Measuring Up:

9 Benchmarks that Can Help Expansion-Stage Companies Build a Scalable Sales Machine

By the time a technology company reaches the expansion stage, its founding team has, to a certain degree, validated the business's potential. It has identified a problem, found an innovative way to solve it, and established itself as a threat in its market.

The interesting — and sometimes troubling — thing about that development, however, is that it often occurs in lieu of or in spite of any sort of structured or repeatable lead generation and customer acquisition process. In fact, as a startup develops into an expansion-stage company, its sales and marketing organizations are sometimes little more than a ragtag team of founding executives and managers.

Achieving sales success in that kind of ad-libbed environment is impressive, but not sustainable. Unless you are tracking and analyzing critical metrics like call-to-conversation conversion rate, appointment-to-opportunity conversion rate, and pipeline slippage (among many others), it is often difficult to invest in the right people, processes, and activities to drive smart growth. Even if a company is monitoring those metrics, putting them into context without any historical data can make optimizing sales performance exceedingly difficult.

That's where industry benchmarks come in to play.

By using benchmarks to better evaluate and understand sales metrics, expansion-stage companies can develop a much better sense of what to expect when launching a customer acquisition initiative into a new market or building a new sales team. Ultimately, that can help a business manage a number of challenges, including:

- Analyzing sales funnel activity
- Developing a scalable customer acquisition model
- Addressing impediments in new markets
- Building appropriately sized lead generation and sales teams
- Evaluating the performance of existing lead generation and sales teams
- Scaling existing lead generation and sales teams efficiently

"It's hard to improve anything you aren't measuring. OpenView's report provides highly valuable insights about what expansion-stage companies ought to be measuring and how their peer group is performing. The metrics the report identifies are highly valuable for internal benchmarking as well. By measuring the performance gaps between their top revenue contributors and the rest, and asking intelligent questions about the source of variation, sales leaders can quickly identify what the best practices are, where the bottlenecks are, and what to do about them."

Bob Apollo, CEO
Inflexion-Point Strategy Partners

This report's findings are supported by data from a variety of sources, including a round-up of publicly available industry reports, actual sales data from a number of B2B technology companies including many from OpenView's portfolio, and insight from some highly respected sales trainers, consultants, and executives.

The result is nine sales benchmarks that span two important categories: lead generation team performance, and sales team capacity and productivity. After reading this report, you will have a better understanding of the metrics your company needs to track in order to hire, manage, and scale its sales organization effectively, and whether or not you are on pace with industry averages.

LEAD GENERATION TEAM PERFORMANCE BENCHMARKS

When an expansion-stage company decides that it needs to build an outbound lead generation team to support its pipeline creation efforts, there are a number of questions that it must answer to successfully plan for the initiative.

For instance, how many reps should it hire and how many phone calls should each rep be making? What are reasonable expectations for conversion rates from those calls and how many conversations will it take to yield one appointment?

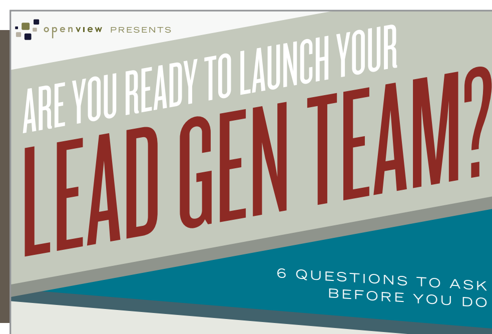
Tracking that information is critical to analyzing an existing lead generation team's performance and to efficiently building that team in the first place. Without that data, it can be very difficult to determine how many reps to hire and what expectations to set for them. This section will explore four benchmarks that should help your growing company find its bearings as it builds or deploys an outbound lead generation team.

1. Call-to-Conversation Conversion Rate: 9%

How the metric is calculated: Divide the total number of dials the lead generation team makes by the number of conversations achieved.

Why it's important: While there is no universal definition of a "conversation," the simplest way to define it relative to your sales goals is as a dialogue between a rep and someone at a prospect company who can provide meaningful information that moves a deal forward. This number is critical because it reveals how effective your reps are getting prospects to pick up the phone.

Check out OpenView's infographic, which asks all of the tough questions you need to answer to find out if you are ready for a lead generation team.



What you should do if you aren't hitting this benchmark: There are a number of tactics that you can try to improve your conversion rate, including:

- Calling at different times of day — People aren't always at their desks, and sometimes they are just too busy to answer the phone. Calling at different times of day can increase your chances of getting someone live.
- Calling back immediately after the initial dial — Sometimes people step away from their desks for a moment, or are in the middle of a conversation and just missed your phone call. If you call back immediately they may be more likely to answer.
- Leveraging e-mail and social channels to get the prospect's attention and schedule a call — Some people do not take calls unless they are expecting them. If that's the case, you need to grab their attention through some other channel to schedule a call.

