Huthwaite
Focus on the Buyer

The Feel Good Funnel

By Bruce Wedderburn and John Golden

The Feel Good Funnel

United States
(Global Headquarters)
901 North Glebe Road
Suite 200
Arlington, VA 22203
P: 703 467 3800
F: 703 467 3801

Australia – Sydney
Level 7, 120 Sussex Street
Sydney NSW 2000
Australia
P: 1300 856 068
F: +61 2 8437 7699

Australia – Melbourne
Level 7, 11 Queens Road
Melbourne VIC 3004
Australia
P: +61 3 8842 2440
F: +61 3 8842 2444

Singapore
111 Somerset Road
#10-06 TripleOne Somerset
Singapore 238164
P: +65 6505 9470
F: +65 6505 9490

Hong Kong
Suite 1701, 100QRC
100 Queens Road Central
Hong Kong
P: +852 2234 2066
F: +852 2521 2836

www.huthwaite.com

The Feel Good Funnel

When it comes to closing pipeline opportunities, less is more

In the Academy Award-winning movie *The King's Speech*, Great Britain's Duke of York is advised by medical experts to smoke cigarettes. The future King George VI suffered from a severe stuttering problem and his physicians thought inhaling the smoke would help relax his vocal chords. In fact, it was only a few decades ago that the health 'benefits' of cigarette smoking were widely advertised. With the benefit of hindsight and advances in medicine, we now know that this information was wrong, outdated and dangerous.

Yet another outdated and dangerous myth currently exists within most sales organizations, a phenomenon Huthwaite calls the 'Feel Good Funnel'. The Feel Good Funnel is a sales pipeline that is full to overflowing with opportunities at each stage, especially the early stages, that creates a false sense of security around meeting quarterly to yearly targets. Unlike the supposed health benefits of cigarettes, the myth of the Feel Good Funnel, unfortunately, hasn't yet been widely disproved in the general community. It continues to unknowingly frustrate sales leaders, embarrass salespeople and cost companies all over the world millions of dollars in lost revenues every year. Plus, the insidious sales costs created by the Feel Good Funnel in terms of wasted sales effort, unnecessary travel expenses, poor resource allocation, and misuse of sales management cannot even begin to be calculated.

Is the Feel Good Funnel having an impact on your sales organization? If you answer yes to one or more of the questions below, there is a high likelihood that it is.

- For sales opportunities that initially progress through the early stages of your pipeline, do they lose momentum, stagnate and eventually disappear?
- Do you have late-stage revenue that shrinks in value or disappears from your company forecast without warning or explanation?
- Do you have sales pipelines that initially promise so much but fail to follow through on that promise?

How pipeline health is measured

There are two commonly accepted measures for assessing the health of a company's sales pipeline:

1. The number of opportunities in the pipeline. This is measured either by the total number of opportunities, or the number of opportunities at each stage, or both. In our work with sales organizations we frequently hear managers state with confidence that to reach their annual revenue target they have to have a prescribed number of forecasted deals in stage one, two, three, etc. When we ask how those target numbers were arrived at there is often disagreement and confusion.

2. The dollar value of deals in the pipeline. 'We have to have $X million in stage one, $X million in stage two, $X million in stage three ...' is a comment we also frequently hear. As with #1 above, there is often disparity as to the source of these target amounts.

While these two metrics are the ones most commonly used by sales organizations to measure pipeline strength, there is an underlying and damaging assumption with their use, which is 'more is better'. Sales leaders have been conditioned to believe that purely having more opportunities in their pipeline and having a large dollar amount at each stage is a positive thing.

The Feel Good Funnel syndrome is a result of this misplaced thinking. Why use the term 'feel good'? Because as a sales manager looks ahead to his revenue target, it feels good to know that he has a sufficient quantity of opportunities in his pipeline to allegedly reach that target. A regional vice president can believe that she has surpassed the target amount of dollars in her forecast. An SVP of sales can feel optimistic that his teams supposedly have enough opportunities in the late-stage pipeline to guarantee short-term revenue and enough deals in early stages to predict with confidence that they will exceed revenue goals later in the year.

