



# Revenue Performance Index

## September 2017

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# INDEX CONTRIBUTORS AND REPRESENTATION

Banking and Financial Services	9%
Insurance	4%
Manufacturing	11%
Technology	18%
Telecommunications	4%
Media	7%
Wholesale	12%
Retail	6%
Professional and Business Services	7%
Property and Construction	5%
Mining	5%
Utilities	3%
Health	6%
Education	3%
Leisure and Recreation	2%

Australia + NZ	52%
Asia Pacific	12%
North America	16%
EMEA	12%
Other	8%

CEO / MD	62%
CFO	15%
Marketing	12%
Sales	5%
Other	6%

Total respondents = 588

## INTRODUCTION

Welcome to the 2017 Revenue Performance Index.

The Index began in 2005 to test a hypothesis that selling was much more difficult than many executives understood, and to examine some of the factors that made it so difficult. As the Index morphed into a longitudinal study of revenue performance, what we learned surprised not only us but many CEO's.

Remember these were the halcyon days leading up to the Global Financial Crisis - when most businesses merely had to open their doors to make money. Or so it appeared. Contrary to popular perceptions, the data told us that in spite of the apparent ease with which many organisations were growing, sales performance and productivity was in fact very poor – even in organisations whose top lines were growing strongly.

This year's 12<sup>th</sup> Index highlights how difficult generating revenue remains, and how many organisations, regardless of industry, size or location, struggle to achieve that goal. The data reveals weakness in performance and process that would cost managers their jobs were they uncovered in supply chain, distribution or finance. In sales and marketing for some reason they are ignored, accepted – even rewarded.

The following pages feature a host of insights sure to have CEO's and CFO's scratching their heads and asking hard questions of their marketing and sales leadership. The first of those questions might well be about the Return on Investment promised to justify multi-million dollar CRM's and sales training programs. Last year companies spent more than \$US24B globally on CRM. Through 2015 and 2016 the CRM market

globally grew by 14% and 18% respectively. At the same time the market for sales training grew by between 12% and 15% depending on whose statistics you read.

Yet and in spite of enormous efforts to increase sales productivity and performance, the opposite result has somehow occurred. Across that same period, the rates of both new customer acquisition and repeat sales to existing customers both actually fell. New customer acquisition now sits at an anemic 1.92%, while the rate of repeat sales to existing customers fell to just over 8% - a decline of 36% in just the last three years.

The CEO of a major professional services firm observed that in most parts of any company, a failure rate of 98% in a critical business process would probably see those responsible looking for alternative employment. When it comes to revenue for some reason, not only is it tolerable, but it is acceptable.

Lacklustre and inconsistent marketing and selling performance continues to cause immense CEO and Board frustration. Pressure from markets, Boards and stakeholders for revenue growth continues to ratchet inexorably upwards, even as actual results continue to disappoint.

The average tenure of a Sales Manager is now 18 months a Sales VP only 25. CMO's by comparison last 3.6 years.

This year 588 organisations with aggregate revenues of \$53 billion responded to the Index. Most respondents elected to remain anonymous and when

you read what follows in this report, you'll understand why. The findings are disturbing and again point to the need for a rethink about the way we all go about winning, retaining and growing customers.

Fortunately, there is some good news. A small but growing group of companies are applying a potent mix of analytics, process improvement and plain old maths to their revenue systems and generating spectacular results – even in heavily commoditized, highly competitive industries. They are not so much turning away from reliance on the old methods, but embracing a new way to apply those old methods. If you prefer to skip all the bad news and get straight to what's setting these companies apart, turn to page 12.



# EXECUTIVE SUMMARY

Profitable, consistent and measurable organic revenue growth remains at the top of agendas for CEO's and their Boards.

Headline findings from the 2017 RPMG Revenue Performance Index include the following top six CEO goals for revenue production:

1. Organic growth is critical (30%), very important (31%) or important (33%)
  2. Get more from investment in CRM and other sales technologies (70%)
  3. Get more value from data and analytics ( 65%)
  4. Better understanding of market / buyer dynamics and behaviors (54%)
  5. Improve sales productivity (50%)
  6. Improve alignment with customer buying behaviors (42%)

Some sobering realities also emerged from the data:

- Sixty four percent of organisations represented in the Index either had missed or were missing their current year target;
  - The average shortfall against target was 16%
  - Only 11% exceeded or were on track to exceed their revenue targets by more than 10%
  - Unfazed by the three preceding points, 94% of CEO's reported targeting growth for next year – at an average of 17%
  - Somewhat ironically, 67% reported not being confident of hitting next year's target. Twenty one percent admitted outright that they would not make it
  - Sixty one percent of sales reps either missed or were missing their current year quotas, with a staggering 28% missing by more than 20%
  - Sixty one percent reported their sales cycles were either longer or significantly longer and more complex than a year ago

But perhaps most troubling were further declines in key revenue conversion metrics. Last year saw declines of 5.5% and 39% in new business and repeat business conversion respectively. Both those metrics declined again this year. In 2014 the blended revenue conversion factor (i.e. the combined rates at which organisations acquire and retain customers) was 5.7%. In 2016 that number was 4.3% - a decline of 25% in two years. This year it fell again to 4.2%



For every 100 selling opportunities that enter the average revenue pipeline or funnel, whether new prospects or existing customers, 4.2 successfully make it to the end – to become paying customers.

Over that same three-year period, the CRM market grew year-on-year by 16% (Gartner) and sales training by more than 12%. There has rarely been a better time to be a CRM vendor or training provider. Unfortunately however, the problem they are both meant to be solving – delivering more sales, is instead getting worse.