2. Conversation-to-Appointment Conversion Rate: 23%

How the metric is calculated: Divide the number of qualified appointments scheduled by the number of conversations conducted (for the purpose of this report, an appointment is defined as a meeting between a prospect and a sales rep that an outbound lead generation rep has scheduled).

Why it's important: If your reps' conversations are not converting to appointments at a high enough rate it can be an indication of a number of different things, including the:

- Reps' poor phone prospecting skills — How good are your reps at delivering the message, building rapport, and getting through gatekeepers?
- Effectiveness of your messaging — Is the messaging actually compelling, and does it grab the prospects' attention? Is there a clear call to action?
- Quality of your call list — Are your reps calling the right companies and people?

You will not know which one is the issue until you dive deeper into the data and get on the phones with some of your reps.

What you should do if you aren't hitting this benchmark: Typically, sales teams struggle with this metric because they have trouble with one or more of the issues listed above. The best way to address these issues is to engage in daily and weekly retrospectives to review as many conversations as possible and understand what happened on each one. Did the rep use the right message? Is the company really focusing on its best segment? Did the rep ask the right questions and push hard enough to get an appointment?

3. Appointment-to-Opportunity Conversion Rate: 38%

How the metric is calculated: Divide the number of opportunities created by the number of appointments scheduled.

Why it's important: This metric tends to be a clear indicator of the quality of appointments being created. It can also be used to reverse engineer the number of appointments that your team needs to set to achieve the amount of pipeline required to hit your bookings target. For example, if it takes five appointments to create one opportunity and you need 30 opportunities per quarter to fill the pipeline, then your team needs to generate 150 appointments per quarter.

What you should do if you aren't hitting this benchmark: The appointments may not be converting for a number of reasons. For example, the prospects might not be showing up to the calls, might not be high enough in the organization, or might not be qualified to make a decision. Implement a process for reviewing appointments with the sales reps, especially the ones that do not convert to opportunities. That will give you more detailed feedback as to the reason more of the appointments are not converting. You may also need to adjust your definition of an opportunity. If your definition is too stringent, then your conversion rate will naturally be lower. That may not be a bad thing, of course, but in that case you simply need to adjust your expectations. You might also spend time observing sales reps' appointments to evaluate their ability to qualify an opportunity.

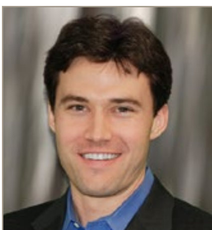
4. Lead-to-Opportunity Conversion Rate: 12%

How the metric is calculated: Divide the number of opportunities created by the total number of leads worked to create them.

Why it's important: This metric reveals the efficiency of your lead generation team relative to converting leads to opportunities, and can serve as a tool for determining how many leads you need to generate during a specific period to achieve the desired results. For instance, if your company's goal is to generate 100 opportunities per month and your lead-to-opportunity conversion rate is 10 percent, you will need to start with at least 1,000 leads per month.

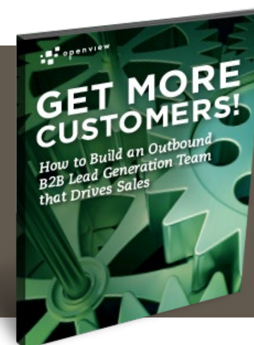
What you should do if you aren't hitting this benchmark: It is most likely an indication that you are targeting the wrong type of company altogether, or the wrong people at the right types of companies. To address those problems, try honing your lead generation efforts to deliver more targeted leads that better match your target customer segment and buyer profiles. Another way to address the problem is to implement a lead nurturing program using a marketing automation platform. Numerous studies show that companies using marketing automation have a much higher lead-to-opportunity conversion rate than companies that were not.

"The data in this report is a great starting point for your own analysis. I encourage you to start by asking yourself 'What am I selling?' and 'Who am I selling to?' The answers to these questions will greatly impact how these metrics change for your unique circumstances. For example, when calling into CIOs, dial-to-conversation ratios can go as low as 1 percent. Be prepared to know that you are outside of the average, understand why, then what you can do to become more efficient and effective."



Steve Richard, Co-Founder & Chief Content Officer, Vorsight

Want to learn how to create a successful outbound lead generation team? Download OpenView's free eBook, "Get More Customers! How to Build an Outbound B2B Lead Generation Team that Drives Sales."



Bigger Isn't Always Better, Smaller Isn't Necessarily Cause for Concern

It's important to remember that whether you are above or below these industry averages isn't necessarily an indicator of success or failure. For instance, if your conversation-to-appointment conversion rate is higher than 23 percent, that could mean that your reps are performing at a very high level. It could also mean that those reps are just setting up meetings with prospects that are not fully qualified and do not turn into real opportunities. Or it could also mean that those reps are not actually getting prospects on the phone, which simply gives them more time to call additional leads regardless of whether or not they are yielding conversations or opportunities.

