THOUGHT LEADERSHIP SERIES

Taking the Guesswork Out of Pipelines and Forecasts

Improve Performance.
Drive Revenue.

By Jim Naro, President of The Naro Group

Many sales executives have a laser-like focus on forecasts, as they try to accurately predict what might close from quarter to quarter. Key business decisions that affect the entire corporation are made based on these numbers.

If the forecast is good, then new products can be funded, more staff added, and healthy bonuses can be given out. If not, then the unavoidable becomes a reality, with budget cuts and reductions in workforce. As everyone knows, there is a lot riding on these numbers.

Unfortunately, even with sophisticated sales automation systems that are available today, forecasting is more of an art than a science. Even after a sales executive has spent copious time grilling sales people on whether the deals in the pipeline are really going to close when predicted, it's still a bit of a guessing game.

Simple Multipliers Just Don't Work.

Because pipelines are notoriously misleading, sales organizations have typically adopted a variety of formulas for developing forecasts. Many sales managers use a very simple multiplier and take advantage of the law of large numbers to predict what revenue in a consolidated pipeline will close. For instance, if there is an annual revenue goal of $100 million, some senior sales executives believe that if they shoot for a pipeline of $300 million, then they have a good chance of meeting their numbers for the year.

The problem with this formula is twofold. First, it leaves a lot up to "chance" since it really is not based on any actual statistical information. And secondly, it merely measures total volume, but it doesn't provide any indication as to what stage an opportunity is currently at within a sales cycle nor does it indicate when each particular sales deal will actually close.

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About The Naro Group

The Naro Group specializes in helping technology companies capitalize on their investment in sales process and sales training. Contact Jim Naro, President, by email at: jnaro@TheNaroGroup.com.

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Unless you have a benchmark or baseline of success to measure your actual pipeline against, you can't really assess if your forecast is on target. This leads to uncertainty, which will continue and even become more precarious until you start developing a healthy pipeline that is more accurate, predictable, and trustworthy.

A Self-Validating Process for Success.

A healthy pipeline is a precise and real representation of not only all the sales activity in every sales person's pipeline, but also the distribution of the revenue across each stage of the sales cycle. With pipeline data such as this, you'll have a higher degree of accuracy and you will be better able to run your business. As the reliability and predictability of the forecasts increase even more over time, so will your revenue streams.

So What is the Key to a Healthy Pipeline?

It's very simple, really. A healthy pipeline has velocity, with sales deals always moving. They are either continuously moving down the funnel towards a predictable closing date, or if an opportunity has lost momentum, it's qualified out of the sales pipeline altogether.

This kind of pipeline has self-validating principles at each step in the sales process, with specific measures that help you understand not only where the real opportunities are, but also how your sales people are performing and what deals you can truly expect to close.

Velocity or Stagnation?

In most organizations, sales people typically have anything that has even a smidgen of a chance of closing in their pipeline, even if the deals have been in the funnel for months without any activity. This type of flush pipeline provides a sense of security, so people rarely clean out these hopeful yet misleading opportunities. This fact alone can be one of the biggest inhibitors to a healthy pipeline and greater levels of sales productivity.

In a pipeline with velocity, there is a pre-established and agreed-upon timetable for how long each stage of the sales cycle should take. This helps keep real opportunities moving toward closure, and unless there are valid reasons for an opportunity to remain in a certain stage beyond a pre-determined time limit, opportunities that are stagnating are qualified out.

This type of self-validation helps scrub a pipeline and results in one that can give you a truly predictable and reliable forecast.

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Clearing Away Time-Wasting Clutter.

When adopting a pipeline model that encourages velocity, sales people often initially reduce their pipelines by 50%, as they clean out the things that never were going to close anyways. While shocking at first, revenues per sales person begin to quickly rise, with increases in productivity as high as 100% as the people focus on the most important and probable opportunities.

With a velocity pipeline, sales executives can more readily determine at what level there are individual performance issues. This allows them to quickly and effectively coach their sales people on the skills they need to fill the pipeline accurately, whether it is with initial qualifying, customer needs analysis, boardroom presentations, or actually closing the deal.

The Self-Validating Ideal Pipeline Model.

Customer Centric Selling (CCS) has developed an "Ideal Pipeline" model which is based on the concept of velocity. This model not only takes into account revenue volume, but also the distribution of revenue by milestone (or process step) within the sales cycle.

Unlike a formula which uses a multiplier based on past sales volume for its measurement, the Ideal Pipeline model includes the following parameters:

1. Annual Quota. This is the dollar revenue number for each sales person.
2. Average sales cycles per year. This is the number of consecutive sales cycles that could occur in a year. For instance, with a 6-month (26-week) sales cycle would have two turns per year.
3. Milestones for your product or service. Every sales cycle, depending on the product or service, has different milestones, or process steps, from the identification of a prospect to the final closing negotiation. For instance, a typical sales cycle may have these steps, when a prospect shares his or her goals, finding a qualified champion, product evaluation, cost/benefit analysis, and verbal commitment to buy.
4. Length of time spent at each pipeline milestone. Each milestone can be assigned an estimated allowance of time. For instance, the evaluation of a sophisticated product might typically take 90 days in a sales cycle that averages 6 months (180 days). This milestone would then be assigned 50% of the sales cycle's allotted time.