# REVENUE ASPIRATIONS

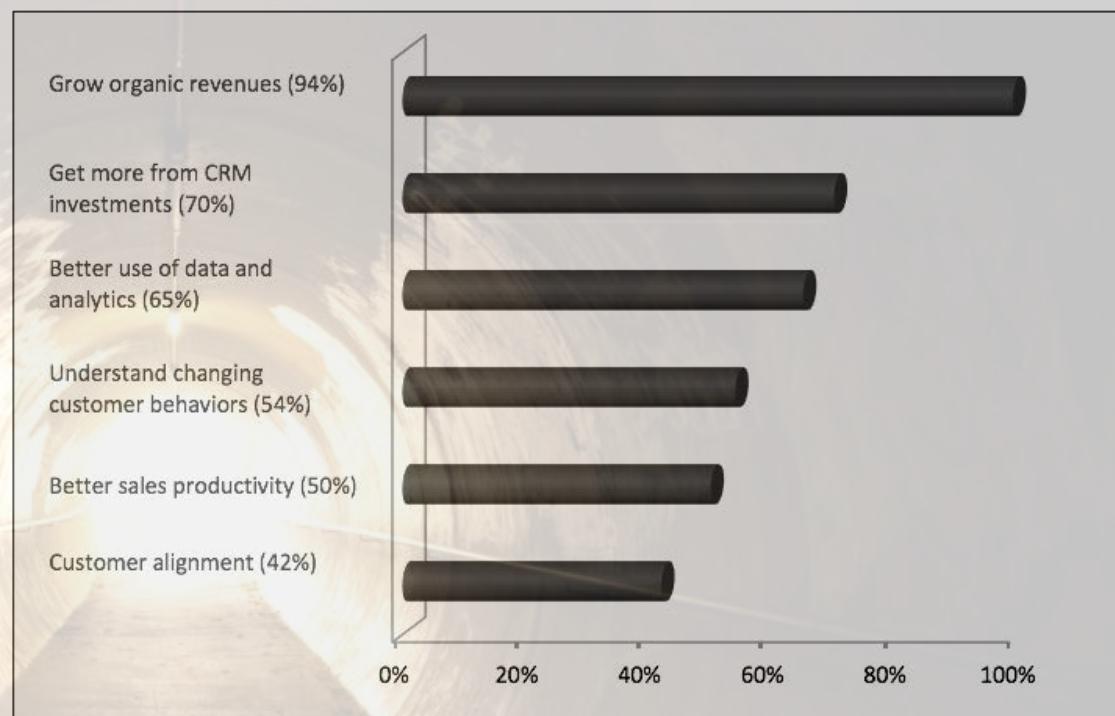
As they look to 2018 and beyond, there is no question that CEO's and Boards continue to view organic revenue performance as a strategic priority. There is absolutely no lack of clarity about what needs to happen; top lines must grow consistently, sustainably and profitably.

What is far less clear is precisely how to best go about achieving those objectives given continuing and in many cases accelerating market and buyer volatility. There is also a growing realization and acceptance at Board and C-levels that accepted strategies for sales growth are failing – in some cases dismally.

More organic revenue was again the number one objective for nearly all of our respondents [refer Figure 1]. Interestingly, four of the next five key objectives all featured prominently in the previous two Indices. The only new entrant to the top six, getting more from investments in CRM, reflects to some degree the frustration many senior executives feel about the anaemic returns seen to date from substantial organisational investments in CRM, social media and other sales and marketing improvement technologies.



Fig 1. CEO Revenue Aspirations 2017



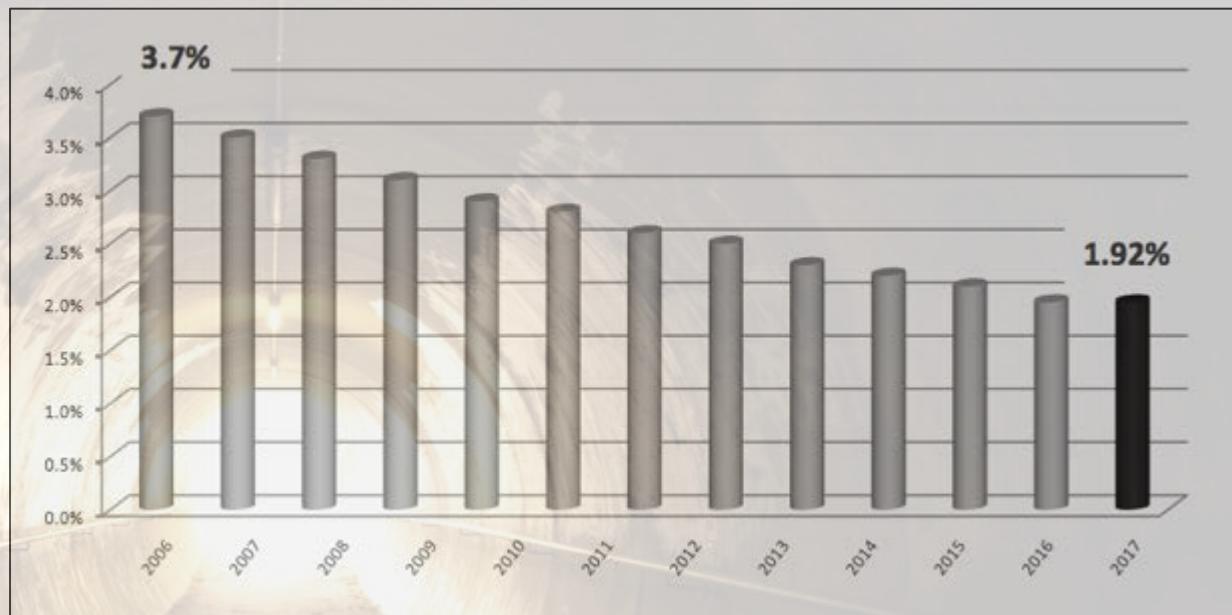
# PIPELINE CONVERSION

Our respondents have good reason to be concerned about the future. Last year, the average end-to-end sales pipeline conversion rate dipped under 2% for the first time since the Index began in 2006. This year, it fell again.