Below is an example of a Feel Good Funnel. You may or may not use a funnel as a visual representation of the pipeline, but no doubt you are very familiar with the concept of it.

It has many opportunities at each stage, especially in the early stages. Any experienced sales manager will say that, of course, there will be attrition as deals progress through the stages.

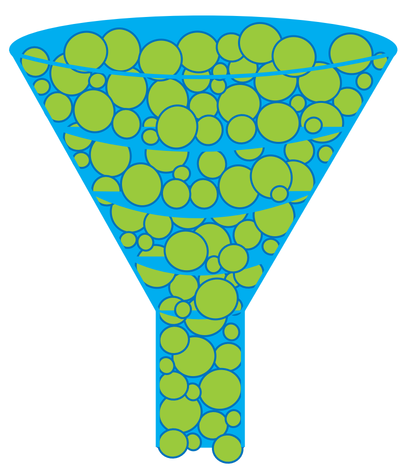

Figure 1: Feel Good Funnel

But attrition will not be a problem with this example. Why? Because there are a sufficient number of opportunities and dollars in each stage that will emerge in the form of closed business. There is little need for a manager to be concerned. His salespeople have obviously been busy generating new business. This is a funnel that gets the quantity targets right.

Unfortunately, failure to effectively address the quality of opportunities in the pipeline is where it all frequently falls apart. Placing emphasis on the quantity of deals in the pipeline over the quality of those deals directly leads to all-too-familiar scenarios. That is, opportunities that:

1. Have been forecast at a late stage that, upon further review, should realistically have been at an earlier stage.
2. Have significant revenue associated with them that, upon deeper scrutiny, should have been realistically be forecast for a much lesser amount.
3. Have been forecast to close at a certain date that, when examined through the lens of quality and not quantity, should have closed at a later, more realistic date.
4. Have revenue that gets pushed back month after month.
5. Should never have been included in the pipeline in the first place.

Boosting pipeline quality and accuracy

Examining the quality of early stage opportunities before they progress through your pipeline is an essential task if an organization is to avoid the trap of sinking time, costs and resources into deals that are never going to close. There is a trap that sales organizations fall into when attempting to qualify opportunities. The salesperson concentrates on the activities they can achieve in the sales process, rather than what the customer is doing in their buying process. Too many sales processes employed by companies are, in essence, a checklist of activities that the seller associates with moving a customer towards a sale. Real sales strategies use an assessment to execute each step through the sales pipeline in order to determine where the customer is in the process of making a buying decision. Too often sellers operate as though activities such as completing a SWOT analysis, having a first meeting or submitting a proposal constitute a sales strategy. While each of these steps is important to making a sale, they represent steps in only one half of the process. What's missing is the perspective of the customer.

Effective pipeline progression relies on incorporating the customer's point of view and continually realigning the steps in the sales process accordingly. Without the customer's point of view woven into your company's sales process, you run the danger of opportunities being worked based on salespeople's assumptions and guesses of where an opportunity is in the pipeline and what is required to progress it to close. Understanding the distinction between the seller's point of view and the customer's point of view is critical to producing accurate pipelines.

If, for example, you are attending an important customer meeting in another state, it is likely that you may need to buy a plane ticket, drive to the airport, park your car, fly to the city where the meeting is being held, catch a taxi to the customer's location, register at the front desk, etc. While each of these activities is critical to your attendance, they have little direct impact on the quality of the meeting and tell you nothing about whether or not this is an opportunity that will eventually close.

Reflect, however, on the kinds of milestones that are built into most sales pipelines. Do they reflect the sales equivalent of these kinds of activities? Huthwaite's research indicates that they often do. Is it any wonder that pipeline milestones such as 'initial meeting completed' and 'delivered capabilities presentation' contribute to bloated pipelines and inaccurate forecasts?

One manager at a Fortune 50 software company explained, "I want my reps to stop talking about software and start having business-based conversations with strategic-level buyers". Her region's pipeline had a large number of opportunities forecast based on product-based presentations delivered to an IT manager who had little spending authority and no budget. For many of her reps, delivering a presentation was enough to forecast revenue. It was little wonder when later many of these deals evaporated from the forecast.

