

WHAT LEAD GENERATION FRAUD COSTS YOU (+ Prevention Tips)



For any business, being able to gain leads is vital for growing the organization. New leads can translate into new sales opportunities, helping to grow revenue over time. This is why many businesses pour vast resources into lead generation efforts—attracting potential customers who they can convert later.

However, many businesses fall victim to lead generation fraud schemes that rob them of the money they set aside for lead acquisition. How much do companies lose to lead gen fraud every year? How much should a company spend on lead acquisition? What's the value of a new customer to your business?

Here's what every business should know about lead generation fraud.

What Does a Lead Cost?

Cost of a Lead by Industry

The cost of a lead can vary greatly from one industry to another. Part of the reason for this is that some markets are more limited than others, meaning that there's more competition for the same leads.

Table 1: Cost of leads sorted by industry

Industry	Low Cost	High Cost	Average Cost
Financial Services	\$44	\$272	\$160
IT/Computer	\$39	\$370	\$208
Education	\$37	\$66	\$55
Healthcare/Medical	\$36	\$286	\$162
Industrial/Manufacturing	\$33	\$235	\$136
Travel/Tourism	\$29	\$182	\$105
Retail	\$25	\$41	\$34
Consumer Products	\$24	\$41	\$34
Telecom	\$24	\$64	\$45
Marketing Agencies	\$22	\$173	\$99
Media/Publishing	\$21	\$191	\$108
Non-Profit	\$16	\$43	\$31
Business Services	\$39	\$225	\$132
Legal Services (Non-Exclusive)	\$50	\$150	\$100
Legal Services (Exclusive)	\$200	\$400	\$300
Insurance (Non-Exclusive)	\$10	\$18	\$14
Insurance (Exclusive)	\$20	\$50	\$35

Sources: [Linchpin SEO](#), [National Law Review](#), [Insurance Leads Guide](#)



Cost of Leads by Marketing Channel

Another factor that affects the cost of a lead is the specific marketing channel used to acquire the lead. In the following table, you may notice that some channels have a much larger gap between their high and low values than others. This may be because of other factors, such as the industry, level of competition for leads, and differences in specific marketing strategies from companies using those channels.

Table 2: Cost of leads sorted by marketing channel

Marketing Channel	Low Cost	High Cost	Average Cost
Events & Tradeshows	\$180	\$1,442	\$811
Public Relations & Earned Media	\$108	\$480	\$294
Referrals	\$54	\$92	\$73
Video Marketing	\$59	\$288	\$174
LinkedIn Advertising	\$51	\$99	\$75
Webinars	\$45	\$98	\$72
Display Advertising (Premium)	\$43	\$82	\$63
Content Marketing	\$43	\$140	\$92
Display Ads (Programmatic)	\$34	\$42	\$38
Traditional Ads (TV, Radio, Print)	\$38	\$1,200	\$619
Search Engine Advertising	\$38	\$181	\$110
Email Marketing	\$33	\$72	\$53
Online Retargeting	\$22	\$39	\$31
Social Media Advertising	\$21	\$73	\$47
Search Engine Optimization	\$14	\$47	\$31

Source: [Linchpin SEO](#)

The most expensive marketing channels in the above table—traditional media and events & tradeshows—also have the largest gaps between their low and high values. At the lowest end, traditional ad channels like TV, radio, and print can cost as little as \$38 per lead, or up to \$1,200 per lead.

Why is there such a large difference compared to other advertising channels? One reason is the difference in production value for different types of ads.

For example, TV commercials often require a very large budget. According to [Statista](#), the average cost of a 30-second commercial spot on TV in the United States in 2019 was about \$104,700. This could vary significantly by channel and time slot—air time during the Super Bowl isn't going to go for the same rate as air time for 2:00 am on a regular weekday.

On top of that, a company may need to pay for scriptwriters, animators, actors, studio time, special effects artists, and more. This can easily turn a commercial into a seven-figure (or more) expense.

Compare this to a print ad in the local paper, which might go for a few hundred bucks—though it might not attract as large of an audience.