The figure is down by 5.5% on 2014 and a staggering 48% from 2005/06 [1.92% vs 3.7%].



Fig 2. End-to-End Pipeline Conversion



"Combined marketing and sales conversion has declined by **48%** since 2006."

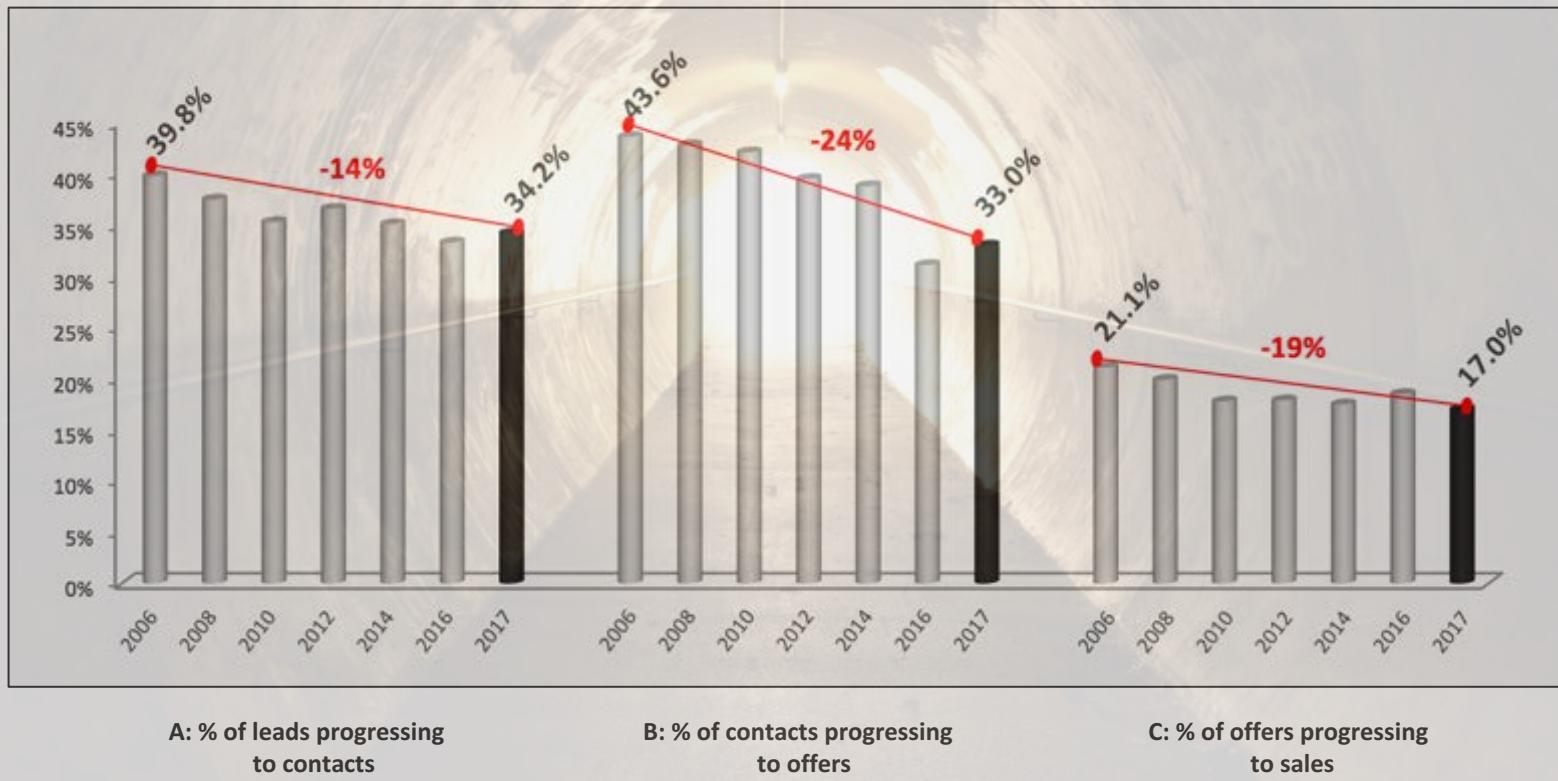
# PIPELINE CONVERSION (CONT.)

Figure 3 illustrates that the decline in the conversion performance at each major stage of the pipeline has experienced a continual downward trend since 2005/06. Small improvements in the upper two thirds of the process were negated by a further decline in the ratio of offers converting to finished sales.

