

Key Performance Indicators of Sales Success In A Professional Services Firm

The idea of using leading indicators in tandem with lagging indicators, financial with non-financial, to provide a more balanced view of the health of organizations was championed by Kaplan and Norton in a Harvard Business Review article, and subsequent book, *The Balanced Scorecard*. Since the article's publication in 1993 the balanced scorecard approach has been heralded as the driver of a new era of management sophistication. Today you can find over 120 management books and as many consulting firms dedicated to the subject. In a recent survey of 6,000 corporations, consulting firm Bain & Company found more than 60% of them employ balanced scorecards and over 80% of them were highly committed to them, seeing them as ongoing effective management tools.

Ironically, our experience with advertising agencies, public relations firms and management consulting firms over the last twenty years, indicates that decidedly unscientific and unbalanced processes are used to measure and manage future sales success. Although these firms provide a variety of marketing, and management science expertise to their clients, as a group, they generally use very unscientific marketing and managerial processes to manage their own business development efforts.

Given that professional services firms are knowledge based sales-centric and sales-dependant firms, it is interesting that so few meaningful processes are employed in this sector.

The Quality of Data

A common question regarding the business development function is: *How do we know if we are doing well?* The easy answer is to wait until the end of the year and look at the numbers, but the question implies more immediacy: *How do we know what results today's activity will yield tomorrow, or more specifically: Is what we're doing today, appropriate and enough?*

Managing business development for success begins with measuring it, and while there are no measurements that will accurately predict sales success across all professional services firms, there is a fairly simple prescription for understanding the variables specific to your firm, and for using your own historical data to build a predictive model specific to your unique circumstances.

One of the key challenges to managing selling activity within a professional services environment is that sales cycles can involve extended time frames of months or years. Within these time frames there exist buyers that are at differing levels of readiness to purchase. Some may have more immediate needs for services while others may have specific and legitimate needs that are a long way away from any immediate action. This distinction is important because the efficient allocation of scarce selling resources dictates that the majority of selling resources be allocated to buyers that are acting immediately versus buyers that may act at some undefined point in the future.

It would seem the distinction between the two types of buyers would be obvious, but in fact they are not. This is a major cause of inefficiency within most professional services selling processes and must be addressed prior to the utilization of any sort of meaningful sales management approach. The input data must be accurate and relevant in order for the measurement of that data to have any meaningful management value.

Distinguishing different levels of intent to act is the domain of the qualification process. This process must be objective, not subjective and must also be quantifiable. Traditional descriptions of “cold leads”, “warm leads”, “hot leads”, etc. are colourful, jargon-based language that is usually neither objective nor quantifiable in any meaningful fashion. We have found that the meaning attached to these phrases designed to “qualify” sales prospects is neither robust nor consistent – even within a small organization individuals attach different meaning to the same phrase. As a result, the value of this “data” is questionable at best, and misleading at worst. We have found that generally the qualification of a potential client is based upon criteria relevant to the seller, but not criteria relevant to the buyer. The opposite is a more appropriate approach.

The ability to measure activity other than financial activity in a meaningful manner is the cost of entry to the Balanced Scorecard approach. In a professional services environment there are few tangibles to measure, and even fewer once we limit our discussion to the selling process within this environment.

This paper discusses the application of the Balanced Scorecard approach to the professional services sales environment and assumes that the qualification process required to generate the consistent and meaningful data to populate that process is in place.

Key Performance Indicators

Key Performance Indicators (hereafter KPI's) are measurements that reflect the health of an organization, and for our specific purposes, the health of its business development system. They connect the firm's goals and strategies to its activities and outcomes, keeping management informed of overall health: past, current, and future. Chronologically, KPI's are broken into two different types: leading indicators and lagging indicators.

Lagging Indicators

Lagging indicators are historical measurements that look back to determine if success was achieved. Financial measures are lagging indicators: they prove how well the firm has performed. Total sales revenue from new clients is a lagging indicator of business development success.

Leading Indicators

Leading indicators are activity or task-based metrics that are measured early and can be influenced to affect future outcomes. Leading indicators have the predictive power of success. They are measured today to determine if goals will be met tomorrow, and they are measured early and often enough to allow for changes that can impact the outcomes they predict.

