



## Shape and Velocity Management

by

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In the previous newsletter we took a look at sales measurements, asking the fundamental question, “Are we measuring the right things?” We found that while it seems like there is a never-ending list of sales measurements, most of them are *trailing indicators*, only giving us “hindsight” into what happened. Even those few measurements we employ that do look at the sales process before the order occurs are missing the essence of powerful sales management: the *shape and velocity* of your funnel. This as an elegant and powerful approach to unlock the gates to forward visibility and proactive activity management. By measuring the lag times, conversion ratios, and order size *by sales process step, over time*, we can gain insight to performance in time to do something about it.

Like any measurements, the shape and velocity of our funnel is only useful when it can result in meaningful management action. In other words, why bother measuring something if there is nothing we could do differently as a result of the knowledge gained? This isn't to suggest that we manage strictly by the numbers; instead we should manage by involvement. However, the shape and velocity numbers can be powerful indicators to trigger and determine our involvement.

The reason we can make the link between management involvement and the shape and velocity of the sales funnel is twofold:

1. The shape and velocity of the funnel are directly related to the *activities* that our sales people engage in.
2. We can only manage activities, not results.

Let's take a look at each of these suppositions.

Activities, or the actions that our sales people engage in, drive the shape and velocity of the sales funnel. These activities make up the sales process, whether defined or ad-hoc. The research, qualification, phone calls, meetings, demos, proposals, and negotiations that a sales professional engages in are what drive the sale. There are four aspects to these activities that we can manage:

1. *Identifying and defining* the activities. For example, if we're selling a complex solution to a customer's business problem, should a product demo be included in our first call? How do we define the solution, and who gets involved? These discrete productive activities comprise the steps of our sales process, the ones that drive the ball forward, that change the course of history. If we don't clearly define them, we have no way to manage sales productivity.
2. The *sequence* of the activities. When do we do the demo? Should we qualify before or after the proposal? These may seem intuitively obvious, but ask yourself



how many times you have seen an opportunity go off the rails because something that should have happened early in the sales cycle was ignored.

3. The *quantity* of the activities. How many initial calls should we be making every month so that we have enough active deals in the funnel? How many new leads should we be generating? Measuring the quantity of activities is probably the most common existing management practice. However, we need to make sure we're managing the quantity of the right activities in the right sequence.
4. The *quality* of the activities. How effective are we at getting the first appointment? Are our proposals so compelling that our win rate is high? This is the domain of sales expertise. Coaching, mentoring and training are the keys to improving the quality of execution of the activities. The key is to know where and when to apply these management actions. Should we be giving everyone "Powerful PowerPoint Presentations" training, or is the real issue an inability to articulate the company's value propositions? We can only answer this question by interpreting all four aspects of activities in the context of the shape and velocity of the funnel.

The second supposition is that we can't manage results, only activities. By way of illustration, imagine the following football scenario. Your team is down by 5 at the two-minute warning. You pull the offense back to the sidelines, gather them in a big circle, and yell, "Go out there and score a touchdown!" You may not hear it, but what everybody's thinking is a very sarcastic, "Wow, thanks coach, I would have never thought of that!" That's what happens when we try to manage results. Our management actions are focused on the numbers, performance to quota, the quarterly shortfall, sales rep ranking, etc. Instead we should be focusing on the four aspects of activities. We should be helping our team understand how to execute the plays necessary to score that touchdown. That's good coaching.

These four aspects of activities – identifying and defining, sequence, quantity, and quality – drive the effectiveness of the sale, therefore directly affecting the shape and velocity of the funnel. Our management action can influence them. Catch this: management action *can* influence sales results by managing the right activities, in the right sequence, in the right quantity of the right quality. We now have the formula for successful sales management.

## Practical Application

In my previous article, *The Art of Measuring Sales*, I introduced three of the potential measurements associated with shape and velocity management. The following table contrasts these measurements against common, less powerful traditional measurements.