Meanwhile, marketing channels that leverage the power of the internet and affiliate marketing, like display advertising (\$34-\$82) and referrals (\$54-\$92), have a much more consistent (and lower) cost per lead.

The Cost of a Customer

Here's a quick question: How many leads does it take to get a customer? Knowing how many leads you need to close a customer (and how much you can expect to spend on each lead) is key for determining the cost of customer acquisition.

While there is always going to be some variation from one company to the next, the average conversion rate for most industries ([according to Databox](#)) is around 3%. In other words, for every 33 leads you get, you can expect to get 1 customer. Note that this rate may vary depending on your industry and the specific marketing channels you use. For example, in the insurance

industry, the average conversion rate is about 9% (Source: [Wonder](#)).

So, if this is the case, what would be your cost-per-customer as an insurance company? Based on a 9% average conversion rate, you would need roughly 11 leads at a cost of \$20 to \$50 per lead to generate a customer. This would put your cost-per-customer between \$220 and \$550.

In this example, finding ways to improve the lead-to-customer conversion rate or reduce the cost of lead acquisition could have a huge impact on the company's bottom line. For instance, improving conversion rates to 10% would drop the cost-per-customer down to \$200 to \$500—a roughly 9% drop in customer acquisition costs.

Meanwhile, lawyers operating at a 3% lead-to-customer conversion rate might spend between \$1,650 and \$13,200 per customer (depending on if they're paying for exclusive or non-exclusive leads). So, improving their conversion rate to 4% would drop costs to between \$1,250 and \$10,000.



The Value of a Customer

For businesses, lead generation is simply a means to an end—the end being gaining a customer. But, to remain profitable, lead generation costs need to be in line with the lifetime value of a customer. If it costs more to attract a customer than what that customer will spend, then lead generation efforts will need to be optimized.

How do you establish the lifetime value of a customer?

This can be tricky, since the average deal value and chance of repeat business will vary from one business to the next. However, there is a formula for estimating customer lifetime value (CLV).

[According to Stitch Data](#), “The total revenue you can expect to get from each customer is your average order value divided by one minus the purchase rate.” So, if the order value is “V” and the repeat purchase rate is “R,” then the formula would look like “ $\$V / (1-R) = X$.” Then, you would subtract your customer acquisition cost from the result to determine your customer lifetime value.

So, suppose your average order value is \$100 and your repeat purchase rate is 30% while your customer acquisition cost is \$50. Your CLV in this case would be around \$92.86 ($100 / (1 - 0.30) = 142.857143$, then subtract 50 and round to the nearest hundredth for 92.86).

Of course, this supposes only a single repeat purchase. In many cases a customer would make numerous additional purchases over time. Also, some industries handle repeat business differently from others—which can make establishing CLV easier or more difficult for some industries.

For example, retail businesses may see the same customers return dozens of times a year as the consumer makes multiple unplanned purchases. Meanwhile, an insurance company would use monthly or annual premiums for their customers.



The Problem of Lead Generation Fraud

In any area where there's money to be made, there will be someone looking to take advantage of others—and there's a lot of money to be had in lead generation. To illustrate how lucrative the market is, [Statista](#) stated that: "In 2019, digital lead advertising spending in the United States is estimated to amount to nearly 2.6 billion U.S. dollars." That's 2.6 billion reasons for fraudsters to act.



What Is Lead Generation Fraud?

Lead generation fraud is a subset of advertising fraud where fraudsters create fake leads for companies to collect money from them. This lead gen fraud can have a disastrous impact on a company's ROI for their online and affiliate marketing campaigns.

How Pervasive Is Lead Gen Fraud?

Based on past customer data, the rate of fraud in the average online advertising or affiliate marketing campaign can fluctuate from 25% to 40%. This means that, at a minimum, you're spending 25% more than you should be for each legitimate customer you acquire through your lead generation efforts (or up to 40% extra).

What Does This Mean in Terms of Lost Customer Value?

