



# The Definitive Guide to Sales Lead Qualification and Sales Development



## Introduction

One of the best pieces of organizational wisdom I've ever received is to pay the most attention to "batons" that cross functions. Wherever two or more departments share ownership and responsibility, conditions are ripest for problems.

This is especially true in the handoff between marketing and sales. We've written a lot about this topic: even though Sales is from Mars and Marketing is from Venus, companies that leverage the virtuous cycle and practice the three truths behind sales and marketing alignment can bridge the gap and drive outsized revenue growth. Some of these best practices include common definitions for a qualified lead between marketing and sales; lead scoring to identify suspected quality leads; a strong lead management process to manage the handoffs; and the use of marketing automation to power the whole thing.

In addition to those techniques, I believe the secret to a truly high-performance revenue engine is the effective use of a Sales Development team. (Others refer to this group with different titles: Lead Qualification, Lead Generation, Business Development or even Inside Sales, though I don't prefer that label since it incorrectly implies the group carries a revenue quota.)

Whatever their exact name, these Sales Development Representatives (SDRs) have one exclusive focus: to review, contact and qualify marketing-generated leads and deliver them to Sales Account Execs. Aaron Ross and Craig Rosenberg are two of the biggest advocates of having a separate sales development function. As Craig says, "The most successful lead generation/lead management programs have dedicated phone resources whose sole job in life is to take raw inquiries and qualify them before they are sent to sales."

“ Put simply, SDRs pass the baton from marketing to sales. ”

# Seven Ways that Sales Development Reps Drive Revenue

A Sales Development team can enhance revenues in the following ways:

1. **More consistent and better quality follow-up on leads = better conversion of leads into opportunities.** Marketers live and die by whether their leads turn into opportunities. So when you have a qualified lead, you don't want a sales rep to call once and leave a voicemail. You want someone whose sole job in life is to reach your leads, overcome objections, make sure they are a fit, and get them connected to sales teams. Craig Rosenberg illustrates this point with a story about two of his clients at Focus: Both get the same leads, but one passes the leads directly to sales while the other has an optimized lead qualification group. Can you guess which one converts only 5% of their leads and which converts 40%? (Answer: the client with a Sales Development team converts eight times the number of leads.)
2. **Faster lead response times = better conversion rates.** When a lead submits an inquiry on your website, the faster the response the better. According to a Lead Response Management study, the magic number here is five minutes. A five-minute lead response means you're four times more likely to qualify that lead than a 10 minute response, and a staggering 21 times more likely to convert than after 30-minute wait. SDRs can focus on this fast response time whereas it will never be a quota-carrying reps top priority to jump on an inbound lead.
3. **Better economics.** You want your expensive salespeople closing business with qualified customers, not educating raw leads, talking to people who don't want to talk to them, or worse, talking to tirekickers and other unqualified prospects. It makes much more sense to have low-cost SDRs talking to leads and passing just the right ones onto sales. When sales



reps can focus on closing business with qualified decision makers, the economic gains are astounding. According to some industry rules-of-thumb: A 5% increase in selling time can yield a 20% increase in revenue, a 1% increase in pipeline value can yield a 25% increase in revenue, and a 15% decrease in the length of the sales cycle can yield a 30% increase in revenue.

4. **The human touch enhances lead nurturing.** Whether or not leads are sales-ready, SDRs can nurture relationships with each interaction. By talking with more leads, you can offer personalized thought leadership and value around a lead's individual pain points, and cultivate future demand. For best practices here, tune in for Marketo's Revenue Masters Webinar on May 4.
5. **Superior data.** It's an all too common complaint that salespeople don't update information about the leads in their CRM tool – but it's much easier to have SDRs enter proper information. This means marketing gets better data accuracy and information they can use to optimize future lead generation efforts.
6. **Improved revenue cycle analytics.** By adding a stage between marketing and sales, you'll be able to track conversion rates and other key metrics in a more granular fashion. This means when problems arise, you can isolate causes and resolve them faster and with better follow-through than if you lump together the responsibilities of qualifying and closing leads.

7. **Talent development for sales.** Your Sales Development reps can play an important role in your sales talent pipeline, effectively serving as your "farm team" for future quota carrying reps. This gives you the opportunity to bring on sales talent that already understands your business, is proven to work in your culture, and knows your processes and cadence on day one. In a world where one in three hires can prove to be misses, an SDR function can greatly reduce your hiring risk.