Incorporating the customer's perspective into your pipeline means answering questions such as, "Has the customer ...

- revealed explicit needs that this solution will address?
- described the decision-making process they will use for this specific opportunity, including buyer roles?
- provided you with access to senior-level decision makers?
- revealed how this initiative will be funded?
- discussed their decision criteria and ranking of importance?
- shared their perceptions of risk in moving ahead with your solution?"

These are examples of questions that, if built into your pipeline process, will provide the essential qualifying steps needed to weed out those deals that will drive up sales costs and decrease revenues.

The Real Funnel

If we apply greater rigor to understanding the quality of opportunities in your pipeline, not just the quantity, we start to see a far more realistic sales funnel emerge. It looks more like the one in Figure 2.

The Real Funnel differs from the Feel Good Funnel in that it has:

- fewer opportunities in the earlier stages; and
- less projected revenue in the pipeline.

These are two revelations that have traditionally made sales managers extremely nervous. Even the notion of having less activity, opportunities and dollars in the pipeline goes against every traditionally held sales paradigm.

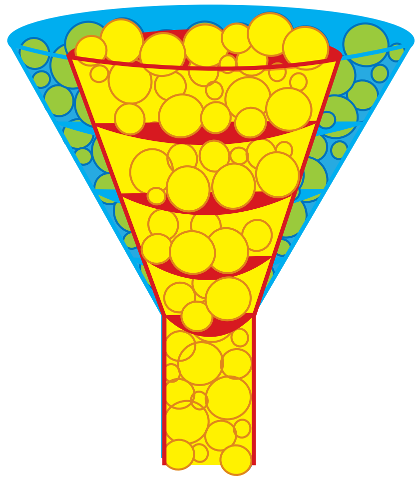

Figure 2: The Real Funnel

But on deeper scrutiny, what does the Real Funnel have more of than the Feel Good Funnel? It has a much higher percentage of deals that have a greater likelihood of closing. What are some implications of that?

- Salespeople can focus their time and energies on better-qualified opportunities.
- Managers can focus their coaching efforts on opportunities that have a higher likelihood of rewarding their efforts.
- Forecasting will become more objective, accurate and rewarding.
- Sales costs will decrease significantly.
- Profitability per sales person, client and organization will climb.

It is important to note that the output in terms of closed opportunities is the same in both funnels. The difference lies in the shaded opportunities. Because the organization that employs The Real Funnel uses a process that qualifies out those deals that have little likelihood of closing, salespeople instead focusing their time on opportunities that are winnable. They are forecasting opportunities that have a significantly lower risk of disappearing from the pipeline. Managers are directing their coaching efforts in ways that make a real difference to revenue.

Automate it

One question we pose to all companies that want to improve the quality of their pipelines is, "To what degree does your company's CRM help your salespeople sell?" Most of the leading CRMs are excellent storage sites for client and marketing information, but thye don't provide salespeople and managers with the guidance and coaching they need to build pipelines of realistic, qualified opportunities. Instead, they rely on salespeople's opinions regarding pipeline progression, stage, close dates and deal value. With all of the emotion invested in quota achievement, commissions and hitting revenue targets, it is any wonder that subjectivity plays a major role in forecasting? The result is a pipeline that fluctuates wildly in value from one month to the next, and forces sales managers to spend countless hours every week chasing and verifying forecast numbers.

Companies that employ pipeline management tools such as Huthwaite Dealmaker™ have the subjectivity removed. In its place are verifiable business rules that coach salespeople through the best-practice steps, so that they focus their time and your company's sales costs on winning those opportunities that have a realistic chance of closing. Thus, the company's CRM enables the Real Funnel to emerge, along with far greater forecast accuracy, closure probability and success rates.