Common Measurement	Powerful Shape and Velocity Measurement
Pipeline Multiple	Pipeline Fill by Sales Process Step
Sales Cycle Length	Lag Time by Sales Process Step
Lead Conversion Ratio	Conversion Ratio by Sales Process Step



Let's take a look at each one of these measurements and investigate how we can determine and trigger potential management action as a result of the knowledge gained. For all of the examples, I'll use the hypothetical sales process introduced in the previous article:

1. Lead generation
2. Initial qualification and research
3. First contact and additional qualification
4. Detailed discovery
5. Solution definition
6. Proposal
7. Negotiate and close



### Pipeline Fill

Imagine you're at the beginning of the second quarter. The quota for the quarter is \$8M. Traditionally, you would look at the pipeline multiple and look for a total pipeline value for the quarter somewhere between 3 and 4 times quota. You pull the numbers together and, sure enough, you have \$27.5M in the funnel. Life is good, things are looking up, and you have no immediate need to focus on anything other than "standard sales execution."

Now let's imagine you have visibility to the first shape and velocity measurement, pipeline fill by sales process step. Here is your summary report for the territory for deals scheduled to close this quarter:

	Sales Process Step	# of Opportunities	%	Total Value	%
1	Lead Generation				
2	Initial Qualification and Research				
3	Contact and Further Qualification	23	21%	4,350,750	16%
4	Detailed Discovery	5	4%	4,438,900	16%
5	Solution Definition	30	27%	6,815,350	25%
6	Proposal	52	46%	11,512,500	42%
7	Negotiate and Close	2	2%	355,000	1%
	<b>Total</b>	<b>112</b>		<b>27,472,500</b>	



Suddenly that pipeline multiple doesn't look so rosy. Sure, you have \$27.5M in the funnel, but a full 32% of it hasn't even entered the late stages of the process yet. What else can we learn from this one simple report?

- Since this report is only for deals scheduled to close this quarter, you are pleased to see that there are no deals in steps 1 and 2. Hopefully, that would be different if you were looking at deals scheduled for next quarter.
- Your team is engaged in proposal generation on 52 deals. A quick mental calculation tells you that the average order size at this step is a little over \$200K, right in line with your plan.
- In step 4, you have 5 deals (only 4% of the total number of deals) representing \$4.4M and 16% of the total value. There must be at least one BIG one in there.
- Only 2 deals are in negotiation. Given that you know it typically takes about 30 days to fully negotiate a deal, things don't look so good for month one of the quarter.

How can this knowledge help you determine the appropriate management action? Unlike the straight pipeline multiple, which led you to believe everything was fine, you now have more to go on. There are a few things that jump out, while there others that simply pose more questions.

- Management priority number one should be to ensure that all those proposals get out the door... that nothing is going to hold them up. The longer the proposals stay in-house, the less chance we have of closing them before quarter-end.
- Why do we have deals in step 3 and 4 that we think are going to close this quarter? You schedule a quick deal-by-deal review of these opportunities to ascertain reality.
- What is that big deal in step 4? We should put the necessary resources on it to determine if it's real and even possible for this quarter. It's time for a personal customer visit and opportunity for some direct coaching.
- We need to know our typical proposal close rate, and how long it has typically taken to *execute the activities* from step 5 through to close. These numbers in conjunction with the pipeline fill report will give us an excellent gauge of the health of the funnel.

## Lag Time by Sales Process Step

Because you have clearly defined your sales process and the typical activities involved with each major step, you have been able to establish a plan (set the standards) for how long each step should take. You have been capturing opportunity movement (progress through the sales cycle) by ensuring that the sales professionals keep the current sales process step up to date in the SFA system. Your sales process analytic tool, having tracked those changes *over time* has produced the following "sales process review" report. (Lag time is the elapsed time it takes to fully complete a process step.)



	Sales Process Step	Planned Lag Time (Days)	Actual Lag Time (Days)
1	Lead Generation	5	7
2	Initial Qualification and Research	10	21
3	Contact and Further Qualification	15	17
4	Detailed Discovery	20	18
5	Solution Definition	25	23
6	Proposal	15	34
7	Negotiate and Close	30	28
	<b>Total</b>	<b>120</b>	<b>148</b>

What knowledge can we gain and what management action can be triggered as a result?