Closing opportunities is an example of a leading indicator of business development success. For instance, let's say that XYZ Firm has determined that a target value of four closing opportunities at any given time will accurately predict that its business development goals are met at year-end. If in over the last two months the firm has never had more than two closing opportunities at a time, then the warning is clear, but it is not too late to take action to drive that indicator back to, or above, its target value. Management merely need know what action to take.

Other Measurements: Activity That Contributes to Leading Indicators

A lagging business development indicator such as a new client obtained is a pure result or outcome. A leading indicator such as the previously mentioned closing opportunity is both an activity that can be managed and an outcome of some other activity that influences it. Some leading indicators are pure activities, but usually leading indicators are the sum or reflection of other activities, and some of these activities merit measurement as well even though they alone are not true indicators.

In the example of XYZ Firm above, one of the key metrics that drives the KPI of closing opportunities might be telephone introductions (specifically the volume of outbound calls). Underperformance on the KPI points

to either a reduction in calls made because of environmental influences such as service delivery volumes, personnel performance issues (the new person in the business development position may have motivation or ability challenges), or other variables surrounding the activity. To rectify the poor performance as foretold by the low KPI value, the firm could choose to take steps to increase the activity of telephone introductions.

Measuring the Right Things

When developing a KPI-driven scorecard for your firm, strive to have as few KPI's as possible. When used holistically, to measure the health of the entire organization across all functions and values, your KPI's might number somewhere between 5 and 25. For the function of business development, two to four should suffice, which means one or two leading indicators and one or two lagging indicators.

For all but a few firms there is no more accurate leading indicator of future business development success than what was previously referred to as closing opportunities but what will now be expanded to late-stage opportunities.

Late-Stage Opportunities

An early-stage opportunity is a buyer who has *no intent to act*. He may see that he has a need (or he may not) but *he has not yet formed the intent to act on that need*.

Measuring intent in others is not always easy, but it's usually possible. Someone who has formed the intent to solve their problem or capitalize on their opportunity almost always does so *with a timeframe in mind, and an event backing up that timeframe*. Further, psychologists will tell you that the timeframe to take action must be within the next six months. Intent to act on something outside of six months is not real intent; it's wishful thinking.

A late-stage buyer is someone who has a need (further, he acknowledges that your firm is qualified to help him with it) and who has decided to act on that need, and to do so within the next six months. Probing on the timeframe should reveal that it is not arbitrary, but rooted in an upcoming deadline, milestone, or event.

As an example, consider a marketing consulting firm engaged in a discussion with a prospective client about the prospect's need to re-brand the company. When asked about his timeframe he explains that he would need to begin within 60 days in order to get final identity approval at the board meeting in September. He has a need that matches the agency's supply (re-brand) and a timeframe that dictates he take action well within six months (60 days) backed up by an event (board meeting). With the right answers to some more nuanced probing (e.g.: "Is the rest of senior management as committed to doing this as you are?" "What happens if you don't meet your deadline?") the firm should be confident in labeling this a late-stage opportunity.

This simple skill—the ability to make the distinction between an early-stage opportunity and a late-stage one—is the key to improved business development measurement and management.

Most firms quantify their new business opportunities in more subjective terms of hot/warm/cold or suspect/prospect, but the lack of meaningful criteria for these labels impairs their predictive ability. By separating early-stage opportunities from late-stage you will know who is closest to buying and therefore who deserves the fullest business development resources of the firm, in turn allowing you to concentrate on the *real* opportunities.

Target Values

While late-stage opportunities is a KPI that should translate to most firms, the target value for this indicator will differ from firm to firm. With time you will find the meaningful number for yours. View your target value for this KPI as a threshold, and not a cumulative figure: your objective is to stay at or above a certain number of late-stage opportunities at any given time. Falling below that number should serve as a warning of sub-target performance ahead.

Measuring Lead Generation Metrics

We mentioned earlier that your one or two leading indicators of business development success are driven by specific activities, many of which merit measurement. These metrics are the activities that you increase or improve to drive your leading indicator back to its target value. These will vary from firm to firm, and even within one firm they will change and evolve. They are the metrics of lead generation.