***"We're not getting anywhere near the rate of lead production or conversion that we need."***

CEO – Media Company

Fig 3. Pipeline Stage Conversion



# REVENUE VELOCITY

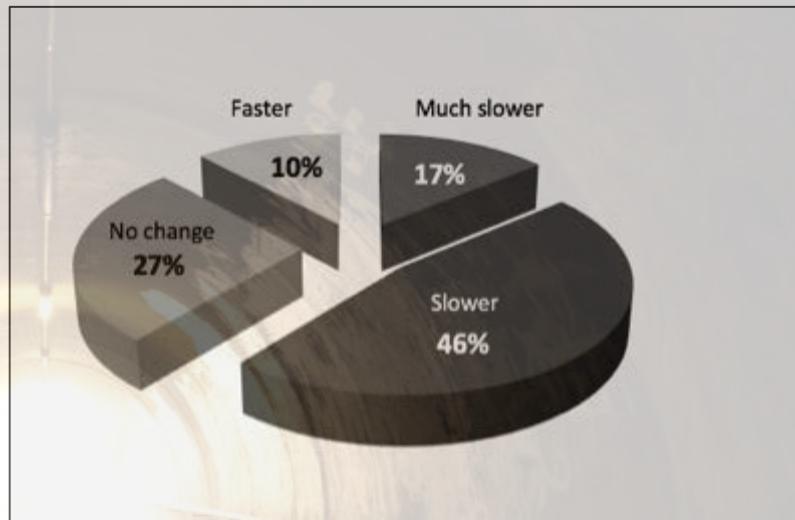
Sixty three percent of organisations reported that the velocity of their revenue conversion was now either slower or significantly slower than three years ago.



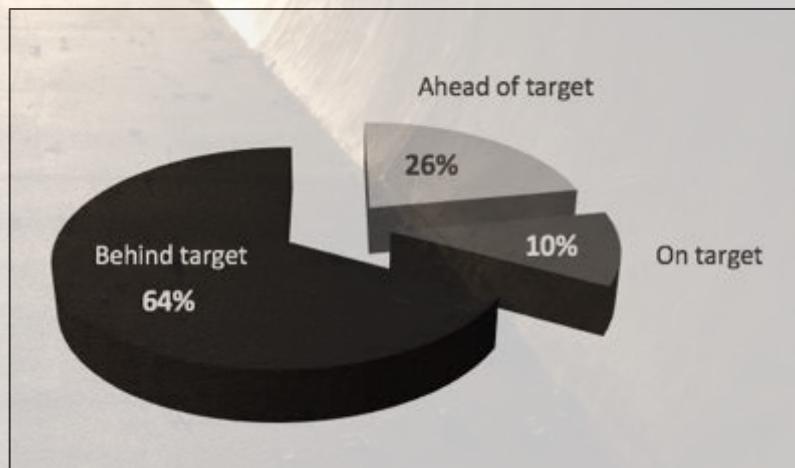
# TARGET ACHIEVEMENT

Sixty four percent of CEO's either reported missing or said they would miss this year's target. Only 26% expected to exceed their target. The average shortfall against target among those who missed was 17%.

**Fig 4. Change in Pipeline Velocity Previous Three Years**

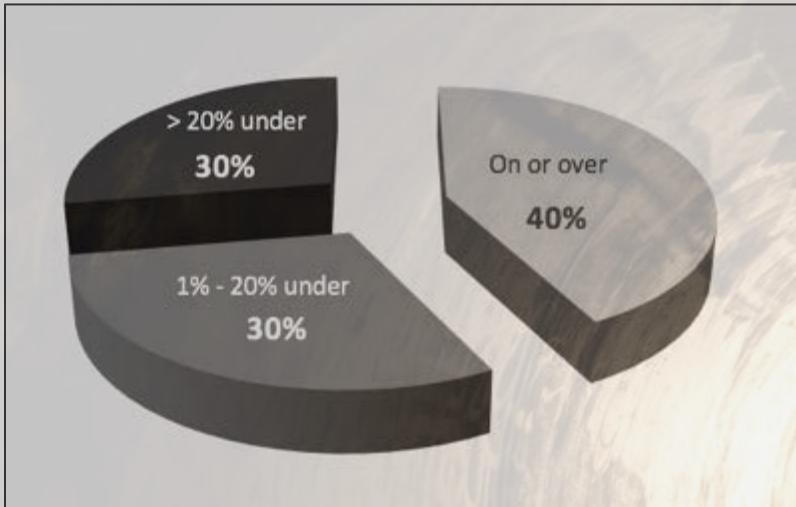


## **Fig 5. Revenue Target Achievement – 2016/17**



# REPS UNDER / OVER TARGET

Fig 6. Reps Under or Over Target



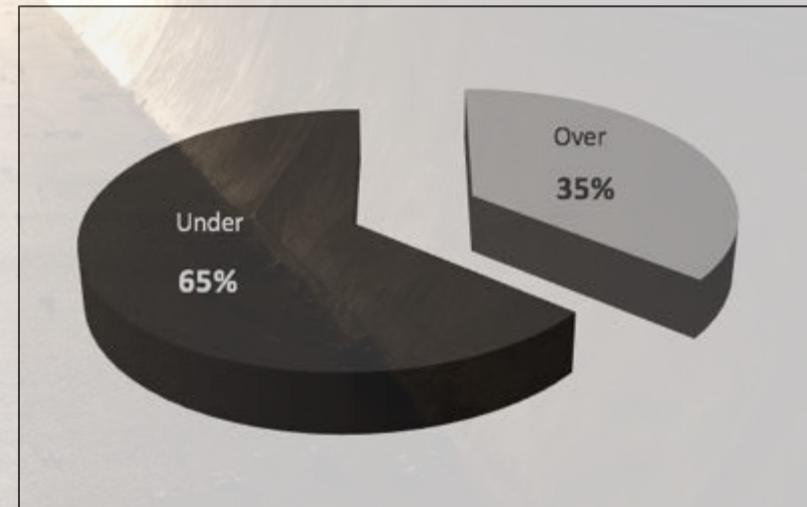
Sixty percent of sales reps either missed or were missing their current year quotas, an increase of 3% in the last two years. Of those under target, 34% were under by more than 20% and 12% by more than 40%.

