Taming the Volatile Sales Cycle*

Robert B. Miller
Founder Miller Heiman, Inc.

CONTENTS

Introduction 2
The Sales Funnel 3
Toward Better Funnel Management 5
About the Author.. 7
About Miller Heiman 7

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Introduction

Many of the ups and downs of a company's revenue stream can be smoothed out. Doing so, though, requires a fundamental change in how the organization prioritizes its sales activities.

The typical sales process is like a funnel: At the bottom are the deals that are nearest to being closed, in the middle are other prospects in the works, and above the funnel are numerous promising leads that need further investigation. Companies frequently run into trouble when they work their funnels from the bottom up, which all too often results in wild fluctuations in the sales cycle. For a more continuous -- and predictable -- revenue stream, firms should prioritize the three areas of the funnel in the following way: bottom, above and then middle.

Many companies experience wild fluctuations in their revenues. During one quarter, new offerings are selling faster than proverbial hotcakes. But in the next quarter, the sales force can't seem to give those same products away. "It's either feast or famine," is the all-too-familiar refrain. To exacerbate matters, these fluctuations are often unpredictable as evidenced by the countless companies that miss their revenues projections, unleashing the wrath of Wall Street. Many corporations have watched their stock price plunge because of a missed sales target. And bad sales projections also wreak internal havoc. Few things infuriate the manufacturing division more than ramping up the production of an item that only ends up sitting on shelves.

Of course, every sales cycle has some degree of volatility. A big customer could go bankrupt or a major deal could fall through because of management changes at the client's firm. Conversely, sales of a new product could suddenly skyrocket because of a serendipitous endorsement. And there are certainly seasonal fluctuations and many other factors, including customer budgets that affect the sales cycle.

Aside from these, there's another type of volatility that many executives seem to think is some kind of natural law. At the beginning of every quarter, sales tend to falter; at the end, they often surge. This continuous roller coaster can be a huge problem when big deals fail to materialize at the last minute (that is, near the end of the quarter), leaving a shortfall. Indeed, the fear of that happening has led many companies astray. Some have even tried to fudge their numbers by taking expected sales and booking them in the current quarter.

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Obviously, cooking the books is hardly the answer, but can companies actually achieve a consistent -- and predictable -- revenue stream through better management? Contrary to the prevailing view of many executives, organizations can indeed smooth out many of the kinks in their sales cycles. Doing so, however, requires a fundamental change in how they prioritize their sales activities.

The Sales Funnel

The typical sales process is like a funnel: At the bottom are the deals that are nearest to being closed; in the middle are other prospects in the works; and above the funnel are numerous promising leads that need further investigation. Each of the three areas of the funnel requires different activities. At the bottom of the funnel, the company must remove all remaining obstacles to close those deals (for example, meeting with the final decision maker and ironing out the specific financial terms of the contract). In the middle of the funnel, it needs to do important background work (for example, identifying the people at the prospective customer who could possibly veto the deal). Above the funnel, it needs to screen the leads to identify which should be pursued (specifically, determining whether there's a good fit between the customer's needs and the company's products). And, of course, it also needs to continue prospecting to ensure a healthy supply of new leads.

Now comes the tricky part. Ask any executive, including those in sales, how to prioritize the three types of activities and the answer is likely to be that the funnel should generally be worked from the bottom up. At first glance, that strategy seems to make sense. Why not concentrate on the surest opportunities first and leave the less certain stuff for last? But this prioritization strategy is the fundamental cause of the sales roller coaster.

Here's what typically results from a bottom-up strategy: The sales organization closes important deals and is busy moving prospective business from the middle to the bottom of the funnel. This is arduous work and, pressed for time, people just do not get around to generating any new leads. At some point, though, everyone begins to realize they're in trouble because the funnel is drying up. This then results in panic and a flurry of activity. Unfortunately, a company can't instantaneously move a prospect from the top to the bottom of the funnel. Especially for big-ticket products, that process could take months, if not years. Thus, the company experiences a plunge in sales until it is finally

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able to move the crop of new leads down the funnel, which eventually results in a sales uptick. But then history repeats itself because, as people focus on the bottom and middle of the funnel, they again neglect to prospect and qualify new leads. And this is why many firms experience the wild ups and downs of the sales roller coaster.

Ideally, a company should have a continuous flow through its sales funnel, and the surest way to achieve that is to prioritize the three areas of the funnel in the following way: bottom, above and then middle. Note that the highest priority is to still attend to the deals that are nearest to being closed because they offer the quickest return on the future expenditure of a company's time and resources. And given the investment that a company has already made to move a potential customer from the top to the bottom of the funnel, it would be foolish to leave that prospective business vulnerable to poaching by a competitor. But the only way to ensure that activity above the funnel receives the attention it deserves is to prioritize it ahead of the work that needs to be done in the middle.

By doing so, companies can combat the numerous psychological factors at play. For starters, people in general don't like uncertainty and they prefer to concentrate on the surer things first. Related to that, people tend to focus on the short term at the expense of the long term, and the payoff for working above the funnel typically seems too distant. Lastly, the simple fact is that everyone dislikes the hard (and seemingly thankless) task of prospecting. In fact, I've only ever met two types of salespeople: Those who admit they don't like pounding the pavement for new customers and those who are in denial and say they do. Give anybody the choice of working the middle or above the funnel, and they'll always choose the former. It's easier -- and so much more comfortable -- to take an existing client out to dinner to discuss future business than to venture out into new territory to face the possibility of rejection after rejection. Thus, the only way to ensure that work above the funnel is done regularly is to formally prioritize it ahead of work in the middle.

