FullFunnel

Powering Your Revenue Engine

Consulting • Staffing • Marketing Ops • Sales Ops

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Objective

The objective of this document is to explore and explain the concept of leverage ratios for investing in demand generation and pipeline management functions of a revenue operations program.

Revenue Operations Functions

Revenue Operations, or RevOps for short, is a holistic approach to managing revenue generation processes across an organization. It involves integrating and aligning various departments, systems, and processes that contribute to revenue growth, such as sales, marketing, customer success, finance, and operations.

The goal of RevOps is to create a more streamlined and efficient revenue engine that maximizes growth and profitability. RevOps achieves this by providing a single source of truth for revenue data, improving collaboration and communication across departments, and using data-driven insights to make informed business decisions.

FullFunnel views the revenue operations function of an organization to be broken down into three distinct segments which are demand generation, pipeline management, and customer success.

Demand Generation

The first component of our approach is demand generation. In simpler terms, it's akin to 'leading the horse to water.' Demand generation encompasses any action or strategy that initiates a conversation with your ideal client profile (ICP). In the business-to-business sales landscape, this often results in a discovery call being scheduled and conducted. There are various tactics and channels available to stimulate demand, but FullFunnel considers four fundamental pillars of demand generation that are relevant to all businesses, irrespective of the products or services they offer. These pillars include:

1. **Peer-to-Peer Channels:** This involves leveraging channels like word of mouth, networking, events, partner programs, and referrals, amongst others.
2. **Owned & Earned Media:** This includes content created by your organization or other organizations that is not paid or sponsored but drives traffic and demand to your web properties.
3. **Paid Advertising:** This refers to demand stimulated by purchasing visibility from media and advertising companies. This can include digital marketing efforts as well as traditional marketing mediums such as billboards, television ads, and radio broadcasts.

4. **Outbound Prospecting:** This involves targeting potential buyers who may not be currently engaged with your business, sparking a conversation via outbound email, telephone calls, or social media.

The success of demand generation is evaluated by the cost per qualified interaction with your ideal client profile (ICP). This is quantified by measuring sales accepted leads (SALs) which are discovery calls booked and held with your ICP. By working backwards from your target acquisition cost to your cost per discovery call, any company can establish a demand generation target that aligns with a financially scalable cost of customer acquisition (CAC) rate.

Pipeline Management

The subsequent phase in revenue operations is pipeline management, as we like to refer to it, "getting the horse to drink." In this stage, discovery calls with your ideal client profile transition into actual revenue. This transformation is facilitated by pipeline managers who navigate the sales process through steps like conducting discovery calls, submitting proposals, negotiating terms, and ultimately closing deals.

The primary metric for assessing success in pipeline management is the consistent and scalable achievement of your target acquisition cost. Essentially, the goal is to repeatedly secure new customers while staying within the predefined cost parameters. This efficient conversion of prospects into profitable customers is the cornerstone of effective pipeline management.

Customer Success

The final stage of the revenue operations cycle is customer success. In essence, it's like encouraging the horse to continually drink, and drink more, from the trough. This phase comprises activities that occur after the initial sale, all aimed at ensuring a smooth onboarding experience and fostering positive, ongoing customer relations. These actions provide opportunities for upselling, cross-selling, and the consistent creation of value for the customer.

Customer success goes beyond the initial transaction to sustain and deepen the relationship. It's about guaranteeing that the customer continues to extract value from your product or service, thus promoting customer loyalty, repeat business, and potentially even advocacy for your brand.

Problem Statement

A common issue in many companies today is the misalignment of financial resources between demand generation and pipeline management. To determine if you are overspending on pipeline management, evaluate the utilization of Account Executives, who are typically well-compensated sales professionals whose primary responsibility is to secure new business. However, these pipeline managers often spend their time on tasks unrelated to their main objective, which dilutes the efficacy of their role. Rather than meticulously tracking their salespeople's time, many sales departments focus solely on broad Key Performance Indicators (KPIs) like revenue, which makes the position challenging to scale. As a result, numerous pipeline management teams are not fully utilized in their essential function of acquiring new business.

