



Sales Benchmark Index

Benchmarking Best Practice Discussion



April 2007

Sales Metric Sales Cycle Length

Inquiry

“Marketing and Sales at my company is having a hard time agreeing on the sales cycle length for our newly released product. The future of the company is dependent on quick market acceptance of this new offering and we are trying to re-define the sales process to make it as fast as possible.

Is there a best practice available that would allow us to accurately analyze our sales cycle length?

Response

Sales Cycle Length measures the average time between making first contact with a sales lead and that same sales lead completing a purchase order that can be recognized as a sale.

Sales Cycle Length measures the speed of execution within a sales force, particularly in comparison to an industry peer group or world class companies. Sales Cycle Length varies by industry, geography, and product or service offering. For a matter of comparison, Sales Cycle Lengths across the complete spectrum of SBI's data were as follows¹:

- <1 month - 8%
- 1-3 months - 39%
- 4-6 months - 28%
- 7-9 months - 11%
- 10-12 months - 7%
- > 1 year - 7%

This metric provides a *useful indicator of a given company's ability to execute the sales strategy* in the defined time period. Frustratingly, it is sometimes difficult to establish a common taxonomy for this metric, given that there is a wide variety in what constitutes the terms 'lead', 'first contact', and 'closed sale'. Once these definitions are clear and standard inside the company, the calculation becomes possible.

¹ Source is the SBI Data Repository, data cut of January 23, 2007



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Sample Definitions

For Acme, their definitions are as follows:

- a 'Lead' occurs when a prospect requests product information
- 'First contact' occurs when an inside sales rep confirms this information request over the telephone
- A 'Closed Sale' occurs when a signed and dated purchase order is received

Sample Calculation

With these terms well understood a calculation of Sales Cycle Length (SCL) can be attempted as follows:

$$SCL = \frac{TBLS}{TO}$$

Where:

TBLS = Total days between a lead being registered and the order date

TO = The number of orders received

Note: it is important to count only those days from lead to order where an order is actually placed. There will be many sales campaigns where orders are never placed or are pending. These should be excluded in calculating this figure.

Usually, the data needed to calculate sales cycle length can be found in a company's customer relationship management system.

Drivers Affecting Sales Cycle Length

There are three key drivers affecting Sales Cycle Length:

1. Deal Size. There is a direct correlation between Average Deal Size and Sales Cycle Length (i.e. the larger the deal size the longer it takes to close). This is primarily attributable to the required number of people needed to approve larger expenditures.



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2. Market Segmentation. The shortest sales cycles are associated with increasing product usage by current customers. Second to this is increasing market share in one's existing market. Third are sales campaigns where a deep price penetration strategy is deployed, designed to steal share in an adjacent market. The longest sales cycles are found where a new product is trying to have success in a new industry.
3. Poor Sales Process. Organizations that do not map their sales process directly to the market's buying process have longer sales cycles. Unfortunately, some organizations feel they can force their sales model on a particular customer segment and this rarely works given the presence of a competitor willing to accommodate the buyer's every request. An inward-looking sales process results in several inefficiencies and self-imposed bottlenecks, thus delaying the average sales campaign.

Time-Series Analysis: A Best Practice for Shortening Sales Cycle Length

Time-series analysis is a forecasting technique used to evaluate sales cycle length data to determine patterns and trends. The findings can help company executives determine the best sales opportunities to exploit. Time-series analysis is a useful method for using past quantitative data to predict future performance.

The demand data necessary to calculate a good Time-Series Analysis is usually found in a company's annual report. For publicly-traded firms, the reports are published and the general data is accessible in the investors section on company websites. Privately-held companies will keep the data in their Accounting and/or Finance departments. To acquire meaningful data for time-series forecasting purposes, sales management will need to talk directly with their CFO to specify the detail being sought to ensure forecasts are correct.

There are two popular methods for determining a Time-Series Analysis: *Naïve Forecast* and *Averaging Forecast*. Each method uses demand from previous periods as the key variable. A combination of formulas and/or charts is used to illustrate each method.



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Naïve Forecast

Naïve sales cycle length assumes the next period's sales cycle length will match that of the previous period. Though very easy to calculate, using this approach is crude and can introduce much error into the calculation, especially for organizations that have even a moderate amount of volatility in their business.

Averaging Forecast

Averaging forecasts use either *moving averages* or *weighted moving averages*. Moving averages select a representative number of sales campaigns and calculate the average of those cycles. The result becomes the sales cycle length assumption for the next period. The moving average sales cycle length helps correct the simplistic assumptions of the Naïve sales cycle length since it is likely that the previous period's sales cycle are not perfectly repeatable in the next period. Moving averages help smooth over variations attributable to seasonal patterns. The moving average of sales performance based on the preceding three months reduced the chance that any one month's exceptional performance (good or bad) will unduly influence the next month's sales cycle assumptions.

However, more recent sales cycle length data is usually considered more reliable than older data since it may be indicative of current market conditions. Moving average sales cycle lengths do not account for this since the impact of recent data is reduced by the inclusion of older data in the average. The weighted moving average can help overcome this bias. The weighted moving average assigns weights to data in different periods with, generally speaking, more recent periods receiving a higher weighting because they are considered more influential. The sum total of all the weights equals one; therefore, each weight is a fraction of one.

Conclusion

Executives must ask themselves a key question when considering sales cycle lengths: Is the cycle length increasing, decreasing, or flat? Time-series analysis, specifically moving averages, can be helpful in answering basic trend questions as it may suggest emerging opportunities or conversely warning signs. Time-series analysis is a good first step toward developing a better understanding of sales cycle length.



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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.