Vantage Point Performance
REDEFINING SALES MANAGEMENT

THE PERFECT PIPELINE®:

HOW TO MEASURE AND MANAGE A PRODUCTIVE SALES PIPELINE

Vantage Point Performance
www.VantagePointPerformance.com

The Phrase Heard Around the World

Having worked with hundreds of sales forces during our careers, we have observed literally thousands of interactions between salespeople and their front-line managers. Of course, there are many different types of interactions that take place between sellers and managers, but there is one particular meeting that stands out as near-universal among business-to-business sales forces... The sales pipeline review meeting.

During this discussion, the rep and manager go through individual opportunities in varying degrees of detail in order to: 1) Get the manager comfortably knowledgeable about the salesperson's pipeline, and 2) Provide an opportunity for the manager to coach the rep to higher performance. In many sales forces, these are the primary coaching venues between the manager and seller.

If there is a single, persistent theme that is woven into *all* of these pipeline meetings, it would be the firm belief by management that a bigger sales pipeline is a better sales pipeline. Consequently, a phrase that closes many, many pipeline review sessions is one that you have probably told one of your own reps at some point:

[*"You need to get more deals in your pipeline"*]

Well... maybe.

It's been our experience that size is not the sole determinant of a pipeline's health. In fact, attempting to pump more and more deals into a pipeline can actually work against the seller by filling the pipeline with junk. Junk that will bounce around for months on end, wasting the time of the seller and their organization. Stated quite simply:

[*Bigger is not necessarily better*]

How then do you determine the health of a sales pipeline, if not by size alone? Vantage Point Performance has developed a more robust approach to measuring pipeline health than just its sheer heft. The approach has the two key benefits of being holistic and quantifiable. It's also fairly intuitive, once the framework and tools are deployed in a sales force. And most importantly, it's been proven to drive better pipeline performance.

Called The Perfect Pipeline®, our methodology looks at three dimensions to determine a pipeline's overall health:

1. *SHAPE*
2. *SIZE*
3. *CONTENTS*

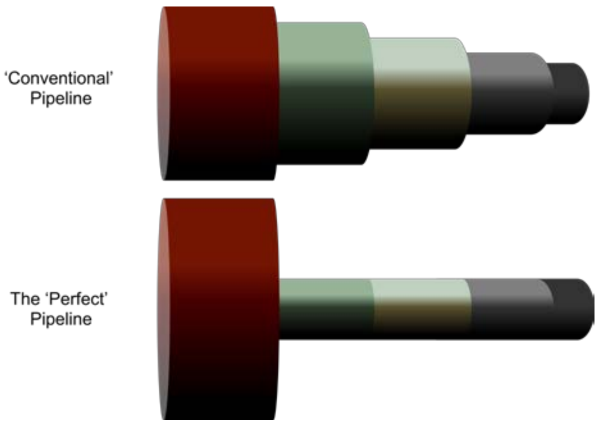
Dimensions of a Perfect Pipeline®

Measure # 1 of the Perfect Pipeline: Shape

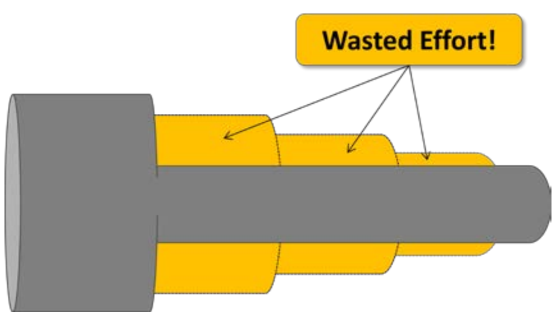
As we all know, the sales pipeline (or funnel, if you're more vertically inclined) tapers from the point where deals enter to the point where deals exit. This is because deals inevitably fall out of the pipeline – sometimes because the prospect disqualifies you, and other times because you disqualify the prospect. Regardless, it is impossible over time to win more deals than you put into your pipeline, so the front will always be at least as big as the back – usually bigger.