In other words, these benchmarks are not silver bullets. They are simply reference points that provide context for goal and expectation setting as you develop or deploy your lead generation team.

SALES TEAM CAPACITY AND PRODUCTIVITY BENCHMARKS

As an expansion-stage company's sales team transitions from a few reps without much structure, to a larger team that requires a more formalized process, there are a number of questions that sales leaders must answer to successfully scale their team.

How many open opportunities can a rep realistically handle at any given time? How many sales reps should the company hire initially and in the future? When should the business hire more sales reps, rather than simply raise the quota of existing reps? What is a realistic new business goal for a sales team to hit in a particular quarter or year?

Tracking the five metrics listed below (and comparing your results to the industry benchmarks listed alongside them) will provide a frame of reference that can be used to hire the right number of reps, leverage those reps effectively, and encourage sales activities that ultimately fuel optimal financial performance.

5. Number of Open Opportunities per Sales Rep: 29

How the metric is calculated: Adding up the total number of open opportunities in each sales rep's pipeline at any given point in time.

Why it's important: This number will likely fluctuate over the course of a selling period, but it is important to track. Typically, there are a specific number of deals that one rep can effectively handle before he or she starts losing track of opportunities and deals start slipping through the cracks. Understanding this number is critical to understanding your sales team's capacity. When your pipeline target exceeds

the number of opportunities that your reps can handle it's a good indicator that you may need to hire additional sales reps. This is fairly common at high growth expansion-stage companies with aggressive customer acquisition growth plans. For sales leaders this information is critical in order to build a sales team capable of achieving the plan set forth by the company's leadership.

What you should do if you aren't hitting this benchmark: This metric will be closely tied to your company's average deal size, sales cycle, and deal complexity, so the number listed above does not apply to all expansion-stage technology companies. The more expensive and complex your deals are, the fewer new customer opportunities each rep will be able to manage at any given point in time. The key is to determine the ideal average for your organization and then hire and manage your team based on that number. To determine your ideal average, look internally at your top performers and see how many opportunities they typically carry. You will probably find that your top performers are not the ones carrying the most, or the fewest, opportunities. They have likely reached some balance in between that allows them to focus on closing deals while working earlier stage opportunities through the pipeline. That is a number you can push the rest of your team to get to.

6. Pipeline Coverage: 306%

How the metric is calculated: Take the total amount of pipeline for a given period and divide it by the goal for that period.

Why it's important: Pipeline coverage is a target metric that sales leaders set for their sales and marketing teams that specifies how much pipeline should already exist going into a forecast period. For example, if your goal for a particular period is $1 million and the pipeline coverage target is 300 percent, then the sales and marketing teams should be working hard to generate $3 million worth of pipeline leading into the period. Checking the pipeline coverage before the start of the next period will tell you if you need to take corrective actions to ramp up pipeline generation activities, or if you have enough to work with.

What you should do if you aren't hitting this benchmark: This metric should be the inverse of your opportunity win rate. If your pipeline coverage target is higher than the benchmark above (in this case, higher is below average because it's technically inverse), it may be an indication that you are wasting sales cycles on opportunities that were never really qualified. To combat this, try lowering the pipeline coverage target. Doing so will force reps to better qualify deals before they add them to the pipeline.

7. Opportunity Win Rate on New Customer Deals: 27%

How the metric is calculated: Divide the number of closed/won deals by the total number of closed opportunities for a particular period.

Why it's important: This metric is a good indication of the quality of the opportunities in your pipeline as well as your sales team's ability to qualify and win deals. Ultimately, this should tell you how many deals you will need to close in a given period to hit your target.

What you should do if you aren't hitting this benchmark: If your team's win rate is below this benchmark, you may need to improve your sales team's qualification and/or selling skills. To do that, make sure that you are holding regular pipeline and forecast reviews to vet the deals in the pipeline. When you see soft spots, point them out and take corrective action. Holding regular sales trainings can also improve your reps' selling skills.

8. Pipeline Slippage: 21%

How the metric is calculated: Divide the number of deals that were forecasted to close, but pushed to the next period, by the total number of deals that were forecasted to close.

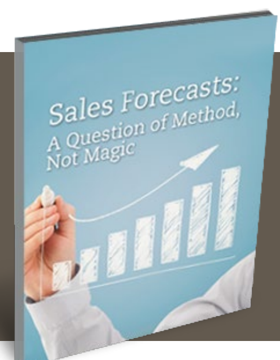
Why it's important: Leading up to the end of any forecast period, a typical sales pipeline will be full of deals that sales reps are forecasting to close. Generally, a certain portion of those deals will be closed-won, some portion of deals will be closed-lost, and the rest will simply push to the next month or quarter and wind up back in the pipeline.

