



## Optimizing the Sales Process

### Closing the Loop on Sales Effectiveness

by

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**Y**ou are the VP of manufacturing in a growing company, poised to capture additional market-share. The CEO has tasked you with increasing manufacturing output significantly over the next three quarters. Considering all the options, you decide that the best choice may be to replace the machine in the original manufacturing line with a new, higher capacity model. It's a big investment. Before making the investment, or even proposing it to the management committee, you and your team prepare a detailed model that delineates the cost of the upgrade, but more importantly, predicts the likely increase in capacity and resulting company revenue. This ROI analysis will be used as a benchmark for the actual results you attain, thereby closing the loop of the management process.

This type of closed loop management is prevalent throughout successful organizations in all functions but one – sales. Investments in additional resources, sales training, increased compensation, or new methods are often done based more on hope than predictions. Why? Because current sales measurements generally don't allow, much less encourage, sales managers to implement this structured approach. However, shape and velocity measurements do.

In the last two articles we took a look at:

1. The concept of shape and velocity of the sales funnel and how some new measurements could provide significantly greater forward visibility. *The Art of Measuring Sales* laid out a simple and elegant approach to getting *inside* the sales process and understanding the leading indicators of sales results.
2. How to apply shape and velocity measurements to the business of *managing* sales. In *Shape and Velocity Management* I discussed how these measures are powerful indicators to trigger and determine sales management involvement. I dealt primarily with the immediate management actions that could be taken as a result of the measurements.

Both of these articles focused on the immediate – being able to effectively apply our time and resources to the existing situation. Effective sales management can't stop there. Stephen Covey taught us years ago that the tyranny of the urgent can often lead to the neglect of the important. In the case of sales and sales management, we are often so caught up putting out the fires that we don't have time for the important, like planning for increased effectiveness across all the activities involved in our sales process.

This article deals with exactly that; how can we plan for the longer term? What changes can we make to optimize the overall sales process? How can we “close the loop?”



We couldn't do this before because the previous measurements we were using didn't allow for it. There were too many other factors contributing to results (trailing indicator) to make a closed system effective. For example, we had no idea if that training class on selling solutions last quarter really had anything to do with this quarter's results. The key to closing the loop is our new shape and velocity management capability. Measuring the shape and velocity indicators, and tying those back to the activities involved in each step of the sales process unlocks the gates to optimizing the sales process.

The overall approach we propose is similar to any good closed loop management system:

1. **Set the plan** – establish the standards for the shape and velocity Key Performance Indicators (KPIs).
2. **Evaluate actual performance** – measure and analyze the reality of the funnel against our KPIs.
3. **Propose specific actions** – determine the potential courses of action available that could have an impact on the results seen.
4. **Simulate the changes** – before taking the action, determine which actions will have the best likely result.
5. **Take action** – implement the high-impact changes.
6. **Close the loop** – set the new plan, go back to step 1 and start all over again.

Let's unpack the theoretical and see what these steps actually involve.

## Set the Plan

The first time you set the plan, you'll be wrong.

I know that's not a particularly comforting starting point, but read on. The magic at this point is not found in verifying every detailed assumption and arriving at a perfectly engineered solution. The magic is the act itself of setting a plan. This is actually a wonderfully liberating thought. This doesn't need to take months of workflow and activity analysis and teams of analysts, or even worse, consultants. Your existing knowledge of your sales process, together with the insights of a few others from your organization, is enough to get started. Here's the what to do:

1. Establish your sales process. (For a brief description of what's involved with defining your sales process, see the first article in this series, *The Art of Managing Sales*.)
2. For each step of the sales process, estimate the conversion ratio. For example, ask, "For each of my raw leads from my various marketing campaigns, what percentage usually go through to step 2, initial qualification?"
3. To arrive at your overall funnel conversion ratio, multiply the conversion ratios of each step sequentially. For example, if you plan to convert 1 out 20 raw leads, and then decide that 1 out 5 of these realistically could become qualified for step 3, the calculation would be  $1/20 * 1/5$ , resulting in 1 out of 100 getting to step 3. Continue this same approach for the remainder of your steps.



4. For each step of the sales process, estimate the lag time. In this case, ask, “Typically, how long does it take from the time the customer agrees to a meeting (assume this is the end of step 2 in your process) to actually secure the meeting and arrive onsite (assuming that this is step 3 of your process)?” Don’t get hung up on fine granularity here. We have found, working with hundreds of cases, that this lag time has much less to do with the actual time you spend *doing* the task, than it does with the *elapsed* time required to make things happen.
5. To arrive at your overall sales cycle length, add the individual step lag times.
6. Establish a goal (a standard) for your expected average order size.

