



Chapter 4

THE DEMAND FUNNEL: THE PATHWAY TO REVENUE

When I was at Ellie Mae, we launched a demand-generation campaign that I thought was pretty darn successful. We had hundreds of people filling out forms and requesting free trials. When we hit 1,000 leads, brimming with confidence, I strolled over to Joe in sales and, with as much false modesty and casualness as I could muster, asked, “So, hey, what do you think of all these leads we’ve generated?”

“David, let me put this to you simply: Your leads suck.”

I imagine I must have given it the old cartoon head-shake double-take. What? We were *cranking* out the leads. How could he have a problem? Well, it turns out his problem with our performance was legit. We were generating lots of inquiries from loan processors. Yes, they can influence a sale—but the sales folks don't want to spend much time with them because they aren't the decision makers. It's the mortgage brokers who make the software-procurement decisions for their business. They were the "king salmon" that sales was looking to land. By contrast, we were capturing little more than large schools of minnows in our nets.

Virtually every marketer has heard the complaint—in any variety of G, PG-13, or R-rated versions: The quality of the sales leads simply doesn't measure up to the sales team's expectations. The sales team considers a lead to be someone who's ready to talk to them *now* and who can approve and fund the purchase. Marketing, however, has often fallen into the trap of using the term "lead" to mean anyone who's responded in any way to a lead generation campaign.

I know that, early in my career, I considered any "hand-raiser" to be a lead. But, like Joe, my counterparts in sales viewed a lead only as a prospective buyer who was ready to buy from the right person, right now.

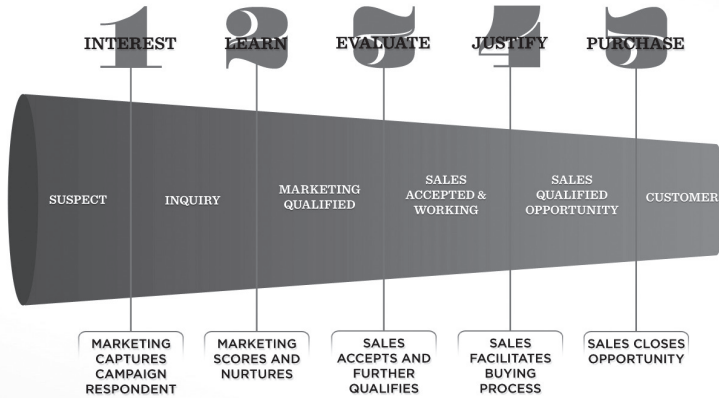
So, the first step in improving alignment between sales and marketing—in creating a Lead Management system (an umbrella term encompassing the set of *integrated*, unified processes and systems for funneling prospects through a process with scoring and nurturing)—is to find a common vocabulary and glossary of terms that each group can agree upon.

Just this first milestone alone will go a long way in helping us reduce what has been inevitable friction and create a systematic and structured framework—*Demand Funnel*—for categorizing

prospective customers. Defining the Demand Funnel is an important early step in the alignment of sales and marketing, and, as such, *must* be a collaborative process between the two camps.

INTEGRATED SALES & MARKETING FUNNEL

KEY STAGES OF THE B2B BUYING PROCESS



WHAT IS A LEAD?

Can we agree on something right here and now? Let’s STOP calling something a “lead” if it isn’t a lead! In fact, we could eliminate the use of the standalone word “lead” entirely. Every time we use the word “lead” it should come with a qualifier: a marketing qualified lead, a sales accepted lead (we’ll explain those terms shortly).

I have a favorite question I like to ask audiences at my seminars and workshops, one that is deceptively simple: “What is a lead?” Can’t be that hard to answer, right? Well, I’ve had the privilege of asking that question to thousands of people in venues around the world—and the answers are *never* alike. The definitions vary—sometimes significantly—and those differences are revealing. We need to bridge those differences and create a common understanding.

CREATING THE TAXONOMY OF LEAD MANAGEMENT

The Demand Funnel is both a language and a process model for how leads move from inquiry to customer. Defining its stages gives you the foundation for segmentation, scoring, routing, nurturing, and reporting and creates that common language between sales and marketing.

But note: Simply creating the stages and declaring “we have a funnel” is nowhere near enough. We need to conduct a detailed exercise to clearly assign meaning, ownership, and process to each stage of the funnel and fully adopting the new Demand Funnel as the foundation for generating demand and following through on it.