The Ladder of Lead Generation

There is a hierarchy of lead generation activities that sees the pr/publicity-based activities of speaking and writing at the top, advertising and promotional activities in the middle, and the selling activities of personal introductions and unsolicited enquiries at the bottom. The activities at the top of the lead generation ladder are long-term activities that well-positioned expert firms employ to get prospective clients to seek them out. Those at the bottom are the more immediate activities of reaching out to prospective clients. You should be striving to climb the ladder over time (and be seen as an expert), but regardless of where you are on the ladder, all your activities of lead generation should be measured. Together they drive the leading indicator of late-stage opportunities.

Dials, Conversations, & Qualifications

The telephone is the primary tool of business development for many firms. Even when a firm has climbed to the top of the lead generation ladder (e.g.: the principal has written a book and/or speaks regularly to groups of prospective clients) outbound calling is still a metric worth measuring. Intuitively we all understand the power of the phone: when the business development cupboard is bare, we instinctively start dialing (or we feel guilty about *not* dialing).

Calls are a driver of a more desirable activity/outcome: conversations with decision makers, which in turn drive something even more coveted: qualification of the opportunity as early-stage or late. Enough of these qualifications and you will reach your target value of late-stage opportunities: your leading indicator of business development success. Your own historical data (and some trial and error in the early going) should accurately predict that keeping your late-stage opportunities at or above your target value will see you reach your business development goals.

Advertising And Promotion

Some firms employ ongoing advertising programs to drive lead generation (which in turn drives the qualification process), while others employ sustained or sporadic mailing programs. These can be measured in terms of insertions, impressions, mailings, or dollars to try and establish a correlation between these activities and the KPI's they influence.

Speaking And Publishing

Your lead generation strategy is all about driving late-stage opportunities to or above your target value. One recommended strategy is to aim high on the ladder early in the year, setting goals for the longer term, esteemed activities of speaking and publishing, and then top up any shortfall with those activities lower on the ladder, such as advertising, mailing, and calling.

Over time strive to increase the number of top rung activities such as speaking and writing and you will become less dependant on the expensive middle rung activities of paid media, and the labor intensive, to some distasteful, activities of telephone introductions. By simply measuring all of these activities and correlating them to your late-stage opportunities you will be able to determine how many dials or ads any speech or article will save you.

Other Measurements

Website traffic and opt-in lists such as newsletter subscriptions are also activities/outcomes whose measurement should lead you to discern patterns and make connections to your leading indicators. While lead generation activities largely drive qualifying conversations with new, previously unqualified opportunities, your opt-in lists provide valuable measurement on the nurturing of your early-stage opportunities, and ultimately the conversion of early-stage opportunities into late-stage ones.

While many of these indicators and metrics will translate to most firms, their target values will differ substantially across firms. There are few absolutes. It bears repeating: the key is to find the indicators that work for your firm, and determine what target values will correlate to achievement of your business development goals. We will look further at other valid indicators, but first let's examine three activities that should not be used as KPI's.

Measuring the Wrong Things

Written Proposals

Proposals are often seen as a step in the sales cycle, when in reality they are a tool and not a step. Further, they are a grossly overused and misused tool. Most written proposals need never exist. Their purpose is confused with that of contracts: the proposal should be the words that come out of your mouth, and the contract is the written document. The contract is simple; it does not attempt to do what the individual should have already done (close the deal). It is merely one in a series of commitments - one that is preceded by a verbal commitment, and followed by a financial commitment. It is a place to sign.

Contracts signed are a valid lagging indicator of business development success. A signed contract means a new assignment secured. Proposals written are merely an indicator of poor sales process. (Go ahead and measure written proposals, but your target metric should be zero.) ***In our observation, the largest, most widely shared professional services business development problem is the over-application of resources against early-stage buyers--buyers who have not yet formed the intent to act.*** At the top of the list of wasted resources is the writing of proposals for people who are not buying. This significant problem of lost time, opportunity, and momentum will only be exacerbated should written proposals be used as a KPI because there will be even more pressure to increase their number.

Meetings

Many firms measure business development activity and implied future success based on a loose metric of meetings with prospective clients. But any firm that has ever hired an out-sourced sales firm to get meetings has undoubtedly learned three important lessons on the subject:

1. Getting meetings is not difficult.
2. The number of meetings obtained is no accurate indicator of business development success to come.
3. Most meetings are expensive.

