Optimize Sales Effectiveness with the Sales Velocity Equation

A WHITE PAPER

Learn a simple, yet powerful way to gauge the health of your sales business.

INTRODUCTION

Sales Velocity is a simple, yet powerful way to gauge the health of your sales business. Sales Velocity measures the speed at which you are generating sales in your business. It is a measure of dollars per day. Altify developed the Sales Velocity Equation to help organizations focus on just four levers that drive sales velocity: the number of deals in play, the deal size, the win rate, and the sales cycle length. With only four levers to worry about, organizations get the clarity they need to think about their business challenges and identify the one or two levers they most need to impact.

Altify has been involved in sales effectiveness and improvement since 1988. Since then, we have trained over one million sales people in Target Account Selling® (TAS®) and our sales methodologies and skills. During this time, one simple yet powerful formula has guided how we approach sales effectiveness, how we work with our customers to define and achieve success, and how we measure the effectiveness and return on investment in any sales training initiative. It helps our customers focus on what is truly important. We call this formula the Sales Velocity Equation™.

As with any of our White Papers, there may be a variance in the seniority and experience of the readership. This White Paper aims to provide something for the complete range of requirements, but if you want to dig deeper or move wider, we urge you to get in touch with us directly at info@altify.com.

EASY MATHEMATICS –
THE SALES VELOCITY EQUATION

Modern business is littered with examples where things sound easy in principle, but prove more difficult in practice. The key to success is to keep things simple. Simple in the problem definition, in the solution design, in the execution, and in the measurement. Simple helps keep your focus, and simple keeps you flexible in case you need to change focus. Simple gives you more chance of success.

20 years ago we designed a simple formula to help our customers think about sales effectiveness. When we examined the base constituents that make up sales effectiveness, we found that just four factors directly impact how successful you are at selling. Altify combined these into an equation called the Sales Velocity Equation. Very simply, it directs sales professionals to think about how to improve productivity, sales speed, and revenue over time. Using this simple formula, you can compare your sales effectiveness before a sales training initiative, and at various points after the initiative.

$$\underbrace{V}_{\text{SALES VELOCITY}} = \frac{\overset{\text{OPPORTUNITIES}}{\#} \times \overset{\text{DEAL VALUE}}{\$} \times \overset{\text{WIN RATE}}{\%}}{\underbrace{L}_{\text{LENGTH OF SALES CYCLE}}}$$

In the Sales Velocity Equation, **#** represents the number of sales opportunities that are won or lost in a given time period, **$** represents the average value of those deals that you won, **%** represents the ratio of deals won to the total number of deals worked, and **L** is the average length of time resources are being applied to a deal before that deal is won or lost.

The level of revenue that is generated by any company in any sales period is directly proportional to the number of deals worked, to the value of each deal, to the percentage of those deals that are won, and inversely proportional to the length of the sales cycle. ***These are the only four factors that affect sales velocity.***

The measure of an organization's sales effectiveness always translates to revenue generated for a fixed or variable cost. Whether a company is in growth mode, or in cost reduction mode, this fact remains constant.

To increase sales effectiveness, a sales person or team must seek to increase the factors above the line, and decrease the factor below the line. For example, for a growth-oriented company, the sales leadership might, with appropriate sales effectiveness disciplines, be successful in increasing each of the number of deals, average deal size and win rate by 10%, and decreasing the length of the sales cycle by 10%. *This results in an increase in revenue of 48% without any increase in headcount* – which is almost equivalent to adding half the number of salespeople at no cost.

$$\frac{\overset{\text{OPPORTUNITIES}}{110\%} \times \overset{\text{DEAL VALUE}}{110\%} \times \overset{\text{WIN RATE}}{110\%}}{\underset{\text{LENGTH OF SALES CYCLE}}{90\%}} = 148\%$$

Similarly, when a company is focused on cost reduction, the sales effectiveness disciplines could result in maintaining the same revenue while reducing headcount. If the number of deals is set to 75% as a consequence of sales force reduction, and each of average deal size and win rate are increased while decreasing the length of the sales cycle by 10% – revenue can be maintained and cost of sales can be reduced by at least 25%.

$$\frac{\overset{\text{OPPORTUNITIES}}{75\%} \times \overset{\text{DEAL VALUE}}{110\%} \times \overset{\text{WIN RATE}}{110\%}}{\underset{\text{LENGTH OF SALES CYCLE}}{90\%}} = 100\%$$