Think about the shape of the funnel. Typically, the *narrowest* part, the bottom, has the entire sales staff assigned to it. But the *widest* part—where all the prospects enter—is the responsibility of far fewer marketing people. As marketers, our job is to generate a lot of responses to fill that funnel and make the top as wide as possible. But as the shape suggests, fewer and fewer will move down each stage, which is why we need a well-defined system—underpinned by a factory mentality and sophisticated marketing automation—to make that happen efficiently and effectively. An effective Demand Funnel includes:

- Agreed-upon stage definitions and a taxonomy
- Defined stage ownership and triggers for conversion between stages
- Service level agreements (SLAs) for each stage
- Marketing automation and customer relationship management systems to support the funnel model and processes
- Forecasts and measurements for the quantities of each stage and the conversion percentages between stages

A USEFUL TAXONOMY FROM SIRIUS DECISIONS

The original Demand Waterfall introduced by SiriusDecisions offers us a very useful framework for thinking about a standard, serviceable Demand Funnel, and I can heartily recommend it as a starting point for a taxonomy in your organization.

- **Suspect**—An unidentified potential buyer in the total available market for the product or service.
- **Inquiry**—A raw response or hand-raiser. Relatively little is known about the prospect at this point.
- **Marketing-Qualified Lead**—An inquiry that meets minimum fit criteria (qualification and interest) as jointly defined by sales and marketing and is ready for sales engagement.
- **Sales-Accepted Lead**—A lead that has been formally accepted by sales, which must work the lead within a given timeframe to determine if a qualified opportunity exists.
- **Sales-Qualified Lead**—Sales has confirmed that a viable opportunity exists and has committed it to the pipeline with an estimated dollar value and timeframe to close.
- **Customer**—An opportunity that has come to fruition.

This initial taxonomy is great starting point for B2B organizations, but don't feel you must force fit your process into these defined stages and terms. You may have to incorporate teleprospecting into your stages, and you may want to drop the word "lead" altogether from the stage names. You certainly can and should consider customizing or expanding this taxonomy to comfortably align with and support your specific sales and marketing process. That said, too many stages and non-intuitive definitions might suggest an overly complicated process that will undoubtedly make adoption and reporting more difficult.

OPERATIONALIZE THE TAXONOMY

Next, we must take the agreed-upon taxonomy from the whiteboard and populate it into our marketing automation and CRM systems. That means setting up actual fields in those applications and the workflow to move prospects through the funnel. What makes a lead sales-ready? What's the difference between an inquiry and an MQL *in your business*? When should marketing hand off a lead to sales? What are the criteria for defining when a lead has matured enough to enter the next phase of the funnel? These are some of the questions we must answer to transition from the theoretical discussions to actual praxis.

I know first-hand that very few companies have the strategic and technical experience to implement this framework. The companies that have been most successful leverage outside firms (like my company, DemandGen) to facilitate the process and implement it. That's not supposed to sound like a selfish plug. I simply envision you probably asking yourself right now, "OK, David, who the heck in my firm would know how to do this?" and the answer is "Probably no one." OK, maybe it's a plug.

You may have noticed that the stages so far account for prospects moving down the funnel toward the ultimate one: Customer. But what do we do about those who are not yet ready to buy?

BELIEVE IN RECYCLING

Naturally, not every lead flows neatly through the Demand Funnel in an orderly way. Some leads stubbornly remain in early stages of the Demand Funnel. In fact, in most cases, fewer than 10 percent of inquiries will result in closed/won business. To address those stuck leads, we must expand the Demand Funnel to include a couple of additional stages that happen *outside* the funnel.

- **Recycling**—The handoff to sales takes place, but the prospect doesn't respond or doesn't have a budget, or some other roadblock crops up somewhere down the funnel. Nonetheless, sales thinks this prospect still may have potential in the future. The prospect status is set to "Recycled," placing it back into the funnel for further nurturing with the goal of reengagement at a later time.
- **Disqualified**—If the inquiry name is something like "Mickey Mouse" from GetLost.com, we can safely assume that it will never develop into any sort of opportunity. We should disqualify it to prevent it from being any further distraction to our sales or marketing efforts.



The power of the Demand Funnel not only comes from creating a common language for sales and marketing, it also stems from the ability to measure volume and velocity toward the end

of the pipeline. Following the manufacturing analogy, the Demand Funnel lets you measure raw materials (inquiries), work in progress (qualified leads), waste (disqualified leads), and output (customers). Your vice president of sales will be a hero when he can confidently report the pipeline status, because he will know the conversion metrics down the funnel and the volume in each stage.

We'll get into analytics later—in Chapter 7. But for now, the key performance indicators of our Demand Funnel will track how many leads are in each stage. What percentage convert from stage to stage? How long does each conversion take, on average? What are the high and low outliers? The goal is to clearly see the *quantity*, *velocity*, and *predictability* of closed/won sales from higher stages of the funnel where marketing is generating volumes of inquiries and marketing qualified leads.

MANUFACTURING DEMAND IN ACTION

visionapp

As an active player in the cloud computing market for more than a decade, visionapp supplies software and services for private, public, and hybrid cloud solutions. Having deployed a marketing automation system, visionapp was eager to set up a comprehensive automated event invitation and registration process for its CloudFactory roadshow, an event for professionals exploring the emerging trend of cloud computing.