# CHANNELS UNDER / OVER TARGET

More than half of the organizations represented in the Index employed distributed sales models – selling through agents, resellers, branches, distributors or other partners. Of those employing distributed models, 65% of those channel partners either missed or were missing their current year targets. Visibility into channel partner pipelines was a commonly expressed frustration.

Notwithstanding these two metrics, nearly every CEO who responded said they wanted to grow their top lines next year. The average revenue growth target increase remains 17%, with 15% expecting or desiring to grow next year by more than 30%.

Fig 7. Channel Partners / Distributors Under or Over Target



# MANAGEMENT CONFIDENCE IN REVENUE TARGETS

It comes as no surprise given the data on the preceding pages that two-thirds of the CEO's responding have little or no confidence that their organisation will make next year's numbers.

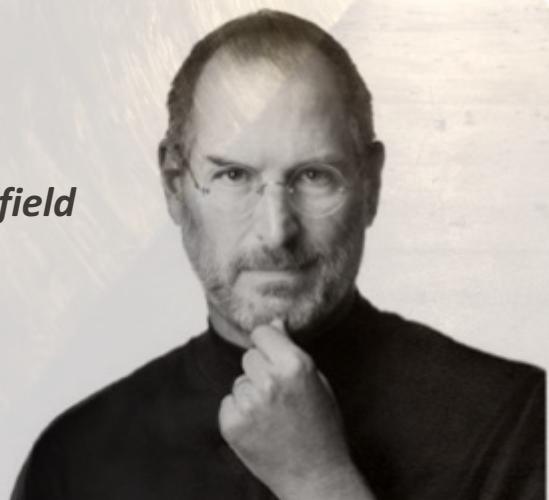
These numbers are almost identical with the 2016 Index.

But this year's Index revealed an interesting divergence between the confidence levels of the three top revenue executives – CEO's, CSO's and CMO's. The difference in perspectives between sales and marketing leaders would seem to indicate they might even be looking at different realities.

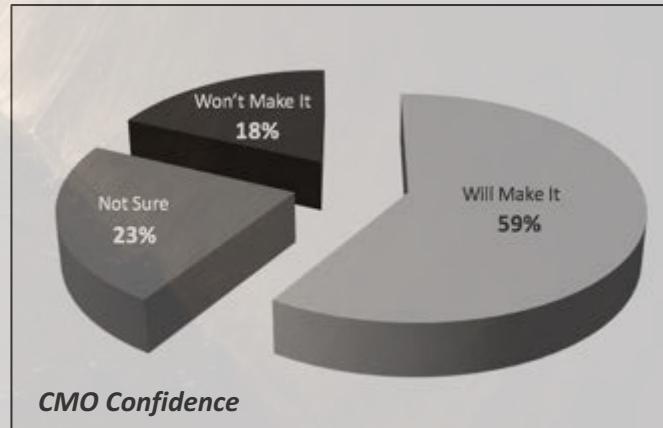
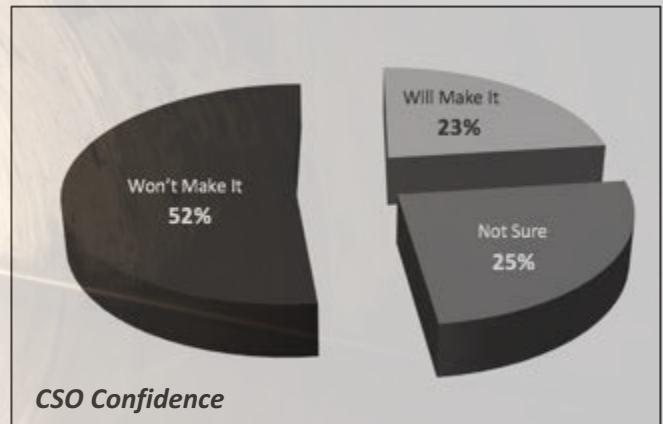
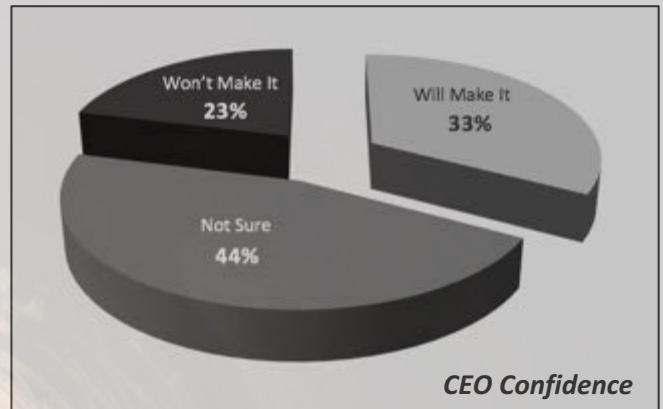
**Reality distortion field ("RDF")** is a term coined at Apple in 1981 to describe Steve Jobs' charisma and apparent ability to bend reality and the perceptions of reality of those around him, to his will.

Originally of course, the term came from Star Trek, where a breed of aliens created their own new world through mental force.

While in Steve Jobs' presence, reality may have been malleable, sales figures in the real world are not. Organizations either make their sales numbers or they don't. It's worrying enough that CEO's and their front line sales leaders are so far apart in terms of expectations of success. But the difference between CSO's and their colleagues in marketing borders on ridiculous.



