CCS nordic
client centered selling

What is Sales Velocity?

By Mads Sand Madsen

The purpose of this white paper is to examine the concept of Sales Velocity, and how it is applied.

Sales Velocity is here to stay. At CCS Nordic, we believe most sales organisations will adopt the concept in the years to come.

Especially sales management teams in high growth, international companies can benefit from the concept. They are typically backed by venture capital or otherwise well-funded, organised with a broad geographic distribution of the team compared to size, have a need to aggressively grow their customer base, must ramp up new customers fast and increase the Share of Wallet with existing customers.

However, it is not a concept easily implemented. Perhaps because the concept is still in its infancy when it comes to application. To work with Sales Velocity requires a consistent sales management structure, high CRM compliance by the sales force, and a cultural environment where learning cycles for improvement have merit.

Sales Velocity in brief

Simply put, Sales Velocity is a measure in your cockpit for how fast the pipeline is generating income given the current activity levels.

The Sales Velocity value is a measure for the speed of incoming revenue from the pipeline in a given timeseries. This is typically set at one month to follow the normal budget cycle, but it could be as long as quarterly (for Key Accounts or low volume-high value business models and longer sales cycles) and as short as daily or weekly (for low value-high volume deals and short, predictable sales cycles).

Sales Velocity provides an aggregated snapshot of the effect of current sales force activities. It is calculated on the basis of pipeline parameters that tracks the effect of activity. It is the one number in the dashboard that provides the best snapshot of the current health of the pipeline, if you know how to interpret it. It tells us if we need to adjust our sales initiatives to meet performance expectations or if we are on track or above expected performance.

The sales velocity algorithm

$$SV = \frac{No\ Opp\ x\ avg\ dealsize\ x\ conversion}{Sales\ Cycle}$$

The sales velocity algorithm leads to 4 essential CRM datapoints

1. Number of opportunities in the pipeline
2. Average deal size
3. Conversion rate from pipeline entry point to concluded deal
4. Length of sales cycle measured in same timeseries as the velocity (often months)

If you track the pipeline trend over time, you will see changing velocity. In growth companies, the velocity trend should of course be upwards equal to the accelerated growth ambition that is reflected in the company strategy.

So, what makes Sales Velocity a powerful concept? We believe it is because it immediately leads to the question "am I doing enough, am I doing the right things and do I really have my pipeline under control". That works as an eye opener for any salesperson from sales executive to commercial C-level management, because truth be told, most pipeline management focuses on forecasting the outcome of the pipeline, rather than the quality of activities leading to a focus on the input to the pipeline.

When to focus on Sales Velocity vs. Pipeline Forecasting

The Sales Velocity measure is increasingly becoming an alternative to the classic Pipeline weighted revenue used for forecasting. Let us first take a look at why that is, by examining the forecasting purpose.

Forecast is a result-based indicator focusing the **pipeline output** to predict what revenue streams can be expected in the months ahead. Technically, that makes it a leading indicator, but for all practical purposes, forecast numbers work as lagging indicators because it measures the outcome of what has already been done to build the pipeline.

Forecasting based on pipeline data is a necessary process to support the financial controlling and monitor the realisation of company strategy. Forecast is naturally focused on predicting the revenue generation for next period. Because there is a budget commitment related to the forecast, the number is accompanied with a high degree of responsibility and accountability for the sales leadership in question.

Pipeline weighted value is the key to accuracy in forecasting. Forecast numbers are the result of an internal process, where data are cleaned on an opportunity-by-opportunity basis and to some degree manipulated in the process. This typically happens to provide an aggregated and committed forecast that is as close to budget expectations as possible, while still within a realm of realism – or a sandbagged forecast for tactical reasons that has nothing to do with the actual pipeline health nor with the main task of the sales force being bringing in business.

Sales Velocity focuses on the **pipeline input** and cannot be used for forecasting. It is a strong metrics to identify corrective actions for building the pipeline, prioritise focus and adjust levels of activity. However, forecasting is a parallel process as part of reporting, and has nothing to do with coaching and guiding the team.

Rather than replacing Pipeline weighted revenue as forecasting method, we propose to keep classic forecasting process as it is, and supplement with Sales Velocity for more direct guidance to the sales team.

Sales Velocity

Sales Velocity is useful for sales management when coaching and guiding the sales team. Sales Velocity predicts how activity impacts the pipeline and monitors the current strength of the pipeline. Sales Velocity is a measure for how fast the pipeline is generating income under the current activity levels.

