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THE FOG OF FORECASTING

Realising the Potential of Your Pipeline

Written by Bob Apollo

THE FOG OF FORECASTING

According to CSO Insights recent survey[1] of more than 1500 sales leaders from around the world, less than half of all forecasted deals result in a sale. It's no wonder that over 70% of the organisations surveyed admitted that their ability to close deals in the timeframe originally forecasted "needed improvement". The challenge in recently funded start-ups is even worse - in fact one frustrated VC was recently heard to observe that a monkey throwing darts could probably forecast more accurately than many of their portfolio companies' sales teams!

Accurate forecasting has always been a key challenge for sales leaders. In the current economic climate, with growing evidence of risk-averse, "prefer to do nothing" behaviour on the part of many potential buyers, it's never been more important for every member of the sales organisation to actively manage their pipelines - and for managers to have the ability to determine where they need to spend their time, and where they can make a difference.

WHY CRM HASN'T SOLVED THIS

While many companies have invested heavily in CRM systems, most have failed to realise the benefits they had hoped for. Although the #1 priority for sales leaders, year after year, has been to increase revenues, even now, after years of heavy spending in this area, only 30% report that their CRM systems have contributed to this goal. It's no wonder that companies continue to suffer from "end of quarter surprises".

It seems that whilst many CRM systems are somewhat effective in capturing and centralising data about contacts, leads and opportunities, and are playing an important role in defining and automating the sales process, they are not still providing timely information in actionable form that enables sales managers at every level within the organisation to meaningfully improve sales effectiveness.

[1]: Jim Dickie and Barry Trailer. "Sales Performance Optimization 2008 Survey Results and Analysis," CSO Insights, 2008

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TRANSACTIONS, NOT TRENDS

Put another way, most CRM systems focus on transactions, and not on trends. It's as if sales leaders are only able to see part of the big picture. Consider and contrast their situation with that of CFOs. The financial world has long been able to access both take snapshots of current data (in the form of reports like balance sheets) and be able to analyse and predict events over time (in the form, for example of cash flow analyses and income statements).

This inability to understand the effects of time or to be able to extract and interpret trends are some of the most important factors that prevent many of today's CRM implementations from realising their potential to improve revenue performance. It's clearly time for sales leaders to have access to the sales equivalent of the rich range of reports, trends and insights that have so long helped their colleagues in the financial community to make better decisions.

THE CASE FOR PROACTIVE PIPELINE MANAGEMENT

Managers need to be able to allocate their resources on the deals and the tasks that have the potential to make a difference. And yet all too often pipeline management is a reactive, rather than a proactive process, when management is crying for actionable, real-time information. A recently conducted McKinsey survey[2] of B2B sales executives indicated that simply focusing on proactive pipeline management had the potential by itself to increase revenues by as much as 10%.

Proactive pipeline management directly impacts both current and future quarter performance. Facing the here-and-now challenge of maximising quarter performance, the approach enables sales leaders to maximise the potential outcome from forecastable deals in the current quarter, by clearly identifying how and where they should be focusing their attention in the short term.

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INFLUENCING FUTURE OUTCOMES

The insights from proactive pipeline management can also have a powerful impact on future quarter outcomes. By identifying patterns of performance, the analytics that underpin proactive pipeline management can help organisations diagnose and deal with the bottlenecks that are affecting their long-term sales and marketing effectiveness.

[2]: Anupam Agarwal. "Keeping Pipeline Insights Actionable," destinationCRM, October 2007

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Organisations that embrace this approach are better equipped to uncover the root causes of variation in sales performance - whether internal or external - and to take meaningful steps to address the underlying issues. They may, for example, be able to identify which sales people need specific coaching or mentoring, and where. They are also able to determine which marketing campaigns result in the fastest sales cycles, or the highest close rates, and refocus their investments accordingly.

WHAT'S HOLDING YOU BACK?