*"Is there a reality distortion field  
that improves sales funnel  
performance?"*



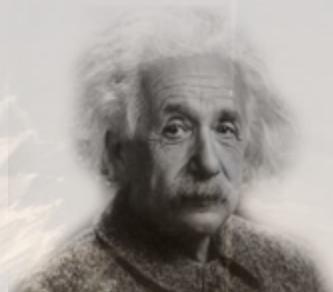
# RECRUITMENT CHALLENGES

Despite supplying growing numbers of candidates for sales positions who are then under-performing at record levels, sales recruitment continues to be a lucrative segment – for the recruiters. With 60% of sales people failing to perform, the industry continues to see plenty of people turning over. Unfortunately however, replacement of poorly performing rep's with more poorly performing reps is a trend with no end in sight. The challenges of putting the right people in the right seats on the bus continue to frustrate many.

According to K2 Recruitment Director Ian Briggs, Australian Sales Directors still rely on putting more feet on the street to drive their revenue growth, hoping - in spite of three consecutive years of data to the contrary, that increasing the size of the sales forces and channel will somehow provide the answer.

Although we do not have hard data from this year's Index, anecdotally some Heads of Sales we spoke to this year said they had increased the size of their teams in FY15 and FY16 and been consistently disappointed that the headcount failed to deliver the hoped-for revenue outcomes.

One CEO we spoke with, wondered aloud when the penny would drop and Sales and HR managers would put a stop to the circular insanity of hoping to grow sales using direct and indirect headcount, when more than half of that headcount failed and a significant proportion of those that failed, failed abysmally. Only to be replaced by more people with similar experiences and industry backgrounds to those that had just been shown the door, all the while hoping somehow for a different result.



***“Insanity: doing the same thing over and over again, and expecting different results.”***

The sales recruitment sector again experienced strong growth in 2016-17, and industry commentators expect that trend to continue into 2018 and beyond.

The surge in demand from organizations to bolster their internal and field sales forces has driven recruiters with no previous experience in recruiting sales people, to advertise and market themselves as experts. CSO's under immense pressure to perform face the double-whammy of unscrupulous recruiters supplying them with people who are failing in higher numbers than ever before.

**concerned** **future** **industry** **revenues** **Refer**  
**company** **well** **generate** **Marketing** **CEO's**  
**organisation's** **regardless** **line** **confidence** **major**  
**C-suite** **pretty** **Marketing** **organisations** **sustain**  
**source** **lost** **across** **growth** **Heads**  
**Sales** **Australia** **size** **sales** **board**  
**even** **year** **Lack**  
**ability**

# MARKETING FRUSTRATION

Since the GFC, marketing functions have come in for scathing treatment in the Index, particularly from CEO's. In 2016, 78% of CEO's questioned the relevance and value of marketing. That figure improved this year, but only slightly.

Many of the CEO's and CFO's who have responded to previous Indices said they believed marketing lacked credibility, wasn't outcome-focused and made little to no effective contribution to generating revenue.

While this years' numbers aren't as savage on marketing's contribution, it's clear that marketing departments generally continue to suffer from a significant credibility gap when it comes to their CEO's and Boards:

- 62% of CEO's had little or no confidence in their marketing departments contribution to winning new customers;
- Only 9% reported being very confident that marketing made a contribution, with 19% having at least some confidence.

We asked some CEO's to explain why they felt the way they did about marketing. In nearly every case the issue could be summarised as "line of sight" between marketing investment and revenue delivery – what one CEO described as,

*"...the lack of demonstrable causation between the millions we spend on advertising, digital strategy and social media and customers buying something".*

Asked to comment on Marketing's contribution to revenue creation and delivery, Sales Directors typically varied between skeptical and scathing.

Leaving aside the actual degree of truth in statements such as these, it is evident that a fair amount of work remains left to do before most organisations can claim that their marketing and sales teams and efforts are aligned.

***"Eighty percent of CEO's don't trust or are unimpressed with their CMO's"***

Harvard Business Review  
August 2017

**Fig 8. CEO Confidence in Marketing**



*"My guys refer to our marketing people as revenue prevention. There's always another excuse for why this or that cannot be done to generate leads. I can't remember a lead in our business that we didn't develop ourselves."*

GM Sales  
Global IT company

*"I'm sure Marketing is making a contribution. Just not to sales."*

Sales Director  
Insurance Company

# LEAD GENERATION & MANAGEMENT

Demand and lead generation were again hot topics in this years' Index, with 62% of organisations trying to generate more and / or better quality leads.

The rate of conversion from leads to sales contacts improved by 2.7% in the last year, which was good news for CMO's and CSO's. Unfortunately since the Index began in 2006, that metric has declined by 14% and by nearly 7% since 2012.

Also troubling was the continuing decline in the velocity at which leads turn into sales contacts. Much of the hype around digital and social technologies is based on the promise of increasing the speed at which marketers can respond to changing buyer demands, and then at which those buyers respond to the offers presented to them. Neither of those promises is currently happening.

The global Marketing Automation market grew by nearly 60% between 2014 and 2017 – up from 50% for the two years before that. Valued by analysts at \$US4B in 2017, the industry globally is expected to be worth \$US7B by 2023 – an expected year on year growth of 9%.

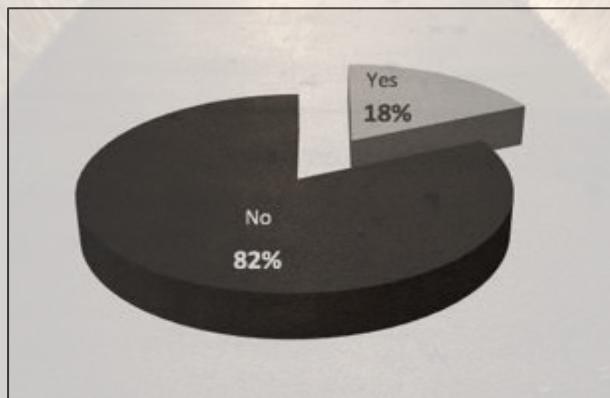
Only 18% of the CEO's responding to this years' Index reported having invested in Marketing Automation (solutions that coordinate and measure the execution of marketing programs and campaigns), with 6% reporting they have never even heard of it.