The sales velocity algorithm

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Sales Velocity is relevant for identifying corrective actions for building the pipeline, prioritise focus and adjust level of activity.

Sales Velocity is technically a lagging indicator, because it measures the expected impact of what has been done. However, applied as a learning loop, Sales Velocity function as a leading indicator, because the underlying datapoints are driven by the sales force activity, which we have coined Activity-based selling to conceptualize the practical implications of Sales Velocity.

Because the Sales Velocity algorithm consists of activity output driven datapoints, it provides valuable knowledge about how the sales force current level and quality of activity is impacting the pipeline health. This gives the individual salesperson and the sales management team detailed insights into what activities most likely will result in healthy pipelines. Therefore, applied as a learning loop, Sales Velocity functions as a leading indicator.

The key challenge is leveraging the sales teams successfully

From the perspective of the investor and C-level management in growth companies, there are two fundamental challenges in relation to driving the sales teams:

1. First, how do we inspire to increase performance in a perceived reality of already being a successful team?
2. Second, how do we transform individual performance into an organisational competence, so we can leverage our business model?

While the companies are typically already on a successful growth journey, justification of capital invested is based on a potential for further increased growth rates, and the ability to scale the organisation to address a broader customer base and move into new markets. Also, most growth companies reach a threshold, where growth is no longer driven by a first-mover advantage or through a superior technical solution. Instead, growth now relies on the ability to communicate value propositions and scale lead generation, opportunity pursuit and account management.

Change is always easier to drive from a burning platform than from a seemingly already successful scenario.

Seen from the point of view of the individual salesperson that already feels part of a success, the motivation to do even more or to work smarter or just in a different way, has to be nurtured. For most people, it does not come naturally. The successful salesperson may be set in his or her ways or suffer from the fat cat syndrome, and the less successful salesperson might not get nor want to accept the necessary guidance to succeed.

The company sales force will grow as the strategy is rolled out and the sales management team will have challenges in span of control and have to go from a "let me show you how" style to a process driven sales leadership approach. Although, an exception could occur if the business model is a transactional online model supported by inside sales with very little need of field sales efforts, in which case the marketing team will grow.

As an experienced CSO heading a large, global sales force expressed it to us a couple of months back; *"It is really quite simple. Get the meeting frequency up and teach the sales managers how they go from being successful in selling to being successful in coaching and developing others to succeed".*

Sales Velocity is about supporting activity

Sales Velocity predicts how activity impacts the pipeline. When the Sales Velocity concept is implemented and understood by sales management and the sales force, it can lead to a more data driven sales coaching set-up. It will give your organisation insights into what activities are driving the pipeline, and a snapshot of your current pipeline health and whether corrective actions are needed.

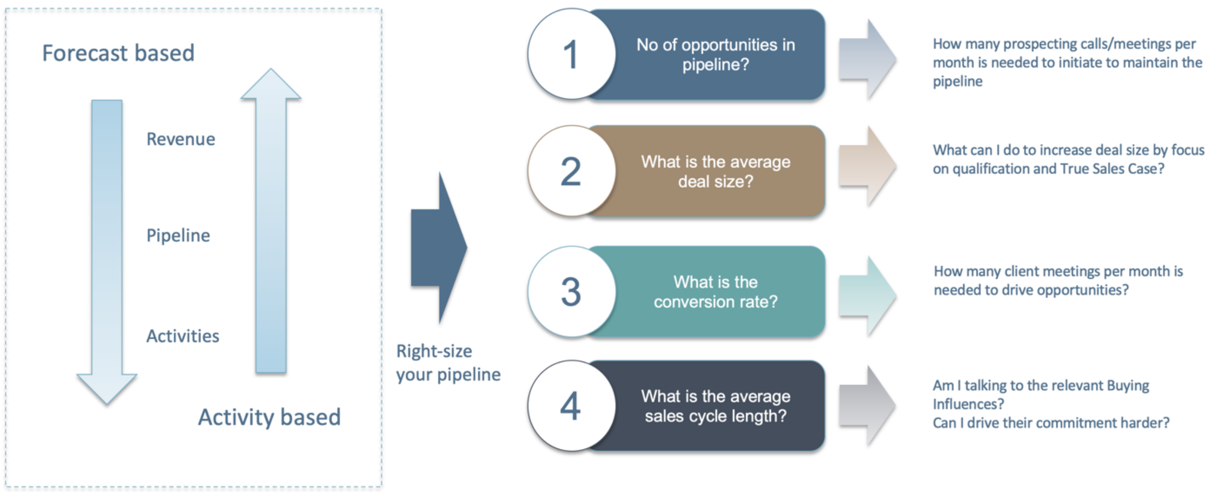
To calibrate the algorithm correctly, it is important to set it up as a company specific algorithm and preferably on existing datapoints. If there is a need for new datapoints, best practice is to set the datapoints first and ensure data are captured consistently, before including the datapoint in the algorithm. Otherwise, the validity of the Sales Velocity value will be up for discussion and distract the team in reviewing and adjusting their focus.