But that's not to say that any company can afford to neglect working the funnel's middle. Prospects there must still be shepherded toward the bottom so that those deals can eventually be closed. Somehow, though, people will find the time to work on customer prospects in the middle of the funnel (even when other activities might have a higher official priority as decreed by their company), whereas they always seem to be much too busy to concentrate on finding and qualifying

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leads above the funnel unless they're absolutely forced to do so.

Toward Better Funnel Management

And that brings us to the basic problem: Telling salespeople how to manage their individual funnels is one thing; getting them to do so is an entirely different matter. To accomplish that, a company needs to implement various organizational measures. For starters, it needs to have salespeople regularly monitor and track the activity in their individual sales funnels. Of course, for any given week, different individuals will be allocating their time differently, depending on the status of their accounts. For instance, one salesperson might be spending 60% of her time at the bottom of the funnel, 20% in the middle and 20% above the funnel, while another salesperson might have a completely different breakdown. Neither is inherently better than the other and, in fact, the two salespeople could have entirely different ratios for the following week. It is important to remember that the desired prioritization (that is, working the funnel from bottom, above and then middle) is just the static overall goal. Companies have to keep in mind that each salesperson's time should be allocated in dynamic fashion, given the particular status of that person's different customer prospects.

That said, a company can uncover a number of problems by tracking the overall, combined funnel of its sales force. For example, a general lack of movement through the funnel suggests that people might be incorrectly classifying the different sales prospects (for example, thinking that a potential customer is in the middle of the funnel when it's actually above it). Or if very few prospects are making it into the funnel, the firm might be having difficulty using initial data to predict whether there's a match between its products and potential customers' needs, and the company might do well to consider devoting more resources to above-the-funnel activities.

Institutionalizing better funnel management is admittedly a difficult task. Many salespeople, for example, will claim that they're already too busy to spend precious time classifying and tracking their activities. But such a disciplined process is crucial, especially when a company absolutely needs to have a more predictable sales cycle.

Consider the operations of a large aerospace company that manufactures its products -- all high-ticket items -- to forecasts from the sales organization. Unfortunately its sales forecast had been all over the map, with an average accuracy of just 35%. Then the company's new

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senior vice president of sales implemented a program to teach everyone -- including people in sales, marketing, manufacturing, and customer service and support, as well as the firm's dealers -- the fundamentals of funnel management. Definitions were clearly delineated and codified (for example, a customer prospect had to meet specific objective criteria before being considered "in the funnel"), and formal funnel reviews were held each week. To ensure that everyone took the new program seriously, the SVP of sales appointed one of his top lieutenants to oversee the organization's entire funnel management. Within one quarter, the accuracy of the company's sales forecasts had improved to 60%. With additional work, that number exceeded 75% and the change has saved the firm millions of dollars a year because the manufacturing group now has a much better handle on future orders.

For companies that aren't paying enough attention to work above the funnel, a number of practices can help. A good rule of thumb is that, every time people close a deal, they must prospect or qualify something else. That's why many retailers teach their sales force to inquire about additional business immediately after making a sale by asking, "Is there anything else I can help you with today?" Of course, done clumsily, such practices are more likely to annoy than entice customers. But the truth (which is slightly counter-intuitive) is this: The most opportune time to prospect for new business is when someone has just purchased something because, at that point, the buyer is typically feeling good about the decision he's just made. Thus savvy companies teach their salespeople to close a deal by saying something along the lines of, "It was great doing business with you. Do you know of anyone else who could benefit from our products?" Another practice is to devote a pre-defined, regular amount of time to work above the funnel. For example, salespeople could reserve the first 15 minutes of each working day for prospecting and qualifying leads. Or, alternatively, they could discipline themselves to make five daily attempts to generate or qualify a lead.

At many organizations, the same salesperson follows a customer prospect from above the funnel until the sale is made, providing a continuous interface. But other companies have different groups set up specifically for above-the-funnel work, and that activity is sometimes even outsourced. The classic example here is telemarketing, which drums up leads that the sales force then pursues. That type of practice is common in the business-to-consumer arena, but it can also be used effectively for business-to-business sales. A firm might, for instance, segregate its sales

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force into those who work above the funnel versus those who concentrate on the bottom and middle. The former could be compensated by the number of "quality" leads brought in, which could be defined, for example, as a potential deal that has more than a 90% probability of closing (and such statistics could easily be tracked). The latter could be compensated in the standard fashion: commission based on actual sales. Such practices have two major benefits: They help ensure that work above the funnel is never neglected, and they are cost-effective, freeing experienced (and well-paid) sales professionals to concentrate on what they do best.

Even though revenues are the lifeblood of a company, many CEOs and other senior executives are ignorant of various aspects of the sales function. Some, for example, believe that landing a big customer is more art and little science. But the simple truth is that the sales function is a definable, repeatable process that can be tracked, planned and managed, and those that believe otherwise will continue to suffer the many volatile ups and downs of the sales roller coaster.

About the Author

Robert B. Miller is co-founder of Miller Heiman, Inc., a global sales consultancy, and co-author of Strategic Selling: The Unique Sales Systems Proven Successful by America's Best Companies (Warner, 1988). He can be reached at rbmiller@millerheiman.com.

For more information on this topic, call us at 877-678-0275 or visit www.millerheiman.com.

About Miller Heiman

Miller Heiman has been a thought leader and innovator in the sales arena for almost thirty years, helping clients worldwide win high-value complex deals, grow key accounts and build winning sales organizations.

With a prestigious client list including Marriott Corp., Dow Chemical, Pepsi, Schwab Institutional and Wells Fargo, Miller Heiman helps clients in virtually every major industry to build high performance sales teams that deliver consistent sustainable results to drive revenue.

The company is headquartered in Reno, Nevada and has offices around the world. More information can be obtained by visiting the company's website at: www.millerheiman.com.

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