Few CEO's hold their marketing areas accountable for either the number or quality of leads they pass to sales, and less than a quarter of marketing functions are measured on ultimate revenue conversion.

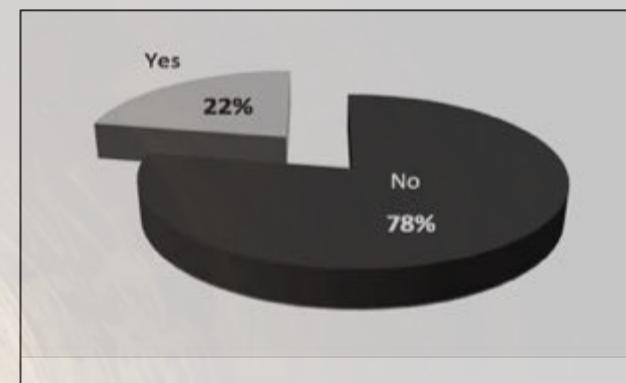
Despite continuing statistical evidence that using sales people for lead generation is largely ineffective and unsustainable, prospecting based on cold calling remains a significant component of most current sales job descriptions.

The practice carries a substantial hidden cost. The average sales person in 2017 spends approximately 38% of their time prospecting i.e. generating leads. At a typical fully loaded base remuneration of \$54,000 pa that equates to \$21,000 per sales person of (a) marketing cost carried by sales; and (b) lost selling time.

**Fig 9. Using Marketing Automation**

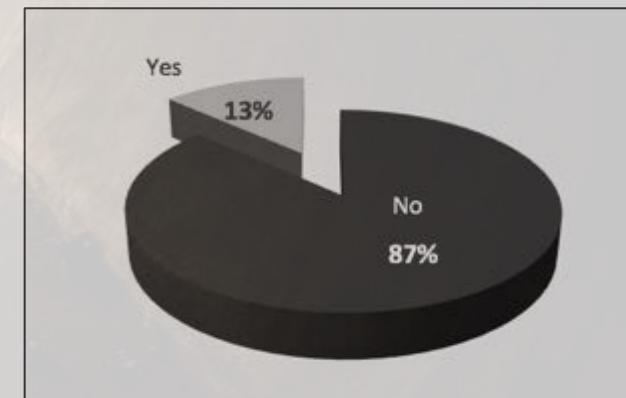


**Fig 10. Marketing KPI'd on Leads Generated**



If we recalibrate the average sales person's achievement against quota (40%) for the fact that they spend only 31% of their time selling (the remaining 31% spent on administration and other non-selling tasks), their performance doesn't look quite so bad.

**Fig 11. Marketing KPI'd on Revenue**



# TREND BREAKERS: MARGINAL GAIN – HUGE IMPACT

David Brailsford's is now one of the highest profile success stories in professional sport. In 2010 however, when he took on the job as GM and Performance Director for Team Sky, Britain's new professional cycling team, success seemed a very long way away.

Up until then, Britain was a perennial under-achiever on the world cycling stage. Brailsford was tasked with changing that. His approach was staggeringly simple.

Brailsford championed a philosophy of what he called "marginal gains - the 1 percent margin for improvement in everything you do." He believed that if he could improve every area related to cycling by just 1 percent, then those small gains would add up to a remarkable overall improvement.

David and his team began with the obvious things: training programs, bike designs and weights, rider nutrition and the like. Then they moved onto the less obvious elements – those hidden beneath the surface. They started looking for 1 percent improvements in seemingly insignificant areas overlooked by other teams: improvements to the geometry of bike frames, tire inflation and resistance on the road surface, rider hygiene - even to the level of the pillows they slept on and how they washed their hands. No potential for improvement was considered too insignificant.

Brailsford was convinced that if he could harness these aggregated 1 percents, Team Sky could win a Tour de France in five years. They took only three!

In 2012, Bradley Wiggins became the first British cyclist to ever win Le Tour. In that same year, Great Britain won eight gold cycling medals, 12 total cycling medals and set three world records at the London Olympics. Britain's coach? David Brailsford.



***"The whole principle came from the idea that if you broke down everything you could think of about riding a bike and then improved it all by 1%, you'll get a significant increase when you put them all back together."***

Sir David Brailsford

So phenomenally successful has the last decade been for British cycling it has been referred to by many as its golden age. So – what relevance does David Brailsford and Team Sky have for the woeful current state of revenue performance?

## Aggregation of Marginal Revenue Gains

Business leaders frequently overestimate the importance of one defining moment and underestimate the value of making better decisions on a daily basis. Almost every habit that we have - good or bad, is the result of many small decisions over time.

How easily we forget this when we want to make changes. So often we convince ourselves that we can and should be like Steve Jobs – that change is only meaningful if there is some large, immediately visible outcome associated with it. Whether it is losing weight, building a business, or making a sale, we often put pressure on ourselves and our people to make some earth-shattering improvement that will change our world for the better as if in a single instant.

***"Marginal gains could just change our world"***

## MARGINAL GAIN (CONT.)

Meanwhile, improving by just 1 percent isn't notable - it isn't even *noticeable*. In fact it's frequently plain boring - and therefore it's more than often completely overlooked. But it can be just as meaningful and powerful. It also comes with way less risk – and cost.

