Rethinking Close-Rate Ratios

by Paul Eldrenkamp

A recent trade publication article established a sales close rate benchmark of 20%. As the ratio of leads to sales, a close rate of 20% means that out of every five qualified leads you bring in, your goal should be to turn one into a contract.

To me, setting this kind of sales goal is a mistake. In most contracting companies, the owner is the salesperson. But most company owners don't really like sales all that much or, more accurately, we like it when it's easy but hate it when it's hard (just the opposite of downhill skiing). Given this state of affairs, our goal should be to make our sales efforts as efficient and easy as possible. But spending valuable time chasing five leads and getting only one job out of it (a 20% close rate) is not what I'd call easy or efficient. On the contrary, a close-rate benchmark of 20% seems to say: "My aim is to make sales difficult, and to waste a lot of time on it. If I achieve this goal, I'll consider myself right on track."

Sales vs. Marketing

For me, a better approach is to think about the difference between sales and marketing. For you to close a sale, your prospective clients need to shift their thinking from merely wanting a job done by someone to wanting the job done by you. Most contractors view this shift as the goal of the sales process, but few realize that it's possible to effect this shift *before the prospective client calls you in the first place*. In other words, when the shift occurs after the prospective client calls, that's good sales. But when the shift occurs *before* the prospective client calls, that's good marketing — no, that's *dynamite* marketing. And the goal of dynamite marketing is to provide the best overall service and value to your clients and, in so doing, turn as many of your clients as you can into "evangelists" for your business.

The concept of turning customers into evangelists — a useful analogy first popularized by Guy Kawasaki, formerly of Apple Computer — has nothing to do with door-hangers, truck signs, newsletters, advertisements, or Web sites. These marketing tools have their place, but they can distract you from the real task at hand, which is to make sure that prospects hear good things about you from past clients. If they hear good things about you from one past client, they will want to talk with you seriously. If they hear from two past clients, they will probably want to hire you. If they hear good things about you from *three* past clients, they will call you and no one else. And when they call you, it will be to tell you that you have the job.

Chances are pretty good that you now spend sales time, not marketing time, trying to encourage prospective clients to shift from thinking "job done by someone" to "job done by you."

> A third of your leads should be from people asking you to do the work

Your marketing is probably pretty conventional, and generates a lot of calls from "job done by someone" prospects, some of whom may even be repeat clients. You field a lot of requests for meetings and bids and free consulting, but you're rarely sure until 10 or 15 or even 40 hours into the sales process if you're going to get the job.

Getting back to the 20% close rate benchmark, if you need to chase 100 leads to get 20 jobs a year, and if it takes 10 hours to find out if a qualified lead is going to hire you, then you're wasting 800 hours a year — or 20 weeks of vacation — on the 80 jobs you don't get. Believe it or not, that's what the 20% benchmark suggests you aim for: Your goal is to waste 800 hours this year; and if you manage that, you're right on track.

But if many leads call you to ask you to do the job rather than just to price it out, not only do you have clients as good evangelists, your marketing has done a good job of positioning your company. People know what kind of company you have before they call you. If you have a high proportion of "job done by you" calls, you probably also have a low proportion of nuisance leads for projects way outside your repertory.

Pre-Sold Leads

Imagine how easy your sales efforts would be if most of your calls were from people who were already thinking "job done by you." It's an extremely strong position to be in. Sure, you still have to discover if it's the type of work you can do well, a client you can work with, and a budget and schedule that make sense, but I can usually find all that out in two hours. After that, all of my time is spent working out the details and producing the job. Not much sales time wasted there. Not much sales time spent, period.

If most of your leads call to ask you to do the job, a close-rate percentage becomes almost meaningless, because it now depends on your production capacity and the local economy. In a strong economy, for example, your close rate could be as low as 5% if you choose not to expand production capacity. In other words, you're fully booked with jobs you want to do for clients you want to work with at a gross profit target you're happy with, so you're turning work down.

On the other hand, if you choose to take on more work (and can find good help to produce it), your close rate could be 50% or more. Even at that, the reason you won't get most of the other 50% of the jobs won't be due to a failure of sales or marketing; it will be a conscious choice on your part to turn down the work.

Looked at this way, almost any close-rate percentage would be healthy if you're meeting your overall revenue and gross profit goals. So my advice is to demote close rate to secondary status. Instead, pay attention to the number of pre-sold leads you get. In other words, compare the number of "job done by me" leads to the number of "job done by someone" leads. If you've been in business five years or more, I think a third of your leads should be from people asking you to do the work. If not, maybe you should be asking yourself if you're really as good a contractor as you think you are.

If a third of your leads are from people already committed to hiring you when they call, you can concentrate on selling only those jobs from this group of leads that meet your standards for type of work, client compatibility, and gross profit goals. Your true close rate, then, is the ratio of the number of leads on which you spend a lot of time — say, more than 3 hours (my own benchmark) — to the number of these leads that you sell. Given this scenario, I think your close rate should be very close to 100%.

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