Our research with world-class sales forces reveals an interesting insight into the shape of the 'perfect' sales funnel. It is not a gradually tapering figure, as most experts portray. In fact, the most productive pipelines taper dramatically in the *early stages* of the sales cycles. This is where the seller and buyer are qualifying one another for a potential fit. Ideally, *all* of the bad deals would be jettisoned as soon as possible, and only desirable and winnable deals would remain for the rest of the sales cycle. Therefore, the 'pipeline' would actually look like a pipe with a large entrance, rather than a gradually tapering funnel.

The implication of an aggressively narrowing pipeline is somewhat apparent... The faster you can get the bad deals out of the pipeline, the less junk you have bouncing around



consuming valuable resources when you should be closing other good deals and prospecting for new ones. Furthermore, that junk is exactly what causes inaccurate forecasting, as sellers and managers keep no-win deals on the radar in hopes of a last-minute victory. Again, our research shows that salespeople with more quickly tapering pipelines close more business, forecast more accurately, and spend more time prospecting. Altogether, it's a much better way to live.[1]



To measure pipeline shape, companies typically track the volume of deals in each stage of their sales cycle. Our preferred method is to track the percentage of deals advancing from stage to stage, because it helps to separate pipeline *size* from pipeline *shape*. However you choose to measure the stages, the goal is this:

[*You want most deals to fall out EARLY*]

[1] See our *Pipeline Coaching®* program and our *Strategic Pipeline Management* public workshop for strategies and tactics to help sellers build a more efficient pipeline.

There are no widespread metrics for how quickly your pipeline should begin to resemble a pipe, because each company uses different criteria for a 'prospect' and a 'lead' and an 'opportunity.' And in some instances, you won't have enough information to disqualify an opportunity until it's farther down the pike. But if your pipelines are filled with deals until the final stage or two of your sales cycle, either you are uncommonly bad at getting deals across the finish line OR you are clinging to unwinnable deals. Our experience is that most sales forces suffer the latter.

Measure # 2 of the Perfect Pipeline: Size

Though we disagree with the supreme importance of a sales pipeline's size, it is no doubt a critical measure of a pipeline's health. In fact, the question that we are most often asked when discussing sales pipelines with managers is:

[*"How big should my pipeline be?"*]

The response that they typically expect from us is a magical number they can multiply by their salespeople's annual quota to reach the correct pipeline size. Something like, "Mr. Manager, the ideal sales pipeline should be exactly 3 times your sales rep's annual quota. That magic number is a known best practice for pipeline management." Alas, that is never the response we can give.

We respond that there is no universal factor that can be multiplied by quota to yield an ideally sized pipeline. In fact, the perfect pipeline size is determined by two interrelated variables that are often unique to each sales rep. If you know those two numbers, you can quite easily calculate the ideal pipeline size for each individual rep.

The first variable in this equation is the rep's *Close Rate* over a given period of time. To keep things simple, let's assume that our calculations will be done on an annual basis. A rep's annual Close Rate could then be determined by dividing their sales over the past 12 months by the average size of their pipeline over that period. So if the rep closed $1 million worth of business over the past 12 months and their average pipeline size was $5 million, then their annual Close Rate would be $1 million ÷ $5 million, or 20%. Easy.

The second variable in the equation for a sales pipeline's perfect size is the sales rep's quota. Pretend for our purposes that the sales rep above has an annual quota of $1.5 million. To determine the ideal pipeline size for this rep, they would divide their annual quota by their annual close rate. In this case, the calculation $1.5 million ÷ 20% yields an ideal pipeline of $7.5 million. So if the rep maintains a sales pipeline of $7.5 million and closes 20% of that business during the course of the year, they will close $1.5 million of business. It's just that simple.

