



The CEO Challenge for August 2009

“We have plenty of leads but can’t seem to convert.”



Recognize this sales funnel? I call it “the desperate pipeline” because it’s wide enough to catch any breathing soul who meanders by! You know what it’s like to be caught in one, receiving endless calls and emails because sometime, somewhere, you accidentally crossed a seller’s path.

Don’t be one of those desperate companies. A fat sales funnel has dramatic hidden costs and creates a barrier for consistent, profitable revenue growth. Marketing programs that focus on attracting as many leads as possible are no different from aggressive salespeople who pitch every breathing soul at every trade show, networking meeting and playground.

The solution? Shrink your pipeline!

Do you have comments, questions or feedback on this article? Please share your thoughts at <http://www.therevenuegame.com/ceochallenge/08/sales-funnel/>.

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The monthly CEO Challenge is published by The Revenue Game, a revenue consultancy that helps clients generate predictable, profitable growth. To get in touch with us directly, please contact Jane Adamson, CEO, at (866) 356-8979 or janeadamson@therevenuegame.com.

THREE HIDDEN COSTS OF QUANTITY

Most companies don't need to improve the quantity of leads in their pipelines; they need to improve the quality. The quantity strategy often leads to three major problems.

1. It diverts focus from customer needs.

There's a world of difference between **generating more leads** and **solving customer needs**. When the strategy is "more," the marketing team looks for media and venues where "more" congregate. The opposing strategy -- solving problems/needs -- shrinks the audience because the solution becomes more customer-specific.

Without prioritizing customer needs & problems, companies cannot generate sustainable revenue growth. They may catch a wave or become the flavor of the month, but sustainable growth requires deep, honest focus on buyers' specific requirements.

2. Messaging loses its muscle.

In order to appeal to a broad audience, a company has to water down its messages. As a result, those messages don't speak to specific values and needs, and the company sounds like everyone else. And since buyers won't pay a premium for an undifferentiated solution, the company has essentially positioned itself as a commodity.

3. It's an expensive waste of time and \$\$\$.

Most B2B marketing teams are judged by the quantity of leads generated. Their goal: generate plenty of leads and keep the sales team busy.

Those leads become increasingly expensive as they move through the sales process. Sales reps are spending valuable time in meetings, giving presentations, and writing proposals. They're traveling, doing demos, bringing in engineers and senior execs.

Much of the cost of this scenario can't be seen or measured. It's the cost of missed opportunities. When the pipeline is overflowing, reps spend expensive time and money with tire kickers. The company needs more reps to work the huge pipeline, and truly qualified prospects can get lost in the shuffle.

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Companies with good pipeline management systems don't try to work everyone in the funnel. Their goal is just the opposite: quickly eliminate the noise and qualify prospects OUT.

PROCESS + DETAIL = PROFIT

Most companies claim they recognize a qualified lead, but a recent report found that 50% of sales organizations don't know how to pick the right target prospects to sell.

Here's the cold, hard truth: Anyone who can use the company's product or service is not a qualified prospect! Companies need a **qualification process** with **detailed qualification criteria**.

- Without a process, companies assume that a prospect is qualified based on **superficial information**.
- Without detailed criteria, **real prospects don't respond**.

Here's an example. Two companies that sell large graphics displays qualify their prospects using different criteria:

- **Company A:** "Our customer is a retailer who could use graphics in their store."
- **Company B:** "Our customer is a clothing retailer who already uses graphics, has between 35-50 stores in the U.S., rotates its images at least 4x a year, and has added stores each of the last 3 years."

Company A's marketing team tries to reach all retailers who have used and could use graphics. Sales reps spend their time convincing owners of local stores and large chains to use imaging in their visual merchandising program. Their message: "We sell graphics!" Well, so do many other companies. Unfortunately, Company A is defining itself as a commodity, and reps are chasing fuzzy leads, many of which will never buy.

This strategy produces tons of leads but little revenue with slim profit.

In contrast, Company B's marketing team conducts detailed research to find retailers who are qualified and ready to address specific graphics needs. Their message: "We're experts at producing graphics AND the logistics for storing, distribution, packaging, and managing complex graphics programs for growing companies." Their sales reps have business conversations with high-level buyers who face a very different kind of problem.

