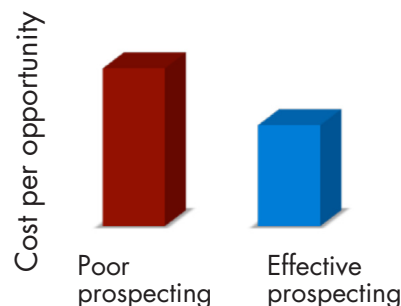
The three month blitz incurs direct costs to the organization over \$1 million in field sales rep salaries alone.

Now let's assume that each rep creates one new opportunity per week vs. a goal of two. Over the full three months, each rep creates 12 opportunities or 1,440 across the team. How much does each opportunity cost?

$$\text{Poor prospecting cost per opportunity: } \$1,080,000 \div 1,440 = \mathbf{\$750/\text{opportunity}} \text{ created}$$

Management believes that if the field sales team has a more effective method for prospecting, they could double the number of opportunities created in the same amount of time for the call blitz.

$$\text{Effective prospecting cost per opportunity: } \$1,080,000 \div 2,880 = \mathbf{\$375/\text{opportunity}} \text{ created}$$



The true direct cost of ineffective prospecting for the call blitz days is half the base salaries of the field sales teams in this case \$540,000. Simply put, investing around \$100,000 in sales prospecting training, coaching, and reinforcement allows the enterprise sales team to **create the same number of opportunities in half the time saving \$540,000 in direct salary costs alone.**



True Cost of Poor Prospecting #2:

Investments in Marketing. How much money is your organization spending to generate marketing leads? Are you happy with the conversion rate of these leads to opportunities? Do you find that frequently the “lead” is a junior person in the right type of organization, but engaging this lower level person in a conversation leads to a lot of black hole, go nowhere opportunities?

Poor prospecting means that you aren't getting as much ROI on marketing leads. How so? Sales reps fall into the trap of qualifying the contact rather than qualifying the account. If a non-executive drops his card in the fishbowl at the trade show, why call that person? Your best sales reps use that person as a clue that there may be a potential opportunity. Before making a call, they look at the Internet and engage the switchboard operators and administrative assistants to map the org chart, get direct lines, and do a little bit of research on the company and correct executive.

Through pre-call research, your sales reps can identify the true decision maker and develop compelling, intelligent talking points. By delivering the right message to the right person at the right time, the sales rep converts more of the marketing leads into qualified opportunities. This approach is vastly superior to the prevailing practice of “Call the leads!”

The cost per lead on a marketing campaign falls dramatically when the sales reps follow prospecting best practices.



True Cost of Poor Prospecting #2: Investments in Marketing.

Let's assume a \$1,000,000 marketing campaign budget that generates 10,000 leads.

$$\$1,000,000 \div 10,000 = \$100/\text{lead}$$

With poor prospecting, 16% of the leads convert to opportunities. With effective prospecting, 25% of the leads convert to opportunities. This follows the notion that calling decision makers with a smarter message than "I see you downloaded the xxx" yields better conversations and more revenue potential.

The marketing cost per opportunity in an environment of poor prospecting is:

$$\$1,000,000 \div 10,000 = \$100/\text{lead}$$

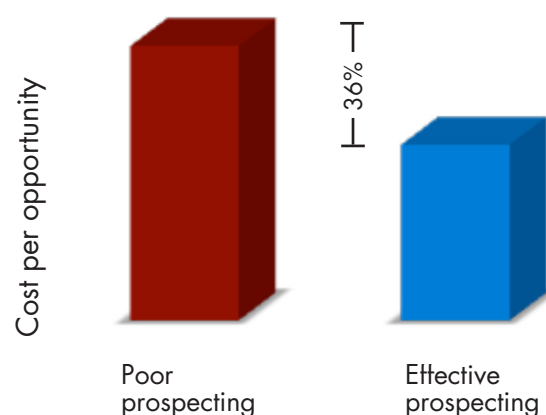
$$\$100/\text{lead} \div .16 = \mathbf{\$625/\text{opportunity created}}$$

The marketing cost per opportunity in an environment of effective prospecting is:

$$\$1,000,000 \div 10,000 = \$100/\text{lead}$$

$$\$100/\text{lead} \div .25 = \mathbf{\$400/\text{opportunity created}}$$

Effective sales prospecting techniques lower the cost of a marketing sourced opportunity by \$225 (or 36%). Your sales reps convert more of these marketing leads into qualified pipeline opportunities. The result is better ROI on marketing campaigns, happier sales reps, and more revenue. Sadly, most sales reps are not armed with the tactics and skills to blueprint organizations to make the most of a marketing lead.



True Cost of Poor Prospecting #3:

Lost Revenue. Direct costs of poor prospecting are expensive, but opportunity costs of lost revenue as a result of poor prospecting are disastrous.

Let's continue with the example of the technology hardware company. This business generates \$1.2 billion in annual revenue and projects \$200 million in new revenue from customer acquisition. The enterprise sales team needs to generate \$100 million of this number while other groups account for the other half. At the current rate of opportunity creation, the enterprise sales team is only on pace to generate half the number, \$50m in revenue, from new accounts.

$\$50m \div 200 \text{ business days} = \mathbf{\$250,000 \text{ in lost revenue each business day}}$

Every single business day the enterprise sales team utilizes ineffective ad hoc prospecting costs the organization \$250,000 in lost revenue. This point is so important, it bears repeating: every day that this company delays to fix the problem of poor prospecting is \$250,000 out the window. Ad hoc prospecting costs your organization a lot of money.

The good news is that investing around \$100,000 in sales prospecting training allows the enterprise sales team to generate new revenue of \$250,000 each business day. Annualized, an investment of \$100,000 has the potential to produce \$50 million in found revenue for an ROI of 17,757%.