“We felt that our marketing automation system could benefit visionapp in several ways,” said Marina Walser, chief marketing officer. “We wanted to enhance our ability to track and measure the CloudFactory campaign’s effectiveness, and improve event attendance.”

The Secret Recipe: Infrastructure, Integration, and Tracking

First, the team ran a data audit to assess its prospect profiles—were they complete and did they use appropriate levels of standardization? Next, the database was segmented based on gender, language, and other event-specific criteria, then standardized to allow better targeting. Next, the team designed the program flow and integration with external portals and Web pages. Data needed to flow seamlessly from one system to another to provide a better customer experience from the first click to the actual registration.

Finally, the program leveraged a prospect's digital footprint by tracking activity and interactions. This drove up registrations by creating a relevant dialogue, because the program was tailored to match a prospect's online behavior and engagement level. Each communication was highly customized, event-triggered, and delivered real-time.

The Numbers Tell a Story of Success

The results have been excellent for visionapp. The company reported a higher email open rate that it attributes to the relevancy, timing, personalization, and segmentation applied. Open rates were up to 20 percent for inactive contacts and 47 percent for active and engaged prospects. In addition, visionapp saw an increase in the clickthrough rate when targeting active contacts.

While these metrics prove that automated, well-designed programs have a significant impact on soft metrics, ultimately visionapp's goal was to drive registration. The result there was very impressive: Registrations increased from 5–10 per show to 90 per show—an increase of as much as 1,700 percent.

MANUFACTURING DEMAND IN ACTION**e.Republic**

When e.Republic, Inc.—a leading publishing, research, event, and new media company—decided to implement marketing automation, the requirements were particularly complex. e.Republic offers several controlled-circulation publications to select targeted audiences. Each year, it sends out 25 million emails to a database of more than a quarter of a million people. To maintain its certification from BPA Worldwide, which provides independent assurance to advertisers that a publication’s data tracking processes and systems are accurate, e.Republic must meet stringent requirements.

“BPA rules prevent us from having one form for subscribing to multiple publications, so we collect a *lot* of data,” says Drew Noel, e.Republic’s Corporate Marketing Director. “We needed to manage subscription data from all our various publications, which have many custom aspects.”

Because of the sophisticated nature of e.Republic’s email marketing needs, the company implemented a popular marketing automation system for lead scoring and nurturing. After an intensive training and implementation cycle, the company has achieved significant gains—particularly in marketing operations, where the company has saved time and achieved greater accuracy.

- **Analyzing Relationships**—e.Republic was able to quickly “cookie” a significant portion of its database, connecting all of its key contacts in the CRM system, to analyze the depth of Web visits, see what actions visitors are taking, and uncover relationships between online and offline

content. “We had really no way to do that before,” said Noel. Overall, ***open rates have increased by 17 percent and effectiveness has increased by 22 percent.***

- **Campaign Speed**—The system has cut campaign execution time from weeks to hours or minutes. “Before, emails had to be created almost from scratch every time. Now we can repurpose emails in minutes,” Noel said. “The IT department used to be involved in creating a single Web landing page, which took about two weeks for turnaround. Now a marketing staffer can do it in an hour.”
- **Accurate Reporting**—On the reporting side, e.Republic has much greater accuracy, as well as a broader range of reporting options. “We became very familiar with the reporting interface and the vast amount of metrics available,” said Noel.
- **A Clearer Picture**—e.Republic produces more than 150 events annually and is using its MA tool for event registration. “All our registrations integrate with the CRM system, so we have a full picture of all our event attendees, and a fully unified database that is very clean.”

Using Marketing Data to Create Dynamic Editorial

e.Republic’s future plans include applying the principles of lead scoring to all audiences. “We’ve learned that implicit (behavior-based) data is much more accurate in telling us what content a consumer really wants than explicit data (what they have told us),” Noel explained. “So we want to only push out the stories that a reader is interested in, cut email traffic, and maintain or increase website traffic.”

KEY TAKEAWAYS

- A Demand Funnel is a conceptual framework—based on agreement between sales and marketing—for tracking leads as they proceed through the buying cycle.
- The Demand Funnel includes:
 - Agreed-upon stage definitions and a taxonomy
 - Defined stage-ownership and triggers for conversion between stages
 - Service level agreements (SLAs) for each stage
 - Marketing automation and customer relationship management (CRM) systems to support the funnel model and processes
 - Forecasts and measurements for the quantities of each stage and the conversion percentage between stages.
- The SiriusDecisions “Demand Waterfall” Taxonomy is a great starting point:
 - Suspect
 - Inquiry
 - Marketing-Qualified Lead
 - Sales-Accepted Lead
 - Sales-Qualified Lead
 - Customer
- Believe in Recycling—Sometimes good leads just aren’t ready yet. Don’t throw them out.
- Understand the volume and velocity of your Demand Funnel.