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Company B has fewer leads, but they can now

- Allocate precious resources more wisely,
- Structure the organization to deliver on key promises,
- Strategically deploy sales reps, and
- Enjoy more substantial profit margins with differentiated, high-value services.

REDUCE YOUR COST PER SALES HOUR, TOO

Research has shown that in THE VERY BEST organizations, **reps spend only about 20-25% of their time actually selling** (moving a deal forward when nobody else can do it better or cheaper). What are reps doing the rest of the time? Traveling, sitting in meetings, writing reports, and following up on bad leads.

It gets worse. **In an AVERAGE organization, reps spend closer to 5% of their time selling.** That's 8 sales hours per month at a cost of \$1,625 per hour:

Work hours per month	160	
Average sales rep compensation per month	\$13,000	Salary, benefits, commission, bonuses
Sales hours per month	8	5% of 160
Cost per sales hour	\$1,625	

Now consider this: What if this organization had better qualified leads so they could cut the time they spend following up on bad ones? If they could sell 10% of their time (16 hours) instead of the 5%, they would cut their cost by 50%, or \$812. More importantly, those 16 hours will be spent on fewer, more valuable prospects that have a drastically increased probability of closing.

More revenue, greater profit margins, and lower costs of sales ... all from shrinking your pipeline!

SOLUTION

This month, we challenge you to implement these steps to shrink your pipeline and put your company on a path to generate more sustainable, profitable revenue.

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Action Plan

1. Confidently answer this question: “What customer problem do we solve that others cannot?”

If your answer is quality, service or people, you’re copping out -- those criteria simply allow you to play in the game. You need to challenge the leadership team to go beyond the superficial and deeply acknowledge WHY/HOW customers buy from your organization and WHAT WILL CAUSE THEM TO CONTINUE to buy from you.

2. Based on your answer to #1, create a detailed, measurable definition of a well-qualified prospect.

What’s important to your prospects? What keeps them awake at night, and what solutions will cause them to pay attention to you? The goal is to proactively find the most qualified prospects and deals instead of chasing everything that may or may not be good business. Go deep. Create pictures so you know exactly what your prospects look like. Add quantitative metrics.

3. Develop a process to find and qualify those prospects.

How will you initially identify prospects and then take them through the qualification process? Define the steps in that sales process and determine how you’ll separate prospects into high, medium, and low value categories. Evaluate and define how your sales process will differ for each of your value groups as well.

4. Task the marketing team to create a nurturing program that efficiently keeps the company in front of specific prospect groups who have potential but aren’t ready to move to the next step in your sales process.

For example, a prospect may be moderately qualified but not ready to purchase right now. Instead of investing a sales rep’s precious time doing regular followup, use the nurturing program to keep the prospect warm until the prospect says “now I’m ready!” Your goal is to nurture real prospects with an efficient, effective process that saves expensive resources and time.

5. Require action from a prospect before involving too many resources from your organization.

If a prospect isn’t ready to take some sort of action, then s/he probably isn’t serious or ready to buy. Ferret out those who are ready by requiring action such as:

- Investing time to discuss project details and clarify needs,

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- Introducing and engaging influencers in their organizations, or
- Establishing project metrics, budgets, and/or timelines.

6. Create additional qualification criteria for individual deals.

It's not enough to prequalify a prospect; you need to qualify the deal as well. After all, the prospect may be terrific, but this particular deal may not be a good match. With more detailed qualification criteria, you can avoid investing valuable resources in the wrong deals, freeing up time to focus on high priority opportunities that are likely to close.

CONCLUSION

If you're having trouble converting prospects, take a hard look at your sales pipeline. A wide funnel is an expensive, inefficient strategy that can commoditize your solution and seriously hamper your long-term revenue growth.

Instead of trying to convert a huge number of leads, proactively shrink your pipeline. Focus on finding the RIGHT prospects and delivering very specific value for them – value that they will fully pay for. Your customers will be thrilled that you've solved a critical problem, and you'll boost your margins by increasing revenue and cutting your cost of sales. Everyone wins.

In this scenario, less really is more!

What do you think?

Please share your thoughts and experiences with us at the URL below!

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