Unfortunately, the same pattern also works in reverse. When we find ourselves stuck with bad habits or poor results, it's usually not because something happened overnight. It's the sum of many small poor choices that we made — a 1 percent decline here and there — made over time, that eventually appears as a major problem. Like 2% revenue conversion.

## **Fig 12. The Simple Maths of Marginal Gain**

$$\begin{array}{rcl} 1\% \text{ better every month} & = & 1.01^{12} = +13\% \\ \\ 1\% \text{ worse every month} & = & 0.99^{12} = -12\% \\ \\ & & \hline \\ & & \textbf{25\%} \end{array}$$

***"It ain't rocket surgery!"***

For any decision, there is basically no discernible difference in outcome between making a choice that is 1% better versus one that is 1% worse. Either way, we won't notice much today. Or tomorrow.

But as time goes on, these small improvements or deteriorations compound until one day we realise we have a very big gap between where we are and where we thought we would be or where we would like to be. In fact there's a huge difference over time between slightly better or worse decisions. Small choices don't make much of a difference at the time, but add up over the long-term.

When things start slipping, even by only small amounts, they frequently go unnoticed because the immediate impacts are often so small they're invisible. But it's the compound effect of keeping on going with those poor decisions, of never realising and taking action to get back on track that causes the biggest problems.

None of us will probably find ourselves in the Tour de France anytime soon, but the concept of aggregating marginal gains are just as enormously powerful in the world of marketing and selling. Most people love to talk about their successes as individual events. We talk about running a great campaign, closing a big sale or building a successful business or winning the Tour de France as if they are events. But the truth is that the truly significant things in revenue creation aren't stand-alone events at all, but rather the sum of all the often unspectacular, seemingly insignificant things we can choose to do 1 percent better or 1 percent worse. Aggregating these marginal gains makes a massive difference. There is immense power and massive revenue gains on offer by harnessing those small wins and slow gains.



# MARGINAL GAIN (CONT.)

## Aggregating Revenue Performance Gains

In 2005 RPMG began exploring the effects aggregated marginal gains could have on corporate revenue generation. In the decade since, 150 organisations from 14 different industries and 4 different continents have proven that it works – to the tune of 24% compounding year-on-year improvements; literally billions of dollars of additional revenue unlocked mostly by small wins and subtle, unspectacular changes.

In 2005 the average corporate revenue pipeline converted 3.7% of sales opportunities into closed sales. By 2017 that figure has declined by 48% to less than 2%. The other way to interpret that statistic is to say that 98% of corporate sales opportunities now fail to turn into sales.

According to this year's Revenue Performance Index, 66% of sales leads fail to turn into appointments or calls, 67% of appointments or calls fail to progress to an offer being made to a customer and a staggering 83% of the offers that are made fail to result in a customer making a purchase. These dismal performance statistics rightly horrify CEO's and Boards. But it is because they are so bad that they offer so much hope – through the power of aggregated marginal gains to deliver exceptional improvements, rapidly.

If 1% fewer leads fail to become appointments, and 1% fewer appointments fail to become offers, and 1% fewer offers fail to become sales, the overall yield of the system improves by 13%. Turn those

1 percents into 2 percents and the system yield increases by 24%. RPMG has been proving this for ten years – and it works.

Unfortunately the negative mirror image to this equation also holds true. One percent declines in those metrics can drive revenue down as easily as improvements can drive them up. The trick as with most things in life is knowing the difference.

## The Bottom Line

In this year's Index, 588 organizations responded, reporting an average end to end revenue conversion of 1.92% (see Fig 2 on page 4). The corresponding rate for RPMG clients across the same period was 213% better - or 6.01%. Respondents head-quartered outside Australia averaged 2.14% conversion.

What do those numbers mean? RPMG clients outperformed their industry peers in revenue terms by a factor of 24% year-on-year. A company operating at the average Australian pipeline conversion metric of 1.92% delivering \$100M in revenue, would convert at 2.38% and create and deliver an additional \$24M in revenue by employing RPMG's Marginal Gain Theory.

For a comparison of revenue conversion metrics by industry segment, turn to Appendix A.

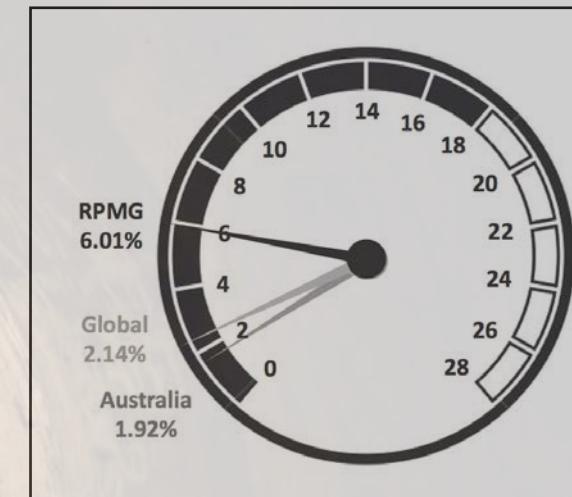


Fig 12. Conversion Differentials – RPMG Clients vs All Respondents

average  
expected  
**increase**  
**revenue**  
expect  
target  
organisations

# ABOUT RPMG

The Revenue Performance Management Group (RPMG) has been helping organisations find and aggregate those small percentage revenue performance gains into sustainable double-digit year-on-year sales productivity and revenue system yield improvements since 2005.

To learn more about how our Revenue Performance Acceleration framework can do the same for your organization, visit our website at [www.rpmgi.com](http://www.rpmgi.com) or email us at [info@rpmgi.com](mailto:info@rpmgi.com).

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