To truly understand the power of the formula, let's look at a detailed example. If we imagine a sales organization with 50 sales people, each of whom carries a new business quota of $1m, the organization might have a total new business sales target in the region of $40m for the year. Over a given time period, let's say one quarter, the sales organization works on 200 deals, with an average size of $200k and a win rate of 25% of the deals in that same period. The average sales cycle length is 3 months, making the sales velocity for the period $3.33m dollars per month, around $40m per year.

$$\frac{\overset{\text{OPPORTUNITIES}}{200} \times \overset{\text{DEAL VALUE}}{\$200\text{k}} \times \overset{\text{WIN RATE}}{25\%}}{\underset{\text{LENGTH OF SALES CYCLE}}{3\text{ months}}} = \$3.33\text{m per month}$$

As a result of a sales effectiveness initiative, in the next measured quarter, the organization increases it's sales performance across all four levers by 10%. Now there are 220 deals in play, at an average deal size of $220k, the win rate goes up from 25% to 27.5%, and the length of the sales cycle comes down to 2.7 months from 3 months. This pushes the sales velocity up to $4.93m per month, or around $60m per year, the 48% uplift we referred to a little earlier. A 48% improvement might seem a tall order, but moving any of these levers by just 10% is manageable, and a realistic objective.

OPPORTUNITIES × DEAL VALUE × WIN RATE / LENGTH OF SALES CYCLE

$$\frac{220 \times \$220\text{k} \times 27.5\%}{2.7 \text{ months}} = \$4.93\text{m per month}$$

Sales velocity is about dollars per day, or revenue over time. In the Sales Velocity Equation, there are 3 factors above the line and only one factor below it. You can suffer in one of the top factors and still do well. But if you suffer in the bottom factor, average sales cycle length, you make it very difficult for yourself.

Length of sales cycle is perhaps the most important lever to adjust to your advantage. Closing the good deals as soon as possible, as well as qualifying out of the bad deals early, is crucial to sales effectiveness. If you let your sales cycle length slip, you undo all of your good work and damage your sales throughout.

In the previous example, if the sales organization achieves a 10% uplift in the three variables above the line, but lets it's sales cycle length extend out to 4 months, the sales velocity slows to pre-initiative levels. Following a defined sales process, and using a strong sales methodology, have been proven to accelerate the sale and reduce the sales cycle.

$$\frac{\underset{\text{OPPORTUNITIES}}{220} \times \underset{\text{DEAL VALUE}}{\$220\text{k}} \times \underset{\text{WIN RATE}}{27.5\%}}{\underset{\text{LENGTH OF SALES CYCLE}}{4 \text{ months}}} = \$3.33\text{m per month}$$

WHY THE EQUATION MATTERS

Of course, the simplicity of the Sales Velocity Equation should not blind us to a few important considerations. First, as with many formulae, the numbers become more illustrative the bigger they become. If a small organization has only a few deals in play, and one large deal dwarfs the average deal size, then that deal has a substantial bearing on the instructiveness of the resulting sales velocity.

Second, while the equation reflects revenue performance absolutely, you also need to assess the costs of acquiring the business, which will be reflected in sales force growth, sales person turnover, and the ramp-up times and targets for new recruits.

Third, the longer the period you analyze – we recommend at least a quarter, and some customers use a half-year or full-year – the more accurate and balanced a picture your Sales Velocity Equation result will paint. This is particularly true for organizations with longer sales cycles that span multiple periods.

Fourth, as you dig into the detail to calculate each lever, it can be easy to get tripped up by interpretations and definitions. Whatever definition you settle upon, it is crucial that you are consistent in applying it over time, so that you are comparing apples to apples for the various periods. For example, when it comes to the number of deals, the objective is to increase the number of 'qualified' deals, and qualify out of the 'wrong' deals as soon as you can. How you define the qualification criteria is up to you, as long as you apply them consistently over time.

The importance of deal qualification and consistent criteria for qualification is this: if you don't qualify out early, and you spend valuable time on unqualified deals, your win rate will drop and your sales cycle should increase over time. Conversely, if you qualify out early and your pipeline only contains 'good' deals, this should positively impact your win rate and sales cycle.