Cost of training workshop program = \$100,000

Cost of sales rep time to attend two day workshop = \$180,000

Cost of travel and expenses for the field reps to attend the workshop = \$60,000

$[(\$50m - \$340k) \div \$340k] \times 100 = \mathbf{14,605\% \text{ ROI}}$

No one is naive enough to believe that sales prospecting training alone can generate that great of a return. A stand alone sales prospecting training workshop has been shown to increase our clients' opportunity creation rates by 25-50%. In order to create a more comprehensive solution, companies are investing in a closed-loop program of training, live call coaching, management reinforcement, and metrics tracking. An intelligent sales team, when armed with the right tactics and techniques for efficient and effective prospecting and supported by periodic reinforcement, can produce far more than the team "doing their best" with dated, one-off cold calling.



True Cost of Poor Prospecting

Do the math.

How much does poor prospecting cost your organization every day? How urgent is this to fix? What happens if you do nothing? What are your options to address this issue? How impactful are your organization's current efforts to address poor sales prospecting? Do you have internal teams that can teach prospecting best practices live on speakerphone in front of your sales reps to model the correct behaviors? Are internal efforts moving the needle or is it time to look outside the organization to prospecting experts to help bridge this gap?

* The previous examples and numbers come from interactions with clients. Please insert your actual numbers to the scenarios to get a better picture of the true cost of poor prospecting to your organization.

Equations:

Cost #1: Direct Cost of Sales Rep Time

$$\text{Cost} = \frac{\text{_____}}{\# \text{ sales reps}} \times \frac{\text{_____}}{\text{avg base salary}} \div 200 = \frac{\text{_____}}{\text{cost/day}} \times \frac{\text{_____}}{\text{days blitzing}} = \frac{\text{_____}}{\text{cost}}$$

Cost #2: Investments in Marketing

$$\text{Cost/lead} = \frac{\text{_____}}{\text{mkg campaign budget}} \div \frac{\text{_____}}{\text{generated leads}} = \frac{\text{_____}}{\text{cost L}}$$

$$\text{Poor Prospecting Cost/Opportunity} = \frac{\text{_____}}{\text{cost L}} \div .16 = \frac{\text{_____}}{\text{cost per opportunity}}$$

$$\text{Effective Prospecting Cost/Opportunity} = \frac{\text{_____}}{\text{cost L}} \div .25 = \frac{\text{_____}}{\text{cost per opportunity}}$$

Cost #3: Lost Revenue

$$\text{Total Cost of Training} = \frac{\text{_____}}{\text{workshop cost}} + \frac{\text{_____}}{\text{rep time cost}} + \frac{\text{_____}}{\text{travel \& expenses}} = \frac{\text{_____}}{\text{cost T}}$$

$$\text{ROI} = \left[\left(\frac{\text{_____}}{\text{incremental revenue}} - \frac{\text{_____}}{\text{cost T}} \right) \div \frac{\text{_____}}{\text{cost T}} \right] \times 100 = \text{_____ \% ROI}$$



About the Author: **Steve Richard**, Co-Founder & Head Sales Trainer, Vorsight



Professional sales trainer, coach, speaker, and author, Steve Richard, is Co-Founder of Vorsight, an award-winning sales effectiveness firm based in Arlington, Virginia. Steve's speaking engagements are interactive, featuring tactics and techniques the audience can use that day. Steve has spoken to large audiences at the American Association of Inside Sales Professionals, Washington Board of Trade, and SolidWorks World. Steve has been featured in the Washington Post and Washington Business Journal and contributed as a guest author to the Harvard Business Review and CNBC's blog. Steve is listed as one of the Top 25 Most Influential Inside Sales Professionals and is also recognized as a Focus.com Sales Expert.

About Vorsight:

Vorsight is an award winning sales effectiveness firm that helps B2B sales teams generate more opportunities with qualified decision makers at target accounts. Getting in the right doors is arguably the most difficult part of the sales process. Thousands of sales reps and marketing & sales leaders validate that the Vorsight approach is completely unique and effective.

Originally founded in 2005 as an outsourced meeting scheduling/lead generation firm, our team has arranged over 10,000 completed appointments with decision makers resulting in over \$20 million in new revenue for our clients. At Vorsight we constantly harvest new ideas from our team of inside sales professionals. We take what works...the best tools, tactics, and techniques from our own business and provide our clients with a proven path to find more opportunities and generate more revenue.

Typical sales training companies teach tired methods that quickly become obsolete. Vorsight takes a different approach. We borrow best practices from our meetings business and graft them onto other sales effectiveness programs like sales prospecting training, management training, and even building a client lead generation team from scratch. Ongoing coaching, reinforcement, and management support ensure that Vorsight's DNA thrives in your organization for years to come.

Everything we do centers around live calling on speakerphone into your target accounts. Demonstrating tools, tactics, and techniques with real accounts, in real time, gets sales reps to buy in immediately. Clients love this "let's stop talking about it and let's pick up the phone" mentality. Workshops are incredibly interactive with no Power Point slides. It's all about practical application of skill in the real world. In some cases clients see instantaneous ROI when live calls to decision makers in the workshops result in identified opportunities that quickly close.

If you need to fill the top of your sales funnel with more qualified meetings or build your pipeline of high probability opportunities that you generate from calling activity, then we are your company! We're passionate about sales and confident in our ability to arm you with the tools, tactics, and techniques necessary to be successful.

In 2010 and 2011, the American Association of Inside Sales Professionals recognized Vorsight as "Sales Training Provider of the Year." Vorsight is a privately held company in the metro Washington, D.C. area.