The McKinsey study referred to earlier identified several obstacles that often have to be overcome: these include sales cultures that are focused on execution rather than analysis and planning, a lack of strict cadence in conducting sales pipeline reviews, limited actions from sales management based on pipeline data, and an insufficient emphasis on improving opportunity outcomes based on analysis.

They also concluded that most companies have the basic CRM technology in place to be able to embark, with a modest incremental investment, on a programme to improve sales performance through proactive pipeline management. In particular, whilst systems already have much of the required data, organisations lack the ability to extract, track and analyse changes over time.

THE BI BARRIER

In the past, such analytics would have demanded heavy investment in traditional business intelligence applications that cost six- or seven-figure sums to acquire, 6-12 months to implement and require specialist IT staff to design, build and implement the solution. In today's climate, the sales leaders we speak to regard that sort of delay in extracting actionable information as simply unacceptable.

In fact, when we first founded Revenue Insights, we searched unsuccessfully for a "plug-and-play" solution that could deliver value to our clients in days rather than months or years. But in the intervening period, a new category of on-demand analytics companies such as Cloud9 Analytics have sprung up that are leveraging the power of Software-as-a-Service to deliver immediate value.

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RECOGNISING THAT YOU MIGHT NEED SOME HELP

So what some of the signs that you might need a little help in managing your pipeline and forecast?   Here are a few of the symptoms we've observed, but you can probably come up with others:

- You're a little uncomfortable about being asked for a "cast-in-stone" forecast by your CEO - and you dread the follow-up question "exactly how are you intending to get there?"

- You're not completely sure where you need to focus your attention, or where you need to intervene in order to hit your target for the quarter

- You're still basing most of your decisions about where you need to spend your time on the basis of gut feel, rather than metrics and analytics

- You can see that the value of your pipeline is different to the last time you ran the report, but you can't easily identify which deals have changed, or how

- You're struggling to work out which deals are stuck in the pipeline and failing to move forward - or to understand why, and what to do about it

STUCK IN "STARE AND COMPARE"?

Imagine the scene. It's time to prepare for your weekly pipeline review and forecasting meeting. You go through a painful routine to extract the data you need into spreadsheets for your pipeline reviews with your sales team - and then spend half your time "staring and comparing" to identify the differences from the previous version.

Well, if it's any comfort, you are not alone. The experience is, sad to say, still a common one - and managers have much better things to do with their time than having to go through the stare and compare routine every time they get together with their teams to review the sales pipeline and update their forecasts.

THE PIPELINE REVIEW MEETING

The typical pipeline review meeting seems to follow a similar format. The sales manager usually starts by trying to understand what's changed between the last review and this one, whilst the sales people are generally focused on managing expectations and positioning their deals - sometimes with a level of dissimulation that would shame a political spin doctor.

The sales manager is usually forced to interpret what he or she hears against a backdrop of a gut feel for whether each sales person is usually conservative or optimistic, and whether each of them is typically in control or "winging it".

The challenge to interpret is hard enough in small sales teams where the sales manager has a close and direct relationship with every quota carrier - but the task is nigh-on impossible in larger, multi-layered sales organisations where the sales leader lacks this direct and intimate connection with every sales person, and every deal.

EXAMINING THE EVIDENCE

The manager can easily spend the first half of the discussion (or more) simply establishing the facts - what's happened, what's changed, and what's being done to advance the sales cycle.

It would be far simpler - and much more effective - if sales managers had an up-to-the minute picture of what's changed in front of them prior to the meeting, so that they didn't have to waste valuable time simply working out what they should be talking about.

"Management by exception" is commonly held out to be a highly effective way of allocating management time - but if you don't know what's changed, or can't work out what's at risk, it's hard to home in on the exceptions.

SPENDING TIME ON STRATEGY, NOT STATUS

Proactive pipeline management enables managers to devote their attention to strategy, not status. By monitoring activity, identifying changes and establishing trends, it equips sales leaders and managers - and their sales people - with the information they need to sell smarter, and not just harder, and to focus on where they need to get to, rather than where they are.