There is a trade-off between accuracy and practical application. While wanting the Sales Velocity value to be as accurate as possible, do not get side-tracked by a too complicated set-up. It is important to stress that Sales Velocity is a theoretical value, that expresses the current state of your pipeline strength. If you have tracked data, it also expresses the development in strength over time.

Sales Velocity as leading indicator: Activity based selling

Sales Velocity is barely described in academic literature, but much talked about among both practitioners in sales and the consulting community. In this section, we will give a short overview of the variables and how to impact them through activities, based on an extract of relevant recent research and academic papers.

As discussed above, Sales Velocity provides the company a measure for how much revenue it can expect in a certain amount of time, given the parameters of the algorithm. This is the forecast-based use of the algorithm. As also discussed, the Sales Velocity can be changed around, thus being a tool for calculating targets for each element, when the budget of the period is available. This way, the algorithm can provide input to activity levels and quality of engagement and act as a leading indicator. We have as mentioned coined this Activity-based Selling. Both approaches help right-sizing the pipeline.



Number of opportunities in pipeline

An opportunity is defined as a qualified lead. In other words, any leads are not sufficient as research shows that lead follow-up is more effective when leads are prequalified (Bradford, Johnston & Bellenger, 2016). There are several ways of qualifying leads. The BANT-framework is one example, emphasising the parameters budget, time and need of the potential client together with the authority of the contact in the company.

Research (Friend et al., 2014) shows that the prime causes of loss of sales opportunities are:

1) **Non-adaptive sales proposal** – the salesperson shows a lack of understanding, adaptive capabilities, and adaptive attitude towards the client.
2) **Non-relational sales proposal** – there is an inadequate collaboration, broken trust and relational entry barriers between the salesperson and the client.
3) **Excessive cost considerations** – the client experiences greater costs than expected, lack of cost justification from the salesperson and negative cost implications for the client's company.

Different types of customers require different approach when securing opportunities. A descriptive study by Nguyen, Paswan & Dubinsky (2018) analyses how salespeople are currently using their resources in relation to four different types of customers. The study reveals which actions salespeople see as most rewarding when it comes to generating opportunities. The actions of the salesperson in relation to the different client types are shown in the table below.

Approach to types of customers

New customer	Short-term customers	Long-term customer	Win-back customer
• Impress • Socialise	• Exceed expectations • Demonstrate flexibility, adaptability, and accommodation • Provide assurance • Demonstrate expertise	• Expand beyond terms • Adjust inequality • Expand social networks	• Utilize mutual social networks • Impress • Socialise

Average deal size

The average deal size is estimated as the revenue from all deals divided by the number of deals. Doing this calculation, it is important to decide whether to include the customer acquisition cost.

$$Average\ deal\ size = \frac{Total\ revenue\ from\ all\ deals}{Number\ of\ deals}$$

The algorithm can be expanded to operate with more than one average deal size. By establishing thresholds for e.g. small deals, medium deals, and large deals, we get a more nuanced view on selling. It could also be a split in segments or verticals, or between existing and new customers, geography, or business units, depending on the individual characteristics of a company's market approach, set-up, and current customer base.

The deal size is closely linked with the client's perceived value of the solution offered. Focusing on value-selling and thereby being seen as a partner and not a salesperson, helps raising the perceived value.

Conversion rate

The conversion rate can be defined as the percentage of opportunities that lead to actual revenue for the company and is an indicator of the effectiveness of the current approach to selling.

$$Conversion\ rate = \frac{Number\ of\ closed\ deals}{Number\ of\ interactions}$$

To increase the conversion rate, we need to consider the lead management approach: In other words, the process of developing opportunities into closed deals. To be successful with the approach, the active use of a CRM system is key.