In a B2B context, pipeline management involves progressing from an initial DISCO (Discovery) call to successfully acquiring a new client account, at which point the client success team takes over to onboard and retain the customer. To comprehend the utilization capabilities of the pipeline management role, you need to calculate the average time spent on a DISCO or DEMO (Demonstration) call in your sales process. Let's assume this average is one hour. Given a 40-hour workweek, FullFunnel recommends that pipeline managers spend 75% of their time, or 30 hours, on their core job function. This equates to 30 pipeline management units, with each unit requiring 60 minutes of work per week. Therefore, if an account executive conducts three appointments in a week, their utilization in their primary job function is merely 10%. This underutilization represents a financial burden on revenue operations programs, as it signifies an inefficient allocation of capital. Here is a breakdown of a pipeline manager's potential, assuming the variables mentioned above...

Average Time (Hrs) Per DISCO/DEMO	Total Weekly Hours	Primary Function Utilization Target	Total Available Time	Total Primary Function Units
1	40	75%	30	30

By comparing the two salespeople below, you can clearly see the direct impact that higher core (primary job function) utilization rates have on the direct labor costs incurred per DISCO/DEMO call held.

Salesperson A				
Total Primary Function Units	Total Weekly Held DISCO/DEMO	Core Utilization Rate	Weekly Cost	Pipeline Management Cost Per DISCO/DEMO
30	3	10%	$2,500	$833
Salesperson B				
Total Primary Function Units	Total Weekly Held DISCO/DEMO	Core Utilization Rate	Weekly Cost	Pipeline Management Cost Per DISCO/DEMO
30	20	67%	$2,500	$125

A frequent counterargument to the issue of underutilization is to reference a sales goal or quota that, if met, justifies the organization's financial investment. However, this rationale is fundamentally flawed, as **it results in an inefficient use of capital that could be better allocated elsewhere in the revenue operations program.** The most strategic reallocation would be to the demand generation program, where new prospect conversations are generated, ultimately leading to DISCO/DEMO calls and, consequently, increased utilization of the pipeline management layer.

SDR to AE Leverage Ratio

When a sales team relies solely on outbound prospecting to fuel its demand generation efforts, the SDR (Sales Development Representative) to AE (Account Executive) Leverage Ratio becomes a crucial metric. Considering the example above, the AE has 30 time units available each week. If an outbound SDR is tasked with scheduling ten meetings per week, this implies a necessary 3:1 SDR to AE ratio within the team to optimize efficiency.

Total Primary Function Units	SDR Production Target	Required SDR to AE
30	10	3

In numerous cases, sales organizations maintain an inverted relationship between their demand and pipeline management functions, having more pipeline managers than demand generation team members. While this structure can be acceptable for programs heavily reliant on inbound demand, as long as the productivity math adds up, many organizations fail to set themselves up for success in this crucial area of their program.

Conclusion

The ultimate goal of every revenue operations program is to achieve peak financial efficiency and performance. In a B2B sales and marketing program, the currency of your demand generation program is the DISCO calls booked and held with your ideal client profile (ICP). Think of these calls as the feedstock for your revenue manufacturing line. Once this feedstock enters your pipeline management or manufacturing line, the aim is to minimize waste. This can be assessed through the conversion rates in the DISCO to close process, as well as the total utilization of your pipeline management team.

Currently, many companies are grappling with bloated and inefficient pipeline management teams, while their demand generation departments are underfunded and struggling. Outbound prospecting is typically relegated to entry-level Sales Development Representatives (SDRs), who often spend just 12 months in these roles before advancing to more lucrative positions within the sales and marketing department, such as Account Executive roles. This progression further exacerbates the financial inefficiency of the pipeline management function.

Moreover, once these individuals ascend to AE positions, companies often expect them to continue prospecting on the side. However, experience shows that once prospecting is no longer their primary job function, their performance in this area tends to be subpar.

Additionally, marketing groups are often misaligned with the needs of the demand generation function. Despite the evolution of the marketing landscape, many still rely on outdated metrics like MQL (Marketing Qualified Lead) production as their primary measure of success in 2023.