- Since your immediate focus is this quarter, you need to answer the question about the time it takes to move from step 5 through to close. It has been taking your team 85 days to move step 5 opportunities through to close, on average. That means your focus needs to be on the deals in steps 5 through 7 for the remainder of the quarter to have a hope of closing \$8M.
- Looking at the actual vs. plan, you can see one major deviation in these final steps – proposal generation is taking almost twice as long as you thought it should given the activities and resources involved. Management priority number two – isolate what is causing the bottleneck and surgically remove it... now! If you can reduce that lag time, the chances of being able to close some of the 30 deals sitting in step 5 dramatically increase.
- Since we can't focus all our energies on this quarter, what else can we learn? The two qualification functions being handled by your inside sales team are taking twice as long as you planned. Why? Investigating and dealing with the root cause of this issue will significantly impact your ability to be successful next quarter and beyond.

### Conversion Ratio by Sales Process Step

Everything is already in place to be able to measure this one; it's just a simple extension to the previous report. Here we're tracking how many deals have typically *converted* from one step to the next. Your analytic tool provides you the following extension to the previous "process review" report.



	Sales Process Step	Lag Time		Conversion Ratio	
		Planned (Days)	Actual (Days)	Planned	Actual
1	Lead Generation	5	7	20 %	90 %
2	Initial Qualification and Research	10	21	15 %	75 %
3	Contact and Further Qualification	15	17	70 %	15 %
4	Detailed Discovery	20	18	75 %	73 %
5	Solution Definition	25	23	80 %	82 %
6	Proposal	15	34	95 %	60 %
7	Negotiate and Close	30	28	67 %	65 %
	<b>Total</b>	<b>120</b>	<b>148</b>	<b>125 to 1</b>	<b>42 to 1</b>

Before we look at what we can learn, here are a few assumptions of our hypothetical organization as they relate to the planned conversion ratios.

- We generate leads through various means that are passed to a highly trained inside sales team for qualification. We've broken down qualification into 2 steps.
- In step 1 the inside team goes through all the raw leads and sifts out the obvious non-starters. Given our methods of lead generation, we believe that 1 out of 5 (20%) of our raw leads are potential new leads that fit our profile.
- The objective is for the inside team to perform a detailed qualification on the leads before passing them to the far more expensive field organization for follow up in step 3. We planned for about 15% of the leads to be passed to the field.
- Once these well-qualified leads are in the field, we planned much higher conversion ratios. Of particular note is that once we get a customer all the way through solution definition (step 5) the next step is almost purely internal resulting in 95% of the proposals we start being formally presented to the customer.
- Because of our highly consultative approach, we expect to close about 2 out of 3 of our proposals.
- These assumptions result in a planned lead to close conversion ratio of approximately 125 to 1.

What knowledge can we gain and what management action can be triggered as a result of analyzing the step-by-step conversion ratios in context of the previous two measurements?

- Putting your focus on this quarter first, you notice that historically you have only been presenting about 60% of the proposals that have been started! Could this be



related to how long it's taking for the proposal to be completed? Has the delay given your competition an opportunity to move in and move you out? Has the customer lost faith in your ability to deliver on time and on budget due to the delay in getting them a proposal?

- Once the customer does get the proposal, we are winning almost our 2 out of 3 plan.
- However, when we combine the two conversion ratios of steps 6 and 7, we only convert 39% of our step 5 opportunities. If this trend continues through the rest of the quarter, we will likely only close \$4.5M of that \$11.5 we have sitting in step 6. Not nearly enough to make the quarter. This is an absolute confirmation that we have to fix that proposal generation problem immediately!
- Looking forward to next quarter, we notice some very disturbing numbers in the first three steps of the process. Instead of qualifying our leads with the inside group, almost all the leads are being passed to the field organization! We have a far more expensive field sales person re-qualifying the lead and finding less than 1 good one in 5. This sheds some light on the field's attitude toward our lead generation campaigns. This also explains why the field has so little time to spend on later stages of the cycle. Our funnel shape is all-wrong! Management priority number three – investigate the inside sales process and discover why it's taking so long to accomplish so little.

This example, although hypothetical, represents many of the organizations Market-Partners has worked with over the years. Our customers uncover clear management imperatives using a few powerful measurements. These organizations experience dramatic results by applying shape and velocity management. By identifying and defining the sequence of activities involved in your sales process, and by managing the quantity and quality of those activities, you too can release the power of shape and velocity management.

In the next article, I'll take a look at how we can close the loop and establish an ongoing optimization process for your sales force.