If you're busy pursuing fake leads who never convert, your sales team could miss vital opportunities to reach out to real customers before your competitors do. This can be damaging to your bottom line.

For example, if your average CLV is \$1,500, then missing out on just ten customers because of having to deal with fake leads would be a cost of \$15,000 in lost revenue. This can put your company behind severely over time.

How TCPA Violations Add to the Cost of Lead Gen Fraud

Not all lead generation fraud results in chargebacks. So, the risk of the doomsday situation outlined above is relatively small. However, there is a much more common risk associated with blindly using fake leads given to you by fraudsters: TCPA violations.

The [Telephone Consumer Protection Act of 1991 \(TCPA\)](#) is a federal regulation that places limits on how businesses can reach out to consumers. Specifically, it calls on companies to get express written consent from consumers before using automated messaging systems and autodialers to contact them with marketing messages. The rule was designed to prevent "nuisance calls" to consumers' landline phones, but has evolved over the years to expand protections to text messages, faxes, and cell phones as well.

Violations of the TCPA can result in fines of up to \$1,500 per incident (if determined to be a willful violation). So, calling 100 “leads” who were added to your lead generation efforts by fraudsters could lead to a federal fine as high as \$1.5 million. Even at the minimum fine of \$500, that would still be a loss of half a million USD.

On top of the fines from the Federal Trade Commission (FTC), repeated violations of TCPA could result in class action lawsuits from consumers—which can have costs ranging from tens of thousands of dollars to millions of dollars.

An Example of the Potential Cost of Lead Generation Fraud

This example is a purely hypothetical, worst-case scenario. Any resemblance to events, people, and organizations in the real world is coincidental and unintentional:

ABC Company is a telecom company with a relatively high cost per lead that relied heavily on traditional advertising (mostly radio and newspaper ads) to attract customers in the past. However, they noticed that their customer base was falling fast to specialized internet services and other competitors.

After asking around, they learned that these businesses were using affiliate marketing and online ads to attract new customers. So, ABC Company decided to do the same. They partnered

with a few online advertisers to put up some ads on the websites of other businesses and get some extra outreach through social media.

Unfortunately, the online and affiliate campaigns were rife with fake leads. A significant percentage of leads contacted filed complaints under TCPA, resulting in fines—and eventually, lawsuits.

With an average cost of \$45 per lead and 100,000 leads (or a \$4.5 million campaign) at a, how much does ABC Company stand to lose in this example?

Cost Category	Money Lost
40% fake leads in a \$4.5 million campaign	\$1.8 million
40,000 counts of TCPA violations from calling fake leads	\$20 million to \$60 million
Class action lawsuit settlement (Average based on American Bar Association data)	\$12.6 million 18 million
Total Cost:	\$34.4 million to \$79.8 million

Going from a campaign cost of \$4.5 million to \$34 or \$79 million dollars because of lead generation fraud is a significant increase, to say the least.

Worse yet, this doesn't account for the potential loss of business due to a tarnished reputation!

Many businesses wouldn't be able to absorb the cost of this worst-case scenario.



Tips for Stopping Lead Generation Fraud

So, what can you do to stop lead generation fraud? Some basic tips for fighting lead gen fraud include:

Learning to Identify Fake Leads and Their Source

One of the most basic things that businesses need to do to protect themselves is to learn how to [recognize fake leads](#) and remove them from their ad campaigns quickly. Unfortunately, identifying fake leads is often a reactive rather than proactive process when done manually.

Some warning signs of a fake lead include:

- Contacts who are confused or haven't heard of your business when you call them;
- Angry emails in response to contact outreach efforts; and
- High difficulty reaching contacts (since they aren't expecting a call or email).

Though this is a reactive process, if a significant number of fake leads are all coming from the same source, that could be a good indication that they're a fraudster.

Keep Up to Date with the National Do-Not-Call Registry

There is a national list of consumers who do not wish to be contacted with promotional advertising materials by phone or fax. This [National Do-Not-Call \(DNC\)](#) registry is a key component of TCPA compliance—if someone is on the list, you shouldn't be calling them.

