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Managing Risk In The Business Development Process

By Nicholas T. Miller

How certain are you that your professional staff will meet or exceed their business development goals this year?

While virtually all service firm 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. Yet there are clues that will tell you whether your managers are assessing and reducing the risks of not meeting revenue targets.

Two Types of Risk

There are two types of risk in business development forecasts and results. Systematic risk refers to uncertainty driven by changes in the economy as a whole. 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.

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

Defined Sales Process Frames Risk Analysis and Management

A sales process defines a company's activities for choosing and approaching prospective clients, identifying business issues, recommending solutions, and following up to assure implementation.

The ideal sales process is one in which sales team members (broadly defined as whoever may have a revenue target) know and perform the right activities correctly, with the most profitable clients and prospects, at the correct times, in the correct frequencies and volumes to produce predictable results. Their sales activities generate a flow of new revenue opportunities.

As the revenue 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.

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

Management of the Sales Process Reduces Risk

Once a service firm has defined and documented its sales process, 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.

Managers need accurate and complete information about sales activities and "work in progress" - 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 business development activity to create the required flow of new opportunities. Typically, managers should conduct regular weekly and monthly reviews of business development activities and results to date, and opportunities in the pipeline.

Manager should consider their rainmakers' forecasting accuracy, their efficiency in converting leads to sales, and 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 managers at your company are measuring activities and results, and if they can describe the relationships between activities and results, you should feel somewhat confident.

You can feel even more confident if they can also point to leading indicators of future sales performance. These could include areas such as client satisfaction measures, professionals' knowledge of client issues, and solution configurations.

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 organization must address the unsystematic risks inherent in its sales activities. To begin, they must define a sales process that focuses business developers 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 business developers 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.

This isn't to say that every business developer and manager will appreciate this process all of the time. Some team members and 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. Whoever does the selling at your organization 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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