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5. Probability of closure at each milestone. In the early stages of a sales cycle, this most likely would be 10%, whereas in the final stages of negotiation, the probability of an opportunity closing would be 90%.

Based on the above parameters, the Ideal Pipeline formula then calculates what the "ideal" volume should be at any given time in each step based on a sales person's annual quota.

Milestone	G	C	E	B	V
Process Steps	Goal Shared	Qualified Champion	Evaluating	Cost/Benefit	Verbal Commit
Time spent at each milestone	8%	17%	50%	17%	8%
Sale cycle turns per year	2	2	2	2	2
Probability of close	10%	25%	50%	75%	90%
Length of time at each milestone	0.417	0.333	0.500	0.111	0.046
Annual Quota	$2,600,000	$2,600,000	$2,600,000	$2,600,000	$2,600,000
Ideal Revenue (At each milestone)	$1,082,900	$866,840	$1,300,000	$288,947	$120,322
Actual Revenue (Current)	$116,533	$ 70,200	$688,797	$249,727	$238,113
Actual Revenue (Aged)	$132,022	$959,842	$675,519	$54,775	$19,571
Total Actual "Revenue" (Current & Aged)	$248,555	$1,030,042	$1,364,316	$304,502	$257,684
Difference	$834,643	$164,439	$64,315	$15,922	$138,917
Ideal %	23%	100%	100%	100%	100%
Velocity % Score	**47%**	**7%**	**50%**	**82%**	**92%**

With this information, sales executives can then take a snapshot of the actual revenue in a sale person's pipeline (which can be generated from a CRM system, such as salesforce.com) and compare it against the Ideal Pipeline, as the example below illustrates. Aging accounts can also be included.

By examining the ideal and actual revenue at each step of the sales cycle, sales executives can then gauge how a particular sales person is performing. This will provide a much more accurate idea of what revenue can be expected quarter by quarter, year by year.

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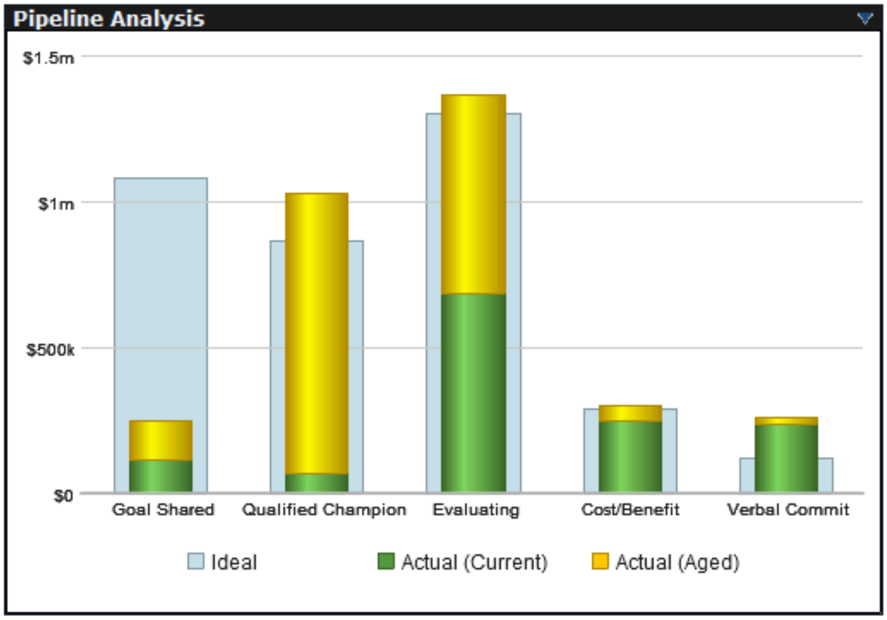
Analyzing the data in this model provides managers with a macro view of revenue in progress by milestone.

Together the ideal, actual aged, and actual current revenue provide an at-a-glance view of where there are potential bottlenecks in terms of revenue volume, distribution, and time-stalled opportunities.



The Ideal Pipeline Model. This data, presented in a Corda Technologies dashboard, shows sales volume, along with pipeline reports (from a CRM systems such as salesforce.com) at each stage of the sales process.

In this example, for instance, it's evident that there are problem areas for this sales person. As the color coded bars indicate, there are not enough opportunities in Step G, and too many aging opportunities in Step C that have exceeded the ideal timeframe for that step. This sales person is on target for the last two phases of the sales cycle, but when those deals close, it will be difficult to maintain quota because the overall velocity of the pipeline has slowed down. This could lead to problems within the next quarter or two.

A Pipeline in Action: Keep the Velocity Going.

Leveraging the Ideal Pipeline model helps a manager quickly determine which sales people need coaching and guidance.

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The next step for the sales manager is to determine if these are pipeline anomalies or skill problems and how aware a particular sales person is of these issues. Objective pipeline debriefing questions will help the manager determine where the sales person needs help in a particular skill area, and if further analyses and debriefs at a particular process step are necessary.

After a debrief, a first-line sales manager should be able to answer the following questions:

- What potential skills deficiencies are associated with these revenue issues?
- Is coaching appropriate at this time, and in what manner?
- Is there a plan in place to address these skill issues?

With action steps like this, the Ideal Pipeline model quickly helps sales executives build velocity in the pipelines and with that, comes the kind of trust and reliability that builds successful businesses.

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