VIEWPOINT

№5

NewLeaf Partners View Point

Pipeline Management and Forecasting: How to improve it.

Part 1

Executive Summary

In Part 1 of this View Point paper we will explain what it takes to improve Pipeline Management. We will discuss why you should strictly separate pipeline meetings from forecast meetings. And we will show you how to avoid the *What You See Is All There Is (WYSIATI)* trap which can lead to wrong assumptions about the likelihood of winning a certain sales project.

How the Short-term Trap prevents good pipeline management

At the heart of every successful forecast lie a well-defined sales process and the ability to correctly manage a company's available opportunities. This is why the pipeline is the primary factor for hitting one's numbers. An optimal pipeline management allows companies to find answers to the key sales questions at any given time:

- Are we adding enough new opportunities to achieve our sales goals?
- Are we losing critical opportunities in the same stage of the sales process every time again?
- Which types of opportunities are the ones that we typically win?
- Which opportunities need closer monitoring?
- Where in the sales process do we need to increase our efforts? Where can we save time and resources?
- Which sales reps need to be supported in which stages of the sales process?

It is the quantity and quality of the opportunities that enter the funnel at the top that has the biggest impact on pipeline health. Therefore the focus of the pipeline review session should be on the top of the funnel.

The nearer a deal is to closing the more attention it gets

Forecast meetings focus on those opportunities at the bottom of the funnel. These late stage opportunities create much more excitement than the opportunities at the top of the pipeline, which are still too far away to fully capture salespeople's and management's attention.

The tendency to overweight issues that are imminent rather than those that are still weeks or months away is called the Short Term Trap. Falling prey to the cognitive bias of a focus on the short term is driven by the same basic instincts and fundamental behavioral patterns that helped our very early ancestors to survive. Those who were able to react immediately to an imminent threat were the ones that eventually survived and were able to pass on their genes. This is why even today we tend to find more satisfaction when focusing on immediate actives than the long-term strategies.

The further the opportunity has advanced down the sales funnel, the less influence sales management has on the result

Driven by the Short Term Trap many sales managers tend to focus on those opportunities that are soon to close. Having little or no control over the fate of late stage opportunities, this constitutes the wrong approach.

The pipeline meeting focuses on the quantity and quality of those opportunities that have just entered or are about to enter the funnel, and how they progress through the funnel. In contrast, the forecast meeting should focus on the closing time and the likelihood of success.

To give each activity the appropriate time and setting we recommend therefore to **separate forecast meetings from pipeline review meetings.**

When should we hold pipeline reviews?

Given the objective to analyze opportunities that will close in the near term and the related issues, forecast meetings should be held on a weekly basis. In our view pipeline meetings should be held biweekly or, depending on the nature (volatility) of the business, at least once a month.

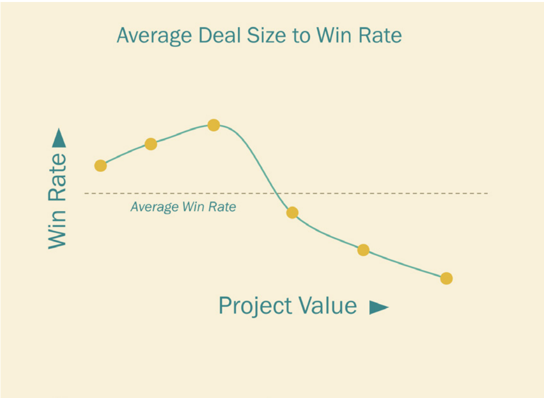
What is the objective of the pipeline review?

The major goal of the pipeline review is to ensure that sales reps have enough opportunities and that they focus their work only on qualified opportunities.

What information do you need to assess the quality of your pipeline?

The sales literature is full of advice regarding pipeline coverage. Typically a ratio of 3 times the sales quota (in terms of value) as the ideal pipeline value is recommended. We believe that, while easy to apply, the 3-to-1 ratio is too general, and misses the point.

1. The 3-to-1 coverage rule does not account for the different sizes of opportunities that move through the funnel. Each company has its sweet spot regarding the perfect size of opportunities.



