



Sales Benchmark Index

Benchmarking Best Practice Discussion



June 2007

Sales Metric Pipeline Ratio

Inquiry

"I find myself overly dependent on a few large transactions at the end of each quarter to achieve success. I would like to obtain some balance in the forecast."

Can you provide me some data and best practices on managing pipeline and forecast?"

Response

One of the best methods to get a handle on managing with sales pipeline and the resulting forecast is to use a series of very specific sales metrics.

Pipeline Ratio (PR)

The Pipeline Ratio measures the size of the overall pipeline (TP) relative to the total assigned sales quota (SQ). The resulting formula is:

$$PR = \frac{TP}{SQ}$$

An example might help. Suppose Acme, Inc had a total pipeline of deals equaling \$100 million and the sum total of the assigned quota for the entire sales force is \$50 million. Their Pipeline Ratio would be 2:1.

$$PR (Acme) = \frac{\$100 \text{ m}}{\$50 \text{ m}} \text{ or } 2:1$$

Why is this important?



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Response (continued)

Massive Survey Study Shines Light on Forecast Accuracy

Sales Benchmark Index, in partnership with sales training firm Miller Heiman, completed in 2006-2007, the largest to date survey study of sales force effectiveness. Over 5,000 sales representatives and sales managers responded to a 75 question document. One area of study was forecasting accuracy. The population was asked whether they considered their sales forecast were “likely to be within $\pm 10\%$ degree of accuracy”.

The answers were troubling.

- 22.5% believed their forecast had a margin of error $>25\%$.
- 28.1% believed their forecast had a margin of error $>50\%$
- 12.3% believed their forecast had a margin of error $>75\%$

In a subsequent question, we asked “Of the deals that made it onto the forecast, what percentage were won, lost, or resulted in a no decision?” The answers were as follows:

- Won: 49%
- Lost: 31%
- No Decision: 20%

Probing further we wanted to understand the percentage of proposals that were submitted that resulted in closed sales. We learned:

- 12% closed $> 75\%$ of the time
- 20% closed $<25\%$ of the time
- 33% closed $<50\%$ of the time
- 25% closed $<75\%$ of the time
- 11% could not answer the question

These survey results suggest that achieving forecast accuracy remains a difficult goal. Therefore, having a robust Pipeline Ratio is required to obtain sales quota, given the significant fall out described in these survey results.



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Response (continued)

Increasing your Pipeline Ratio

How can a company increase their Pipeline Ratio?

There are two variables contributing to the pipeline ratio:

1. Value of the deals in the pipeline
2. Value of the deals that close from this pipeline (Close Rate)

As to the 2nd variable, SBI discusses this in-depth in its Benchmarking Best Practice Discussion document entitled 'Close Rate'. Please review this document for more details on how to improve this variable.

As to the 1st variable (Value of Deals in the Pipeline), the following key drivers determine its magnitude:

- Leads resulting in calls
- Calls resulting in presentations
- Presentations resulting in proposals
- Proposals resulting in closed sales

The SBI-MHI survey results associated with each of these drivers are as follows¹:

Leads resulting in calls:

- 16% less than 25%
- 32% between 25-50%
- 23% between 51-75%
- 19% greater than 75%
- 11% don't know

¹ Source for these statistics is the SBI/Miller Heiman 2007 Winning Sales Organizations Sales Force Effectiveness Survey.



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Response (continued)

Calls resulting in presentations:

- 16% less than 25%
- 36% between 25-50%
- 28% between 51-75%
- 12% greater than 75%
- 9% don't know

Presentations resulting in proposals:

- 10% less than 25%
- 29% between 25-50%
- 30% between 51-75%
- 19% greater than 75%
- 12% don't know

Proposals resulting in closed sales:

- 20% less than 25%
- 33% between 25-50%
- 25% between 51-75%
- 11% greater than 75%
- 11% don't know

The drumbeat of these negative indicators is loud and undeniable. Focusing on improving these areas will yield improvements in both Deal Value as well as Pipeline Ratio.

Conclusion

It is advised to gather your company's internal data and compare it to these general survey statistics. After this analysis is complete, for the areas in most need of improvement, a more detailed benchmark with raw data inputs would need to be completed to identify the root cause.



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About this Document

Sales Benchmark Index offers this ongoing series of best practices discussion documents to compliment the sales benchmarking services we provide to each member. These documents help our members connect cause and effect and enable them to take the next step to address the deficiencies revealed through relevant peer group comparison.

We hope this document addressed the member's initial question. Any follow-up questions or further assistance should be directed to your Client Management Team. Please contact them at 888-556-7338 or visit us at www.salesbenchmarkindex.com.