With only four levers to worry about, organizations get the clarity they need to think about their business challenges and identify the one or two levers that they most need to impact. Once they have identified the lever where they are weakest, or the one they want to improve the most, they can then start to define the targets for the lever, and designing the solution that best helps them get there.

For example, if the organization identifies its win rate as the crucial area it needs to improve, it can then look to opportunity management to improve the abilities of its sales teams in deal qualification, competitive strategy, political alignment, and so on. We will explore these in detail a little further on.

Improving sales effectiveness is about taking a process approach, and understanding that change management is a continual philosophy, rather than an event-based project. The Sales Velocity Equation is the ideal benchmark to establish where you are today – your 'baseline' – where you want to get to, and the actual progress towards your target, at regular defined points in the journey.

The Sales Velocity Equation is central to the change execution process we deploy at Altify. We work with our customers to establish a Success Charter which complements the commercial contract and documents both what success looks like for our customer, and how we will work together to achieve that success. Improvement along one or more of the four levers often figures prominently in the Charter. These levers measure what has happened in the previous period, and are therefore reporting historical numbers. For this reason, we also establish the specific selling behaviors that should drive the desired results, and we can test these behaviors early to make sure we are on track, or else to make adjustments in good time.

This Sales Velocity Equation makes it possible to measure ROI for any sales effectiveness project. The fact that the Equation uses levers that are fundamental to any business, and are easy to measure, makes it an arbiter independent of any vendor specific terminologies or conventions. After all, what we are all seeking is a sustained improvement in the dollars per day we accrue. At Altify, we use the Sales Velocity Equation in our ROI calculations. This enables our customers to straightforwardly calculate their target ROI, and then track the actual ROI against target over time.

THE FOUR INDIVIDUAL LEVERS

The following section examines each of the four levers, and explores what types of initiatives can have a positive impact.

Increase the Number of Deals

Successful selling organizations are not just working on the deals that come their way. They are working hard to create value for their customers. Account management methodology provides a framework for planning, finding and creating more opportunities that have a high value, both to you and your existing customers. Furthermore, opportunity management methodology and honed selling skills also ensure that you are only working on the right opportunities, and this involves qualifying out deals that are not right for you. *It is far more productive to win 4 out of 7 deals, than 3 out of 10.*

You should look to increase the number of deals by:

- Profiling and analyzing your customers' organization to discover the areas of highest mutual value
- Creating and executing business development plans
- Accessing the right people, discovering what they care about most, and delivering value in the form of solutions that uniquely address their challenges
- Using intelligent analysis and reporting tools to point to areas of missed or under-exploited opportunities
- Using eLearning to increase selling time while learning and applying new concepts on-the-job
- Effectively managing and supporting customers, thereby locking out the competition

Increase the Deal Size

In a world where deals are scarcer than ever, and where customers are completing more and more of the buying process without engaging vendors, you not only have to win as many deals as possible, but you also have to maximize each one. Opportunity management methodology and honed selling skills ensure that each specific opportunity is fully aligned with your buyers' needs, so you can bring every applicable product and service to bear. Likewise, account management focuses on maximizing account penetration, uncovering whitespace and guiding sales people to develop as large a footprint in each account as possible.

To increase the average deal size, you should look to:

- Improve your understanding of customer business challenges so that you don't leave additional solutions – and money – on the table
- Clearly articulate your Unique Business Value and connect your solutions to the customers' business problem
- Segment your customers to focus on high value business opportunities
- Map key initiatives and all critical success factors to broaden your solution range
- Use 'White Space' analysis to uncover new areas of potential revenue
- Generate clear Objectives, Strategies and Actions across your entire account team to increase visibility and collaboration
- Leverage and maximize marketing and partner resources to optimize your coverage and route to market

Increase the Win Rate

Increasing win rate is the domain of opportunity management methodology and following a defined sales process.

Methodology and process are dfferent. Methodology is about analyzing where you are in a deal compared to the competition, and is a deductive approach you should do whenever you learn something new and important about your deal.

Sales process is about where you are in a defined set of steps that are aligned to how your customers want to buy, and what you should do next. As such, it is linear, prescriptive and should be standardized throughout your sales team.