As the likelihood to win deals drops sharply outside the optimal deal size corridor, the rough 3-to-1 ratio does not take into account the importance of focusing on the right opportunities.

2. Furthermore, the 3-to-1 rule does not reflect the fact that the deals have different closing dates. To improve pipeline management it is not enough to know how many opportunities one has in the pipeline. One also needs to know their anticipated close dates.

3. Each sales process stage requires a different amount and quality of effort and, more importantly, different skills. The 3-to-1 ratio approach does not support the adaption of resources and skills to the different stages. Therefore it does not provide a suitable starting point for coaching efforts.

The focus of a pipeline review should be "Do we have enough high quality opportunities in our pipeline?"

Thus in any preparation on a pipeline review, Sales Managers need to review three questions:

1. Given our Win Rate from a team perspective and from an individual perspective, is the current load of our pipeline sufficient to ensure that we achieve our objectives?

2. How do the opportunities in the pipeline compare to our average of opportunities won in terms of their age and pipeline velocity?

3. How does the size of each opportunity compare to the deal sizes which we typically win?

A pipeline review can do more than just provide quality and quantity information on opportunities

Beyond answering the question "Do we have enough high quality opportunities in our pipeline?" a good pipeline review has two additional objectives:

1. Provide rich and deep information on those opportunities in the pipeline and how individual account managers are dealing with them. Sales managers should be aware of any changes that occur regarding those opportunities. For instance:

- Has the account manager pushed the close date?
- Has the deal size changed?

2. Pipeline review meetings offer a great opportunity to coach account managers while working on questions like:

- Are we pushing the right opportunities?
- How solid is our information base?
- Is the customer willing to invest?
- How does he view the value we bring to him?
- Are the right people supporting our approach?
- What needs to change on the customer side so that we can win the deal?
- Are we taking the appropriate actions?
- What could be done to become more effective in our sales efforts?

Who should participate?

Depending of the nature of the business, we recommend that sales managers, account reps and inside sales reps all participate in pipeline review meetings. If the business is largely driven by services, we recommend that the representatives of the service function are present as well.

VIEWPOINT

Focus on what is not visible

When discussing an opportunity it is important - and this may sound counter intuitive - to focus on the information associated with an opportunity which not visible nor easily available.

The following example adapted from Daniel Kahneman (*Thinking Fast and Slow*) helps to illustrate this issue.

> The question is:
> *"Will we win this opportunity?"*
> The information we have at this point:
> *"We have the best solution and the lowest price."*
> Reading this, the intuitive part of our brain immediately takes control and jumps to a conclusion, and the answer is: "yes".
> But what if we then get the following information…
> *"and the buyers do not like us and delivery will be late"?*

What we did not do before jumping to a conclusion was to ask ourselves: What else we should know about the opportunity in order to come to a balanced judgment?

In short, we fallen prey to the *What You See Is All There Is (WYSIATI)* trap. To make matters worse, even though after assessing the full information available, the bias favoring the first impression will remain in our thinking, and there is little that we can do about it.

To further exacerbate the situation, from now on we will tend to unconsciously favor all information that supports our first impression. Therefore at the outset you should state which information you require and need to obtain, before an opportunity in a pipeline review is presented for review.

The following six questions can serve as a guideline for the information you want to see in a review session:

1. What will force the customer to make an investment in the targeted timeframe?
2. What are the customer's formal and informal decision-making criteria?
3. Why do we have the better solution compared to our competitors?
4. What are the factors that lead us to believe that we will win the deal?
5. Who drives the decision?
6. What do we need to do to move that person in the right direction?

Conclusion

Improving your pipeline management requires you to refocus your attention from a purely volume-driven assessment to one that also includes questions of pipeline integrity. To support this approach, it is vital to separate pipeline reviews from forecasting meetings and work with a few but very distinct metrics. In this first part of our View Points series on pipeline management and forecasting, we have focused on the how to improve your pipeline review. In the second part we will have a closer look at ways to improve forecasting meetings.

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