For the individual salesperson, considering the level of interaction with clients are important. A helpful question could be the fundamental question all sales reps should be fully aware of: "How many client meetings per month do I need to drive my opportunities?" By asking this, the salesperson commits to an accountability of the activity needed to maintain/increase the conversion rate.

Average length of sales cycle

The average length of the sales cycle in months is calculated as:

$$Average\ sales\ cycle\ lenght\ (months) = \frac{Total\ number\ of\ days\ for\ all\ deals}{\frac{Number\ of\ deals}{30}}$$

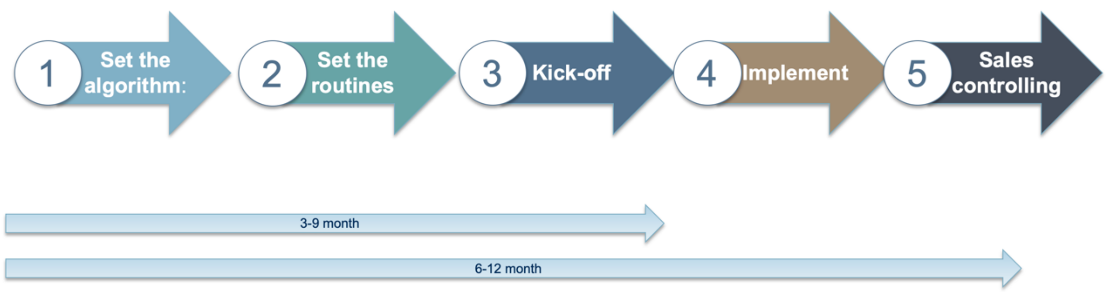
Loads of research has documented the correlation between activities and results. It is evident that sales activities accelerate the sales cycle. This is especially true for the small non-key customer base (Bradford, Johnston & Bellenger, 2016). For salespeople to sell most efficiently, they need time for doing just that. By using other personnel for screening leads, qualifying prospects etc., salespeople get more time with the clients, which makes them likely to close deals more productively (Bradford, Johnston & Bellenger, 2016). That is why we see a raise in Pre-sales teams, Customer Success teams (for ramp up) and digital funnels also in BtB operating sales models.

For the salesperson, considering the decision mandate of the buying influences is important. Do we understand the buying process and who is involved? To reduce the sales cycle length, it is relevant to ask: “Am I talking to the right Buying Influences?” and “Can I drive their commitment harder?”.

Application of the concept of Sales Velocity

Applying Sales Velocity is still in its infancy. Although there might be companies that have been using this approach for years or decades, those we still to come across.

So far, the best experience we have with implementing Sales Velocity is to follow a simple 5 step process. From planning to operational use, it takes most clients between 3-9 months, and to fully apply the feedback loop from sales data controlling will take 6-12 months. This is given you operate a normal yearly budget cycle with monthly forecasting and quarterly business reviews.



Step 1 – Set the algorithm

Given your pipeline data is already strong and data well maintained, you should start by setting the algorithm and implement in dashboards. This requires an inside into statistics. If the company has a Sales Operations function, this is typically handled by them. Otherwise, we recommend a small taskforce headed by the CCO, CMO or CSO and populated by finance and CRM-lead.

Step 2 – Set the routines

Define the reporting structure and the format. Describe the routines for using Sales Velocity on a regular basis from the individual salesperson, through sales management to C-level.

Step 3 – Kick-off

Introduce concept and application to Sales Management. Train sales management in using Sales Velocity for coaching of sales teams and individuals. Train the sales teams. If the organisation is multi-layered, there is a need for kick-off to the heads of sales and a 1:1 follow-up to ensure concept is understood and applied in the coaching of sales teams as intended.

Step 4 – Implement

Just as the sales organisation needs training on methodology in sales, they also need to understand how Sales Velocity can help guide them in building their pipeline. Following this, allow 3 months closer than normal follow-up on application and learning.

Step 5 – Sales controlling

Establish a quarterly analysis of CRM activity and pipeline data to identify underlying patterns and correlations. The report is conducted by sales operations/sales excellence functions, incorporated in the regular sales reviews as a key metric, and applied by the sales leadership to take corrective actions.

Once understood by salespeople and incorporated in the organisational set-up, the algorithm is easy to apply. In our experience Sales Velocity is a valuable tool to drive growth. As a concept it can act as a key driver for change.

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