People respond to performance measurement of any kind, and to varying degrees will take inappropriate action to positively influence a performance outcome. If you measure meetings, you will get more meetings: *at a significant cost*. The easiest way to increase your volume of meetings is to meet with people that you really should not: people whose firms are outside of your target market, who are not decision makers, who cannot meet your minimum level of fee engagement, or who are early-stage buyers with no intent to act and little likelihood of forming that intent anytime soon. If you target meetings as an indicator and begin to measure them you will find the quality of those meetings decreases at least proportionally with the increase in quantity. The net effect is that your focus on getting more meetings will be significantly *detrimental* to your business development success.

Weighted Sales Forecasts

A weighted sales forecast is the value of an opportunity multiplied by the likelihood (percentage) that the opportunity will be converted into an engagement. A \$100,000 opportunity deemed to have a 70% chance of closing would be entered into the weighted forecast as \$70,000 of projected revenue.

Sales figures are *lagging* indicators, measured after the fact. Just because the ultimate historical measures of your success may be financial does not mean that they are also predictors of future success - they certainly are not. Financial indicators are *always* lagging indicators because they can only be measured after the dollars are in. When making assessments of future success keep your eye on the valid leading indicators *because you can impact these!* Focus on the activities that you can impact today to ensure that you hit your sales targets tomorrow.

Another challenge with weighted sales forecasts is that they easily allow for overstatement of probable success – providing false confidence in future sales that will likely never happen and further eroding sales activity. Using the formula of dollar value x probability, the forecast can be significantly affected by a slight exaggeration of either factor or by entering volumes of higher value, lower percentage opportunities into the report. While it may be reasonable to estimate dollar value of a future opportunity, estimating likelihood-to-close is usually wildly inaccurate and based upon “hunches”, “feelings”, “gut feel” or “experience”.

The real value of sales forecasts is that they help measure of cash flow. There are tools of “*when*,” not “*if*.” Once the contract is signed the revenue forecast will help you predict *when* you will be seeing that revenue – don’t use it to try and predict *if* you will be receiving it.

Historical Measurements: Your Lagging Indicators of Business Development Success

The bulk of this article is devoted to leading indicators and their contributing metrics simply because most firms routinely use lagging indicators effectively. They are the financial metrics of billings, gross revenue, gross income, EBIDTA, new clients engaged, etc.

For the purpose of isolating business development success from delivery or retention success, gross income from new clients is an effective lagging indicator, as is projected gross income from new clients. Number of new clients can be misleading as a lagging indicator unless the firm has a strictly-enforced, meaningful policy on the minimum level of fee engagement and profitability for any new client.

To determine the most meaningful lagging indicator of business development success for your firm, simply ask the question, how will we know our business development program was successful when we look back on the year?

Key Findings: Building Your Own Business Development Scorecard

Begin by Measuring

Management guru Henry Mintzberg proved years ago that simply measuring activities drives improvement in them, so begin by measuring. In as soon as a couple of months you will begin to correlate your metrics to your leading indicator. Soon after, you will be able to make rudimentary projections about the level of activities required to meet your desired outcomes. More time and measurement brings more information and refinement. Eventually you will have a very tight predictive model, specific to your firm, of what you need to do today to ensure that you meet your business development objectives tomorrow. Taken as a whole the task may seem daunting—all this measuring and calculating—but it’s really not that complicated, and every urge to make it so should be resisted. Begin simply by measuring and eventually patterns will emerge.

Improve with Time

Your initial KPI's may prove over time to be less than perfect, and that's fine. An initial rough understanding of the more basic metric is still of value to you, and over time you will refine it to make it even more valuable. It is never ineffective—it's just more effective with more time, understanding, and refinement.

Tie KPI's to Goals and Strategies

'More is better' is not a goal. Set your business development target result, share it with everyone in your firm, then work to determine what target values of your leading indicators will accurately predict achievement of that goal. *Measure and manage to a stated objective.* Your strategy in reaching that objective is as simple as where on the ladder of lead generation you intend to focus.

Keep it Simple and Easy

Resist all urges to add more and more indicators and metrics. Instead, embark on a quest for simplicity. Employees and outsiders should be able to deduce your strategy by looking at your indicators and metrics. If they cannot, then you've over-complicated. Business development within a professional services firm is not an art dedicated to rainmakers with mystical skills. It is a management science and should be subject to the same rigorous measurement and analysis as other processes within the firm.

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