These are now your main Key Performance Indicators that you will be using to measure the shape and velocity of your sales funnel. While there are other, more advanced factors that we could consider, these few put us miles ahead of where we were before. Let’s take a look at what this may look like for a hypothetical organization:

Average Order Size = \$200K		Lag Time		Conversion Ratio	
	Sales Process Step	Planned (Days)	Actual (Days)	Planned	Actual
1	Lead Generation	5		20 %	
2	Initial Qualification and Research	10		15 %	
3	Contact and Further Qualification	15		70 %	
4	Detailed Discovery	20		75 %	
5	Solution Definition	25		80 %	
6	Proposal	15		95 %	
7	Negotiate and Close	30		67 %	
	<b>Total</b>	<b>120</b>		<b>125 to 1</b>	

### Evaluate Actual Performance

The most important thing about evaluating performance as you start to use this approach is to *keep it simple*. The natural tendency at this point is to start thinking about all the wonderful ways you can slice and dice the data. Our experience shows that once our clients catch that first glimpse of the power of this approach, they can’t wait to dive in and grab all the insights at once. You’ll want to know answers by lead source, by product line, by geography, by customer type, and the list goes on. Resist the temptation; you’ll get bogged down in the details. Evaluate overall performance first. Go through the whole optimize cycle at least once more to prove that this approach actually works. There will be time down the road to refine your data.

After measuring what’s happening inside the sales process for a time, we get the following actual results



	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>

A quick evaluation shows the following:

1. Lead generation and qualification is taking far too long and passing almost all leads to the field
2. Proposal generation is taking twice as long as we thought, and far fewer than planned are entering into negotiation.

So, what do we do about it?

### Propose Specific Actions

Now comes the fun part. We get to apply all that great sales and management experience and figure out what's at the bottom of all these numbers. Remember, we don't manage by numbers; we manage by involvement. The numbers help us determine when and how to get involved. The numbers help us apply our deep knowledge and experience to the right problems.

The potential changes that we can apply will occur somewhere in the four aspects of activities we discovered in the previous article. We will act in one, or in a combination of the following ways:

1. Are the activities we identified and defined actually occurring? For example, are people following the qualification checklist?
2. The sequence of the activities. Are the activities in the current sales process occurring in the most effective sequence?
3. The quantity of the activities. Are we performing enough qualification calls, or submitting enough proposals?
4. The quality of the activities. Are we executing properly?



Getting to the bottom of the issues will take some digging. We'll need to go observe the lead generation and qualification process – maybe even sit with the reps as they make the calls. We'll need to ask everyone involved with the proposal process what they experience as the bottleneck. It will take some time, and it's hard work. The beauty is, we at least know where to start looking. Without shape and velocity, we'd be acting on rumor and anecdotal evidence at best.

## Simulate the Changes

This is the heart of it. Until now we've focused mainly on immediate actions and short-term results. Now that we've cleared the decks of the obvious impediments, we can institute some significant changes in our process to realize even bigger gains, such as reengineering the way we do lead generation and qualification, or hiring a proposal generation team. Now we're looking at some major investment. Before cracking open the corporate checkbook, you'll want to be sure that that you'll get a solid return on your investment. How many situations have you seen where millions were spent on a new system or training curriculum with no real sense of the potential payback? None of us need another one of these. The key to wise and productive sales management decisions is to use your existing knowledge and data to simulate a “what would happen if we...?” situation *before* you spend your money.

What is simulation? Fundamentally, it is *prediction versus hope*. A simulation uses our shape and velocity measurements, applies grounded assumptions around the cost and effort of our planned changes, and provides forward visibility of results.

How do you do it? We need to apply a few more variables to really understand the cost, effort and potential benefit of making our proposed changes. For each of our sales process steps we need to estimate the time-on-task required for each participant. Considering that participant's cost to the organization, together with our shape and velocity KPIs, we can now arrive at the costs and capacities associated with all the roles involved in the process. The model can further calculate the expected *yield* of a sales professional given our shape and velocity KPIs.

Next, we take this model, and apply our changes. Given the previous example, let's say we determine we need that new proposal generation team. In our model, we factor down the time-on-task for the proposal activities for the sales professional, and add the cost and time associated with the new proposal team.

Now we make some assumptions. Given a dedicated team, by how much could we reduce the proposal generation time? Do we think that we could improve the conversion ratio? Apply those assumptions to the model and recalculate the numbers.

You may be thinking that making these assumptions defeats the whole purpose of this closed-loop approach. Not at all! This approach marries art and science. The science of the numbers allows us to apply the art of management in a focused, effective manner.