You can improve your win rate by:

- Working on high value opportunities with customers where mutual value exists based on their business drivers and initiatives
- Uncovering the relationship map and aligning your solution to the key stakeholders
- Adopting the correct relationship strategies
- Encouraging sales people to follow a proven process to control the sale
- Highlighting weaknesses in opportunity strategy and providing a coaching mechanism to effectively test and improve your position in the deal

Shorten the Sales Cycle

Taking a more scientific and objective approach to your sales process aligns your company's sales process with your customers' buying process for maximum efficiency. Moreover, your team's adherence to opportunity management methodology concepts ensures that your team is working on deals they can win, so less time is wasted on opportunities that shouldn't be in the funnel.

You should look to shorten your sales cycle through:

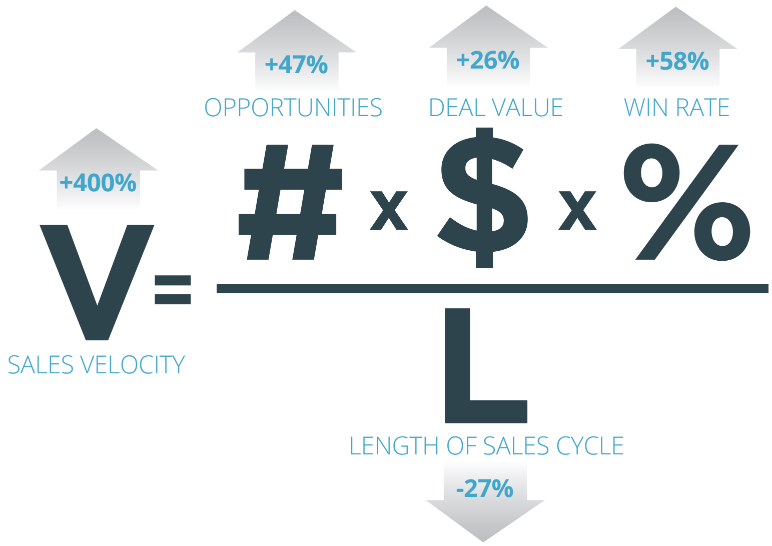
- A consistent, objective qualification framework to identify 'real' opportunities that have:
    - Confirmed Compelling Event and Access to Funds
    - Confirmed Unique Business Value
    - Confirmed Internal Support and clear Decision Criteria
    - Optimal Competitive Strategy
- Aligning your customers' buying process to your selling process

- Removing administrative overhead from your sales people where possible
- Leveraging elements of an eLearning environment to reduce training time, versus face-to-face sessions, delivering a shorter time to positively impact revenue
- Using playbooks or sales process built into the daily work flow for instant guidance

The Altify platform is specifically designed to help customers positively impact the levers of the Sales Velocity Equation over time. You can find out more information about what we do on our website.

THE EQUATION IN ACTION – CUSTOMER RESULTS

ITS (www.its.ws) is a company that dramatically transformed their sales velocity by a phenomenal 400%. To summarize their story, ITS was experiencing CRM and sales process adoption challenges. To address these challenges, their management team led a carefully choreographed initiative that delivered dramatic results for the company. As a result, ITS improved their win rate, grew their average deal size, increased the number of opportunities and reduced their sales cycle, leading to a 400% **improvement in sales velocity.**



How did ITS manage to achieve these remarkable results? In large part the achievement validates the approach that ITS took to this important initiative. ITS management shared the following secrets of their success:

- Take a top-down approach with technology or process implementation
- Involve the sales managers so that they can support their teams
- Be pragmatic, and implement incrementally. Gain incremental benefit and then implement the next phase

CONCLUSION

Sales effectiveness is a function of sales velocity, the speed with which you put sales through your business. It is a measure of dollars per day. Altify developed the Sales Velocity Equation to help organizations focus on just four levers that drive sales velocity: the number of deals in play, the deal size, the win rate, and the sales cycle length. As you change each variable in the equation, you can see the impact it has on your revenue. A small change in any single variable can make a big difference in your sales velocity. Positively impacting multiple variables can make an enormous difference.

The Sales Velocity Equation is the cornerstone of how we work with our customers and the example of our customer ITS illustrates how beneficial the results can be. Independent assessment has shown that using our approach, sales teams attain 21% higher quota and 54% more sales people achieve quota than the rest of the market.

For further information on sales effectiveness, Altify, the Altify platform or anything else discussed in this white paper, please contact us at info@altify.com