The real funnel in practice: an East Coast consulting firm

Huthwaite recently worked with a firm based in the mid-Atlantic area to address challenges it was facing regarding forecast accuracy and an unacceptably low win rate for pipeline opportunities. In 2009 the firm had brought in a new CEO who soon became perplexed at the deal attrition from the forecast. When he queried the sales managers the replies were all versions of 'That's the way we've always done it'. Managers had been schooled in the traditional way of thinking and the Feel Good Funnel was the norm, not just in that company, but throughout that industry.

Huthwaite helped the firm to:

1. Optimize its sales process to include milestones that reflected critical actions its customers needed to take at each stage (vs. actions that only the salesperson took).
2. Identify those milestones in the pipeline that were essential and automate them into the firm's CRM (in this case, Salesforce.com) through the Huthwaite Dealmaker sales automation platform.
3. Train salespeople in the skills required to execute each of those milestones to get the customer to take the required actions.
4. Train managers in how to coach the best opportunities to move them through the pipeline faster.
5. Design performance measures to track progress, as well as establish clear roles to ensure effective coaching occurred.

The result

It was of huge concern to the sales managers and the firm's parent company that over the first few months of employing this strategy the forecast actually decreased by more than 15%. The CEO would frequently get calls from the firm's parent company expressing its concern about the "shrinking pipeline". The new CEO faced pressure from above and below to immediately grow the size of the pipeline.

But after just four months the CEO started getting calls of a different nature from the parent company. It congratulated him that not only had revenues increased by more than 16%, but the firm had also beaten profit targets by more than 10% for the previous two months. After six months, the CEO raised the firm's profit target for 2010. By the end of 2010 the firm had surpassed the revised targets and achieved the highest profit margin in the company's 30-year history. All the while the size of the pipeline was consistently below previous, lower-performing years. This puzzled many in the firm, who held the traditional belief that 'more is better'. The dichotomy of smaller pipeline/ higher revenue and profit just didn't quite feel right.

In late 2010 the CEO was promoted to take over another company in the parent company's stable and ws on track to achieving a similar outcome with that company in 2011.

The CEO said, "One of the most important decisions we made in late 2009 was to update and automate our sales process. The new discipline that we required from our reps to manage opportunities using this process and to incorporate it into our CRM allowed them to make better decisions about what business to go after and what to ignore. They were better able to ignore the noise, when in the past they would chase it. Now they have a higher win rate and our management team is focused on accelerating opportunities to close".

Conclusion

Similar to the supposed health benefits of cigarettes, the long-term effectiveness of DDT or the absolute certainty that the world was flat, sales is a profession filled with myths. Like eating too much ice-cream, just because something feels good that does not always mean it is the right thing to do. Sales managers draw tremendous satisfaction from seeing a sales pipeline that surpasses revenue targets at each stage. The feelings of achievement and anticipation that this brings can obscure the gray reality that these pipelines are sometimes being viewed through rose-colored glasses. By applying qualitative milestones at the early stages of the pipeline, and equipping salespeople with the necessary skills to execute on these milestones, companies can quickly weed out the distractions and see dramatic improvements in their sales force's focus, energy, success and revenues.

Huthwaite is the world's leading sales performance improvement organisation. Founded on scientifically validated behavioral research, our methodologies which include the internationally renowned ***SPIN® Selling***, guarantee sales success. Huthwaite assesses your organisation's needs and develops customised sales performance improvement and coaching programs that drive real business results.

2100-M00109-04

Huthwaite

Focus on the Buyer

United States
(Global Headquarters)
901 North Glebe Road
Suite 200
Arlington, VA 22203
P: 703 467 3800
F: 703 467 3801

Australia – Sydney
Level 7, 120 Sussex Street
Sydney NSW 2000
Australia
P: 1300 856 068
F: +61 2 8437 7699

Australia – Melbourne
Level 7, 11 Queens Road
Melbourne VIC 3004
Australia
P: +61 3 8842 2440
F: +61 3 8842 2444

Singapore
111 Somerset Road
#10-06 TripleOne Somerset
Singapore 238164
P: +65 6505 9470
F: +65 6505 9490

Hong Kong
Suite 1701, 100QRC
100 Queens Road Central
Hong Kong
P: +852 2234 2066
F: +852 2521 2836

www.huthwaite.com