Trend information can be particularly valuable to managers who are struggling to prioritise their time and the resources at their disposal in order to maximize outcomes. An on-demand report that identifies which deals have fallen out of the quarter, and which have been added can help determine where the forecast may be at risk - whatever the headline figures say.

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UNDERSTANDING THE EFFECT OF TIME

The time that forecasted deals have spent in their current stage can be equally important. For example, the manager may determine that in order for a given deal to close as forecasted it may have to progress through the remaining steps in the sales process three times faster than otherwise similar deals have done in the past. The insight might cause the manager to focus particular attention on the strategy and activity associated with the deal - in order to determine whether optimism has overtaken reality on the part of the sales person.

Actively managing the pipeline in this way gives the manager the chance to intervene at the point where they still have the opportunity to change the outcome of the deal, rather than discovering the disconnect after it is too late to do anything about it. Equally, they can identify deals that are at risk while there is still time to replace them with others that show greater potential. Indeed, one of the particular consequences of proactive pipeline management is that it provides management with information they can act upon.

VALUE, VOLUME AND VELOCITY

Conventional CRM reporting tends to focus on the volume and value of deals in the pipeline. It ignores the importance of velocity on sales success. Most sales managers have developed a gut feel that tells them that the longer a deal has been stuck at a particular stage, the less likely it is to close, now or in the future.

Sales momentum - or deal velocity - is usually a powerful leading indicator of the chances of success. But because many CRM systems lack the ability to track and report the effects of time, or to highlight "stuck deals", it's harder than it ought to be for managers to focus their attention on the problems, identify what's preventing progress and either diagnose and deal with the bottleneck, qualify the project out or set it to one side for nurturing in a future quarter.

BETTER TO LOSE EARLY

In my many years as a sales manager, I found that one factor particularly distinguished my top performing sales people from the "also-rans" - they had what seemed to be an uncanny ability to qualify unpromising deals out early. The average sales people, on the other hand, had a tendency to hold on to deals long after they were, with the benefit of hindsight, unwinnable.

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The analytics that underpin proactive pipeline management enable sales managers to identify the characteristics that seem to result in deals moving more quickly through the buying process, and to prioritise campaigns and activities that have the potential to generate more of them. Analytics can also help managers identify sales people who seem to have a particular difficulty in moving deals through particular stages in the process, and offer them corrective coaching.

IMPLEMENTING PROACTIVE PIPELINE MANAGEMENT

The new generation of on-demand role-based Business Intelligence systems are enabling sales organisations to put proactive pipeline management into practice and start extracting actionable insights within days - in time to positively affect performance in the current quarter. They are a far cry from classic "take too long, cost too much" approaches to BI.

The speed with which actionable information can be delivered is remarkable. In one recent example a 2,000+ seat salesforce.com implementation was able – less than 24 hours after installing the on-demand role-based sales BI application – to extract comparison information that could only have previously been generated through time-consuming, prone-to-error and highly complex spreadsheet manipulation.

BENEFITS OF PROACTIVE PIPELINE MANAGEMENT

Unlike their former spreadsheet-driven approach, all the information provided also fully respected the security structure and role hierarchy they had established – so that only the people who were authorised to view the data, could view the data.

Other major benefits have consistently included increased pipeline conversion rates, a steady increase in revenue, and higher CRM adoption rates at the front lines.

This latter benefit - increased CRM adoption rates - is not accidental, and is clearly highly desirable. It's well known that what gets measured, gets managed - and if sales people can see that the information they submit to the CRM system contributes to their chance to achieve sales success, they are much more likely to provide complete and accurate data.

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WHAT NEXT?

How did your last quarter end up, and how is the current quarter looking?

Did you manage to exceed your targets, and were you able to bring all your forecasted deals in as planned?

Have you managed to avoid any "late in the quarter "surprises?

Are you sure that all of your sales resources are being optimally allocated to the task of maximising revenue?

If you see scope for improvement in any of these areas, it's probably time for you to embrace proactive pipeline management.

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