Sales Process as a Risk Management Tool

By Nicholas T. Miller

Our customers' revenues drive their ability to repay loans. Banks' revenues drive their stock prices. How much risk surrounds your borrowers' abilities reach their sales goals this year? How certain are you that your own sales team members will meet or exceed their sales goals this year?

While virtually all sales team managers will confidently answer, "We'll make it," experience tells us that many won't, and that a significant portion of them will be surprised toward the end of the year. What clues will tell you whether your customer' sales managers and your own bank's sales manager are assessing and reducing sales risks?

Two Types of Risk

There are two types of risk in sales teams' sales forecasts and results. Systematic risk refers to uncertainty driven by changes the economy as a whole. For example, there is a risk that loan demand will fall as the economy softens. Unsystematic risk , on the other hand, refers to risks of execution -- risks related to a company's management of its business processes. Leakage of opportunities from the sales pipeline is an example of unsystematic risk. Inability to maintain contact with and top-of-mind awareness with prospective customers is another example.

One of the best ways to reduce the unsystematic sales risks is to manage sales using a formally defined, consistently implemented, rigorously managed sales process.

Defined Sales Process Frames Risk Analysis and Management

A sales process defines a company's activities for choosing and approaching prospective customers, identifying business issues, recommending solutions, and following up to assure implementation. The ideal sales process is one in which sales team members (broadly defined) know and perform the right activities correctly, with the most profitable customers and prospects, at the correct times, in the correct frequencies and volumes to produce predictable results. Their sales activities generate a flow of sales opportunities. As the sales opportunities move from one stage to the next in the sales process, there are conversion rates and there is a yield at the end of the process. These flows, cycle times, conversion rates, and yields are volatile - the relationships are not fixed.

While many bank and customer sales managers still resist the idea of a formally defined sales process, saying, "You don't manage sales like manufacturing," and "We hire good people, and we expect them to go out there and sell," sales managers who can't answer the question, "What activities in what frequencies generate your sales?" are generating results essentially at random, unable to identify or reduce the drivers sales variability.

Management of the Sales Process Reduces Risk

Once a sales organization has defined and documented its sales process, sales managers must monitor opportunity flows, cycle times, conversion rates, and yields, looking for opportunities to make improvements and to catch adverse changes early. They must then use this information to direct and coach sales team members.
Sales managers need accurate and complete information about sales activities and "work in process" - the sales pipeline report. Sales activity reports and sales pipeline reports are the two most important information tools because they show opportunity flow, cycle times, conversions, and yields at each step of the sales process.

The sales pipeline report should include all business currently in the sales process, from "sighted" business (a potential opportunity) through to "committed, not closed." To each opportunity, sales managers should attach a "probability to close" based on historical, factual evidence. For example, if sales managers know that one out of every four proposals submitted are ultimately accepted , the probability attached to a deal at the proposal stage is 25%.

Managers should be using these reports to ensure that sales team members are (1) using the defined sales process effectively and (2) generating sufficient levels of sales activity to create the required flow of new opportunities. Typically, you should see sales managers conducting regular weekly and monthly reviews of business development activities, sales activities, results to date, and pipelined opportunities. Sales managers should be considering their salespeoples' forecasting accuracy, their efficiency in converting leads to sales, their increased capabilities (knowledge, skills, and experience), as well as sales results (the yield from the sales process).

Balanced Scorecards Provide a Future View

If your customers' sales managers or your bank's sales managers are measuring activities and results, and if they can describe the relationships between activities and results, you can feel some confidence.

You can feel even more confident if they can also point to leading indicators of future sales performance. These could include client satisfaction measures and complaint frequencies; sales rep knowledge of customer issues and solution configurations; dealer satisfaction; and dealer profitability.

As Kaplan and Norton expressed in their book, *Balanced Scorecard*: "(The Balanced Scorecard) should translate a business unit's mission and strategy into tangible objectives and measures (that) represent a balance between external measures … and internal measures of critical business processes…. The measures are balanced between outcome measures…and the measures that drive future performance. And the scorecard is balanced between objective, easily quantified outcome measures and subjective, somewhat judgmental, performance drivers of the outcome measures."

The Idea is to Reduce Risk

Every sales organization must address the unsystematic risks inherent in its sales activities. To begin, they must define a sales process that focuses sales teams on the right customers and prospects at the right time performing the right activities in the right frequencies in the right volume to generate revenue. A formally defined and documented sales process enables sales teams to systematically test relationships between activities and results and improve the productivity of their selling time and activities. Accurate, timely information about sales activities and opportunities in the sales pipeline, combined with persistent, thorough sales manager inspection and intervention reduces surprises, missed opportunities, and lost opportunities. A balanced scorecard provides additional risk-reduction assurance by generating insight about future performance.

Which isn't to say that every sales rep and sales manager will appreciate this process all of the time. Some sales people and sales managers will view their focus on details and consistent execution as "hobgoblinizing" their minds. They will resist the constant accountability and display of their work.

But on the bright side, there is freedom in the discipline. Sales reps can now know where to go and how to behave so as not only to reduce risk associated with their results but generate a consistently higher level of results.

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