## Common Questions about The Sales Development Process

Once you've decided to build a lead qualification team, you have to make hundreds of decisions about how to manage the process. Here are some of the best practices I've learned over the years.

### 1. When Should Marketing Pass a Lead to the SDRs?

If Sales Development were an engine, lead scoring would be the oil. It probably does not make sense to call ALL your prospects, so best practice is to use lead scoring to identify the best possible lead for your team.

At Marketo, we score our leads in three ways: a "fit score" quantifies how well a person matches our ideal target; an "engagement score" accounts for a lead's level of interaction with Marketo's content and thought leadership; and a "buying intent score" tracks when a lead demonstrates key purchase indicators.

Those three scores then interact with each other to determine who we pass to the sales development team as leads, as follows:

With these rules in place, each month we end up passing about 10% of our new names over to sales development as leads. We also pass about 4% of the active qualified prospects already in our database each month. Together, this translates into about 2,000 marketing qualified leads (MQLs) per month. PS: Check out my webinar for more lead scoring best practices.

Fit	21+ Super-Target		Lead	Lead	Lead
	9-20 Target			Lead	Lead
	2-8 Other				Lead
	<2				
Interest	Engagement	<20	20-44	45-89	90+
	Buying Intent	<6	6-15	16-19	20+

## 2. When Should SDRs Pass a Sales Lead to an Account Executive?

Your SDRs' lifeline is how well your enterprise defines a sales-ready lead and mobilizes around that definition; only true alignment around a unified definition will position your SDR program for continued victory. Here is some common criteria companies use in their definition of a sales-ready lead:

- **Target company.** The prospect must work somewhere that could purchase your solution. Look for businesses similar to those who have already purchased solutions like yours.
- **Right person.** Ideally, your contact should be able to make the decision, or at least have access to someone who does, like a VP or Director (e.g. "access to power").
- **Relevant pain.** Does the decision maker feel financial pain? If you aren't talking to the decision maker, ask: "who else experiences this challenge besides you?"
- **Defined timing.** Is the prospect willing to evaluate your solution in a defined time period of time, and is there a specific next step: a discovery call, a demo, etc.

## 3. How Do You Determine Which Leads are Accepted by Sales?

Once a lead meets your criteria for sales lead, you have several options for managing the workflow. Some companies, such as Salesforce, have their SDRs create early stage opportunities and then track when sales reps move those opportunities into subsequent stages. Marketo takes a simpler approach: once an SDR qualifies a sales-ready lead, we assign it to an account executive who then converts it into an opportunity. In both cases, the sales rep will typically conduct a discovery call before accepting the lead and moving it forward. At Marketo, account executives must create an opportunity if the discovery call generates any action items or next steps for the Sales rep.

## 4. How Should I Allocate Leads to SDRs?

The three main options are (1) assign leads randomly or via round-robin assignment, (2) by putting leads into a queue and letting free SDRs grab them first-come-first serve, and (3) by assigning each SDR to a territory.

At Marketo, we pair SDRs to specific Sales Account Executives territories. This tight alignment between SDRs and SAEs is critical for good communication and seamless lead transfer; we also encourage SDRs to sit in on SAE discovery calls (and vice versa) for educational purposes. The territory-based assignment also has the benefit of allowing an SDR focus their calling-day to specific time zones (our SDRs who cover the East coast start at 5:30 am PT, while West coast SDRs end their day much later). The main disadvantage to territories versus round-robin is that it is harder to balance SDR lead flow across territories, especially as we grow.

## 5. What Kind Of Conversion Rates Can I Expect?

This depends heavily on how you define the stages of your revenue cycle, but my advice is to put the key “pinch-point” in your funnel right at the SDR to Sales hand-off. This means you have inexpensive SDRs call a relatively large number of leads to make sure you don’t miss any opportunities, but then only pass very highly-qualified leads to the expensive account executives. In fact, a recent SiriusDecisions study shows that this kind of strict lead qualification can drive improved sales results.

At Marketo, our SDRs pass 7% of all Leads to the Sales team as “Sales Leads” (e.g. MQL to SAL) and Sales accepts and converts a whopping 80% of them into Opportunities (SAL to SQL). This is important since it instills a high confidence in our account executives that SDR-generated leads are high quality, which is critical to ensure good follow-up by the sales team.