The best way to describe the benefit of simulating the changes to the process is to look at a real-life example. Let me share with you a story of one of our customers.

This young company is involved in selling a complex solution to large multi-nationals. Working with the sales reps and manager, we modeled the existing sales process and



shape and velocity metrics. The modeling was done through interviews and evaluating the limited data they had previously collected without ever using an SFA system. Estimating the likely shape and velocity metrics we were able to predict annual sales yields and costs represented in the following table.

Predicted Annual Yield for one Sales Professional		
Number of Orders	Average Order Size	Annual Yield
~5	\$200,000	\$996,000
Cost and Effort		
Role	Effort (Days)	Cost
Sales Professional	204	\$232,337
Chief Medical Officer	74	\$59,710
Creative Services	38	\$10,847
Project Managers	59	\$23,061
CEO	14	\$29,098
CFO	10	\$13,432
RVP Sales	72	\$86,468
VP Operations	35	\$47,631
<b>Total</b>	<b>506</b>	<b>\$502,584.00</b>

The bottom line is that the shape and velocity modeling predicted a average yield of about \$1M per sales professional with a direct sales cost (not delivery) of about half that, roughly \$500K. This prediction was subsequently confirmed to be within percentage points of reality through an analysis of past results.

The natural diagnosis was that the sales team wasn't performing. The natural prescription was to wipe them out and get a new team.

However, investigating the cause of the shape and velocity metrics revealed something far more meaningful:

1. Lead generation was being done primarily by the high-priced sales professionals through their existing networks.
2. Proposal generation was onerous, involving many people from the organization in a substantially new solution with every proposal.

Two relatively straightforward changes were recommended to the senior management team:

1. Institute a dramatically different lead generation method through various direct marketing methods followed up by a senior, professional lead qualification team via telephone and web conferencing.



2. Rework the proposal generation method to simplify and standardize the delivery options. Supplement that with the addition of a proposal coordinator to coordinate the input of various team members and handle the editorial and publication functions.

This represented a major investment for company. Adding an inside sales team and a proposal coordinator would cost money. The questions asked by the CEO were simple. “What kind of return can I expect from his investment, and how do I know if it’s paying off after we implement?”

Before shape and velocity based simulation, the answer would have been some variant of “Trust me.” Hardly comforting. In this case, we were able to go far beyond “trust me.” We applied the following conservative assumptions to the shape and velocity simulation:

1. The conversion ratios for steps 1 and 2 (now handled by inside sales) would decrease based on a broader marketing effort and more thorough qualification.
2. Preparation time for the initial call by the field sales professional would decrease slightly based on information gathered by inside sales in step 2.
3. Proposal writing time for the sales professional would decrease by 60% and the proposal win rate would increase slightly based on more consistent, targeted proposals.

The shape and velocity simulation predicted the following results:

Predicted Annual Yield for one Sales Professional		
Number of Orders	Average Order Size	Annual Yield
~11	\$200,000	\$2,134,000
Cost and Effort		
Role	Effort (Days)	Cost
Sales Professional	204	\$232,337
Inside Sales	21	\$7,185
Chief Medical Officer	97	\$78,863
Creative Services	53	\$15,339
Project Managers	76	\$29,904
Proposal Support	43	\$21,323
CEO	17	\$35,241
CFO	12	\$15,978
RVP Sales	68	\$81,584
VP Operations	45	\$61,322
<b>Total</b>	<b>636</b>	<b>\$579,076.00</b>



The predicted results are stunning. The costs increase about \$75K per year per sales professional. However, the predicted yield has more than doubled! The new model predicts an annual sales yield of over \$2.1M per sales professional per year. This increases the gross margin from just under 50% to almost 75%!

### **Take Action**

Based on the results of the simulation, action can be taken with far more confidence. We are no longer making decisions based on intuition and anecdotal evidence alone. The simulation has provided the ammunition necessary to secure the necessary internal support and approvals.

The simulation model can be used to perform a number of “what-if” analyses if there are numerous potential courses of action and you’re unsure which is best. The approach can be effectively used to establish action plans for long-term growth and continual improvement in sales effectiveness.

### **Close the Loop**

The shape and velocity KPIs from the simulation now become the metrics of the new plan. We’ve raised the bar. The new goals we’re aiming for have been well thought out, adding to our team’s confidence in their achievability. Since there is always a next quarter, it’s time to start the process all over again.

They say the proof is in the pudding. In the case study I shared with you, within one quarter of implementing the new approaches, the company experienced the best results in their history. They are now approaching the lofty yields predicted by the simulation.

May your journey bring the same success!