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CRM: Playing the Percentages Correctly

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The Opportunities object (OK, table) is where CRM and SFA systems hold the data about prospective deals. And nearly every system uses some sort of stage pick-list that's an indicator of the deal's current status in the sales cycle. Each stage typically has a percentage assigned to it, and a forecast category (such as "pipeline" or "upside") that is used to drive the opportunity pipeline report and bookings forecast. Simple. Rational. Wrong.

Let's see why:

• All too often, the sales cycle stages in the system have no consistent definition — particularly in large, multi-divisional sales organizations. There aren't clear, enforced entry and exit criteria...and there's typically no penalty for miscategorizing a deal. When a sales rep needs to up his forecast, he summarily changes the stage even if there's been no change in the deal.

> **Fix #1:** Sales management develops and publishes the definition of deal stages, including entry and exit criteria. In the process, they may also want to consolidate or change some of the stages.
> **Fix #2:** IT creates reports that flag fishy stage changes, such as skipped stages, stages going backwards, or stages moving even though there's no other data change to the record or associated task/call notes.
> **Fix #3:** Sales management develops sanctions for reps who capriciously change deal stages.

• Sales reps have reasons to keep deals hidden until they're nearly closed. Because of compensation plans and psychological incentives, it's all too common to have "submarine deals" that are out there somewhere...but are not reflected in the CRM system.

> **Fix #1:** Sales management changes the incentives so that deals that are invisible (not going through all the stages) are penalized. If the penalties include lower priority for needed resources or a lower commission, the reps will get the message quickly.
> **Fix #2:** IT creates reports that highlight "miracle deals" that run through three or four stages in a week, or skip stages altogether.
> **Caveat #1:** watch out for the incentive this creates (read on...)

• Sales reps have reasons to put in several bogus deals at early stages of development. To look busy or inflate their pipeline, reps may put in Opportunities with fictional amounts and percentages. This fake pipeline messes up lots of metrics, and can lead to dangerous misjudgments about the strength of the business.

> **Fix #1:** As discussed above, Sales management sets clear guidelines about the entry and exit criteria for Opportunity stages.
> **Fix #2:** IT creates reports that highlight "dark matter" deals...big chunks of pipeline that seem to be lost in space (with no updates, no apparent actions taken)
> **Fix #3:** Sales management works to identify the bogus pipeline and has the Opportunities removed (or at least set to $0 value)

• The sales cycle stages represent the sales reps' "steps in running the drill" — it's an indicator of your team's effort or progress. That's fine, but may be only loosely related to the customer's decision cycle or willingness to purchase. When your reps are focused on "prove ROI," the customer may be trying to "make the business case" or "secure the budget." The customer's purchasing process runs asynchronous to your selling process, and a deal where we've "done everything" still may have only a

50% chance of closing.

> **Fix #1:** Sales management develops criteria (or even customer surveys) that provide indications of the customer's state of play.
> **Fix #2:** IT adds a second Opportunity pick list entitled something like "customer buying stage." If you can, make it so that this pick-list can only be changed after some questions have been answered (ideally, by the prospect in a Web form).
> **Fix #3:** IT fixes all reports to separately indicate "our progress" from "the prospect's decision state."

• The percentages assigned to each sales stage are arbitrary and almost always overly optimistic.

> **Fix #1:** IT analyzes the last year's Opportunities, using the percentage indication at monthly snapshots. The goal is to understand "how many of the 60% deals actually closed during that quarter?" I can practically guarantee that the actual percentage will be less than 60%. Do this for every stage's percentage.
> **Fix #2:** Sales Management changes the percentages assigned to each sales stage. IT goes into the current Opportunities and re-assigns stages or percentages as necessary.

• The percentages are used to drive "expected revenue" rollups for forecasting. While this can work with large numbers of deals (if the errors cancel out), it's fundamentally the wrong formula. Typically, a "70%" deal in the last two weeks of the quarter has essentially no chance of making the quarter.

> **Fix #1:** IT analyzes the closure patterns of deals over time, creating a model that indicates the historical closure of deals at given points in a quarter.
> **Fix #2:** IT fixes pipeline summary spreadsheets so they don't use a "expected bookings" formula at all, or use a formula that follows the model derived above.
> **Fix #3:** IT pushes the users to your CRM system's advanced forecasting module, and "tunes" the rules/parameters for the best forecasting accuracy.

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