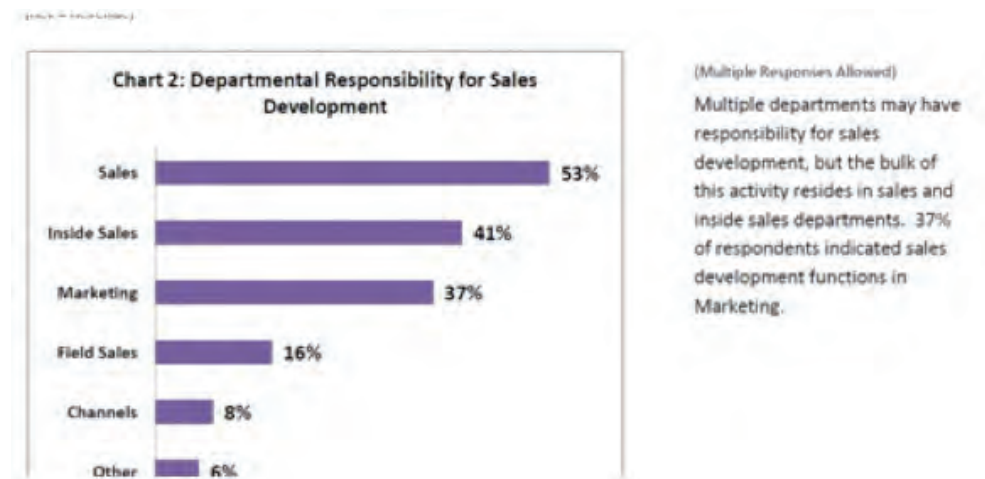
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For this reason, it’s also a good idea for SDR managers to review qualified leads before passing them to sales – at least for new SDRs. Also, be sure to track conversion of qualified leads into opportunities by SDR over time, since this is a key metric of relative SDR performance.



# How to Design and Build a High-Performance Sales Development Function

You've mapped out the process; now it's time to put your people in place. Here are some of the metrics and processes we've learned work best over the years.



## 1. Should Sales Development Report to Marketing or Sales?

According to Phone Works, Sales Development teams report to Sales about twice as often as to Marketing.

However, I think that reporting to marketing is a best practice. Here's why:

- **Aligned incentives.** At the end of the month or quarter, Marketing and Sales Development are concerned with leads and pipeline creation, while Sales cares about whether or not deals have closed. It's in your best interest to align these

incentives up the SDR management chain.

- **Streamlined measurement.** When sales development reports to marketing, it makes it easier for Marketing to be measured – and compensated – for creating sales pipeline. This is because Marketing is responsible for everything before pipeline (e.g. they are only one step away from their goal). When Sales Development reports to sales, it puts marketing's key metric (sales pipeline) two steps away from their control.
- **One throat to choke.** From a management perspective, putting marketing in charge of sales pipeline development can do wonders for eliminating finger-pointing. Put another way, if marketing is responsible for lead follow-up, you can say goodbye to “we sent over X leads; they just didn't follow-up well.”
- **Better closed-loop feedback.** Increased synergy between Marketing and Sales Development means increased transparency around lead quality feedback, which is essential for refining the process.
- **They play by the same rules.** Like B2B marketing, lead qualification is a number and metrics game. Why place a golf ball on the tennis court when it's intended for the green?

## 2. How Many SDRs Do I Need? How Big Should The Lead Qualification Team Be?

The cost of calling an incremental lead that is not ready to become a sales lead is very low versus the cost of not calling a qualified prospect and missing out on a deal. This suggests that you should set your lead scoring bar low enough so your SDR team calls a relatively high number of people. This suggests you should bias towards more SDRs than less. Depending on your ASP, an incremental SDR will easily pay for him or herself by uncovering just two or three incremental deals every month.

The average number of leads each SDR can handle depends on your follow-up process. Marketo's rigorous four-step process involves multiple calls and emails over a three-week period. We base our expectations of each SDR on the following assumptions:

- Each SDR can complete 40 to 60 meaningful activities each day (50 on average)
- There are 20 business days a month
- SDRs work their inbound queue about two-thirds of the time. (The other third comprises outbound prospecting, training, inviting prospects to events, etc.)