The Perfect Pipeline Size = Sales Quota ÷ Close Rate

Therefore, a sales rep can or their manager can quickly calculate the size of their perfect pipeline on an ongoing basis to determine if the rep is on track to hit their target. And over time, a rep can confidently reduce the size of their pipeline by improving their close rates (or decreasing their quota, which will probably never happen). Interestingly, this formula implies that each salesperson's pipeline size should vary by their individual factors. Literally, one size doesn't fit all. There is a uniquely sized pipeline for each of your reps.

Remarkably, we have never seen nor heard anyone explain this fundamental relationship among the two determinants of a pipeline's ideal size. Yet it is critical knowledge for sales managers to possess if they are to successfully steer their reps toward quota attainment. Yet again, sales managers are not trained on simple frameworks that are critical to doing their job.

Measure # 3 of the Perfect Pipeline: Contents

The dimension of pipeline perfection that gets the least attention, sadly, is the *contents* of the pipeline. To most salespeople, every lead is a good lead. The excitement of the pursuit and the optimistic disposition of sellers guarantee their confidence in a closed sale. But not every lead is desirable, and not every lead is winnable. In fact, when we look into the typical sales pipelines of our clients, we see lots of leads that are misaligned with the company's go-to-market strategy.

For instance, we worked with a sales force whose stated strategy for the year was to win new customers. Yet, if you looked at the contents of their sellers' pipelines, they were filled with opportunities with existing clients. Another client of ours was launching a suite of new products, and they expected 25% of the next year's revenue to come from the new, high-margin offerings. Yet, their sales force's pipelines were devoid of opportunities to sell those new products.

If your company has invested the time to segment your customers and products into high and low priorities, then you should expect your sales force to execute that go-to-market strategy. You then have two alternatives for ensuring it is done accurately. You can:

1. Wait until the deals are done to see what your sales force has sold
2. Examine the sales pipeline early and often to see what your sales force is intending to sell

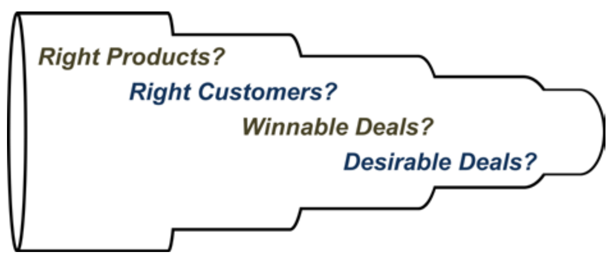
Wise sales management should do both – examine what is *being* sold and then what *has* sold. But most companies tend to only look behind door number 1. Like salespeople, management often falls into the trap of pursuing deals for the sake of deal pursuit, which can dilute the contents of a sales pipeline. If your company has clearly stated market objectives, then:

[*Your pipeline should mirror your market strategy*]

We use four criteria to examine the contents of a sales pipeline. The pipeline should contain:

1. The right products
2. The right customers
3. Desirable deals
4. Winnable deals

Quantifying the contents of the pipeline is a fairly straight-forward exercise, IF you have clear go-to-market priorities (customers and products) and crisp guidelines for the types of opportunities you want to pursue (desirable and winnable). If so, it's a fairly straightforward exercise to create an index that will assign a rating to a pipeline's contents.



The Interplay of the Three

Of course, these three dimensions of the Perfect Pipeline are highly interrelated. If you put the right deals in your pipeline, your win rate will go up. And if your win rate goes up, your ideal pipeline size will go down. Conversely, pursuing bad deals will lead to a bloated pipeline, which in turn mandates a larger pipeline size. Managing a pipeline is an iterative process, but one that (when done well) yields an increasingly productive sales force. Our fundamental point is this:

It is dangerous to judge a pipeline by size alone

Doing so obscures both bad deal selection and bad deal pursuit. Most sales forces today are in search of greater efficiency, since they are being asked to do much, much more with much, much less. Effective pipeline management is the path to hyper-efficient selling, and all it takes is a little knowledge and a lot of discipline by front-line sales management.

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