The DNC list can be immensely useful for identifying fake leads—if a phone number is on the list, and is attached to a person with a different name than the one registered, odds are that it's a fake lead.



Use “Honey Pot” Form Fields

Some lead gen fraud techniques rely on simple AI “bots” to fill out thousands of forms in a relatively short time frame. Here, using a “honey pot” form field in your web page’s source code can help identify the bot.

A honey pot form field is an invisible form field that human site visitors won’t see, but bots will. The bot will, unwittingly, try to fill out the field. So, any contact that has that field filled can be immediately discarded as a bot.

This isn’t perfect, as some fraudsters use human fraud farms to commit fraud, and bots are getting more sophisticated—gaining the ability to bypass honey pot traps.

Vet Affiliate Network Partners and Online Advertisers

Before committing a single red cent to online advertising or affiliate marketing, it’s important to vet the authenticity of your partners.

Here, checking with other companies to learn about their experiences with the affiliate network or online advertiser can be immensely useful. Additionally, consider checking the [Better Business Bureau’s](#) (BBB’s) website to see if the company has outstanding complaints against them.

The more information you can gather from trusted sources, the better!

Use an Ad Fraud Solution

Manually reviewing contact data and vetting advertisers is a slow process that often relies on (all too frequently incorrect) gut feelings. To protect your business, it’s important to have a fast, proactive, and repeatable process for identifying fake leads and fraudulent advertisers/affiliates.

This is where an ad fraud solution can be invaluable.

For example, Anura’s ad fraud solution analyzes hundreds of data points with each new visitor in real time as they interact with your website. Using this data and armed with decades of information collected on fraud activity, Anura can find fraud with zero risk of a false positive.

This lets you rest easy in the knowledge that the leads you’re adding are genuine—improving your marketing ROI while potentially stopping millions in losses from lead gen fraud.



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Should You Build or Buy an Ad Fraud Solution?

Having an accurate ad fraud solution can be crucial for putting a stop to lead gen fraud before it can damage your business. However, many companies don't trust existing ad fraud solutions—[deciding to build them in-house](#) as opposed to using a premade software platform.

The Problem with “In-House” Ad Fraud Software

The problem with this is that without access to dedicated ad fraud expertise and data about fraud, it's extremely difficult to create a solution that can identify fraud with any accuracy. Instead of actually stopping fraud, a half-baked solution only provides the illusion of security.

Worse yet, the company might waste hundreds of hours of IT labor on a “pipe dream” project—time that could have been spent improving the company's systems, preventing IT asset downtime, or helping solve critical issues that hamper productivity.

Benefits of Using a Proven Fraud Solution

Why use a proven ad fraud software instead of a scratch-built solution? Some reasons include:



Accuracy. Without a large volume of data about fraud and dedicated expertise, it's difficult to reliably identify fraud. Proven fraud solutions like Anura eliminate false positives by leveraging decades of data to establish fraud beyond a shadow of a doubt.



Depth of Data. When using your own internal fraud detection solution, you only have your own data to draw upon. With a proven fraud solution, you have access to all of the solution provider's data on top of your own. This ensures that you can identify fraud when it happens.



Speed of Response. Scratch-built systems that are poorly-optimized may struggle to ID fraud in real time. With Anura, fraud is revealed as it happens—minimizing the risk of accidentally paying for fake leads.



Freeing up Your IT Team's Time. Instead of maintaining a whole new software and constantly updating it to achieve mediocre results, wouldn't your IT team's time be better spent on mission-critical IT tasks? With Anura, leave the fraud software updates and maintenance to us so your team can focus on those more critical tasks.



Reducing Capital Outlays for Software Dev. Save time and money by skipping the custom software development and using a proven solution. This also eliminates the need to spend extra on more data center space, servers, and IT asset maintenance—all of which can more than offset the cost of licensing a proven solution.

Do you need to fight fraud in your advertising campaigns? Are fraudsters costing you money?

Reach out to Anura and start fighting back now!

Take Control of Your Advertising ROI with Anura!