Marketo multiplies these numbers ( $50 \times 20 \times 2/3$ ) to gauge how many meaningful activities each SDR should complete every month. Then we divide that number – about 650 – by 2.6 to account for how many times an SDR will call each lead on average. These calculations form our expectation that each SDR can work 250 quality leads per month. Of course, if your follow-up process is lighter, you may find your expectation more in the range of 400+ leads per SDR per month.

You can also approach this issue by looking at the ratio of SDRs to quota-carrying sales representatives. At Marketo, the marketing and SDR team generates 80% more sales pipeline, so we bias towards a relatively low ratio: one SDR for every two or three sales people. If your marketing team generates fewer leads per AE, or if you follow a less exhaustive follow-up process for each lead, this ratio can be as high as 1:4 or 1:5.

## 3. How Can I Hire the Best SDRs?

**Where to look.** LinkedIn is an excellent resource to find qualified Sales Development candidates. Organizations like the Telebusiness Alliance also provide valuable networking opportunities. Here is an example of a good Sales Development Representative job description you can use as a starting point.

**What to look for.** Marketo looks for the following characteristics in prospective SDRs:

- College degree)
- 6-12 months phone experience
- Competitive nature. The ideal candidate should be eager to learn and win.
- Sales DNA. Solid internships and leadership positions in sports, clubs, fraternities/sororities, etc.

Finally, make sure candidates conduct themselves well on the phone. I personally do a "role play" with all finalist candidates to get a sense for this. How do they handle objections? How well do they close? It's amazing how many applicants who look good on paper don't handle this well!

## 4. How Much Should I Pay My SDRs?

Phone Works says the average SDR's base salary was \$55k in 2011, and total target compensation averaged \$85k. These figures account for SDRs focused exclusively on inbound lead qualification AND those whose purview also includes outbound prospecting. Typically, inbound-only SDRs receive less compensation than their cold-calling counterparts. Given one or two years' experience, entry-level SDRs should receive closer to \$45k in base with another \$15k quota potential.

## 5. How Should I Best Train my Lead Qualification Team?

Marketo trains SDRs much in the same way we train our sales reps: we use the same message training tools and rely heavily on role play scenarios. After about a month, we assign SDRs to a territory and set quota thresholds.

Once a SDR is live, it's a good idea to listen in on or record their calls for progressive coaching purposes. Marketo's open environment also embellishes continued training. Instead of cubes, our SDRs sit together in a bullpen. This setup facilitates collective problem solving and sharing of best practices. Of course, it's essential to have advanced noise-canceling headsets to make this model work!

## 6. Should I outsource the Sales Development function or staff via internal resources?

Though many good agencies exist, Marketo houses its team of Sales Development Reps internally. The reasons for our decision include:

- **Flexibility.** An in-house SDR team allows you to constantly re-prioritize to keep pace and stay ahead. Imagine how much more time you would spend coordinating with an outside agency if you want to focus the SDRs on calling for

a particular campaign this afternoon.

- **Closed loop feedback.** When Marketing and SDRs live in the same office, you have uninterrupted access to more accurate feedback on lead quality. This can help optimize your lean, mean, marketing machine!
- **Easier to whip 'em when you need.** Any questions?
- **The price is right.** It's almost always cheaper to hire in-house when you have sufficient lead volume and the resources to hire and train the right SDRs.
- **Hire from within.** This is the same point I mentioned above. Today's in-house SDRs are the farm team for your future highest earning Sales reps.



## Conclusion

There are many benefits to building a high-performance lead qualification team, but one question that remains is “can’t I just use marketing automation and lead scoring to automate this”? These are critical marketing functions, but they can never completely replace the human touch in lead qualification. You want to make sure every single lead Marketing passes to your Sales team is as qualified as possible, and no automated system, no matter how well designed, will do this as well as a human. Plus, having a human interact with leads gives you an opportunity to move the relationship forward. This means your SDRs should take the time to help each lead, offer them value, make a positive impression, create future demand, and become a trusted adviser – don’t just treat your leads as blank faces to be simply questioned, qualified and harvested.

## About Marketo

Marketo is the revenue performance management company, transforming how marketing and sales teams of all sizes work — and work together — to accelerate predictable revenue. Marketo's solutions are both powerful and easy to use, providing explosive revenue growth throughout the revenue cycle from the earliest stages of demand generation and lead management to deal close and continued customer loyalty.

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