Many sales leaders do not measure this metric, but it is critical to understand the dynamics of your sales funnel and can often reveal trends over time. For instance, if you notice that your pipeline slippage is increasing, it may mean that your reps are holding on to deals that are never going to close. Ultimately, a high slippage rate can create false confidence in your pipeline, leaving you at risk of later discovering that most of that pipeline was fluff.

What you should do if you aren't hitting this benchmark: If your pipeline slippage is higher than the benchmark, it's likely that you have an issue with forecast and pipeline management. Pipeline slippage issues can be caused by a few reps or by systemic issues that span all of your reps. If it's the former case, that is probably an indication that you need to work more with those couple of reps on their forecast and pipeline management. Push your reps to get closure on their opportunities, even if it's just closed for now. They can always open a new opportunity in a few months.

If you are facing a systemic problem, that could be an indication that your regular forecast and pipeline review meetings may not be thorough enough and that it's culturally acceptable to just leave prospects in the pipeline. This is a poor practice that can get sales and marketing teams into a lot of trouble.

Get some practical tips on how to run effective sales forecast and pipeline review meetings, by downloading OpenView's eBook, "Sales Forecasts: A Question of Method, Not Magic."

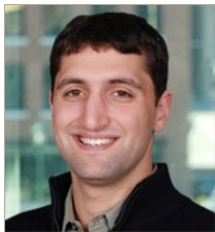


9. Number of New Customer Deals Won per Rep, per Month: 3.7

How the metric is calculated: Take the total number of deals won by all of your reps in a given month and divide it by how many reps you have on your team. This will yield the average number of new customers that a single rep closes each month.

Why it's important: This metric is critical to understanding and analyzing your team's capacity and performance. Once you have established what the right number is for your organization, you should be able to set more accurate quotas and hire the right number of sales reps. For instance, if you need to close 10 new deals per month and your average number of new deals won per rep, per month is 3.7, you need to hire at least three sales reps.

What you should do if you aren't hitting this benchmark: Like the number of open opportunities, this metric is closely tied to your company's average deal size, sales cycle, and deal complexity, so the number listed above does not apply to all expansion-stage technology companies. The more expensive and complex your deals are, the fewer new customers each rep will be able to acquire each month. The key is to determine your ideal average, and then hire and manage your team based on that number. To determine your ideal average, look internally at your top-performing reps and see what they have been able to achieve. That is a number you can push the rest of your team to get to.



"While the sales capacity and productivity metrics highlighted in this report are not what many sales leaders look at from a management perspective, they can tell you a lot about your sales funnel dynamics. Most sales managers know how many opportunities they have in their pipeline, but have no idea how many of them are expected to close or push to the next quarter. As a result, sales teams can wind up with bloated pipelines, inaccurate forecasts, and a general lack of understanding of their operations. Those who understand these metrics bring visibility and foresight into their sales organization."

Ori Yankelev, Sales and Marketing Associate, OpenView Venture Partners

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Building a Sales Framework through Reverse Engineering

At the end of the day, these sales team capacity and productivity benchmarks simply act as reverse mile markers along the route to a predictable sales machine. By establishing your end goal first (e.g., revenue per quarter or annual new customer acquisition targets), you can use benchmarks to go backward and determine what your team needs and what it should be doing to reach that target.

For instance, if you need to close 300 new customers in one quarter to get to your goal and you know that one rep can only generate 15, then you need to hire 20 reps to get to your goal. Likewise, if your goal is to hit $1 million in revenue and your opportunity win rate suggests that you will win just one out of every four opportunities, then you'll need to generate $4 million of pipeline leading into that forecast period.

WANT TO BENCHMARK YOUR ORGANIZATION?

If you are looking for help to benchmark your company against your peers, there are a number firms that specialize in doing so, including Sales Benchmark Index, CSO Insights, Alexander Group, *and* The Miller Heiman Research Institute. *Through their surveys and assessments, they have each generated robust databases of sales metrics that allow companies to benchmark various areas of their sales organization such as compensation, account management, sales team structure, territory alignment, and cost of sales.*

Just as with the lead generation benchmarks discussed earlier in this report, it's important to remember that being higher or lower than the five benchmarks above is not necessarily a good or a bad thing. Ultimately, you will want to determine the benchmarks that are relevant to your business and use those to build your sales model.

CLOSING TIME: BENCHMARKS ARE TOOLS, NOT RULES

Whether you are building lead generation and sales teams from scratch, launching those teams in a new market, or simply looking to improve the performance of your current teams, the benchmarks listed in this report should serve as guideposts for establishing initial expectations and measuring your performance against them.

That being said, the benchmarks included in this report are not absolute determiners of expansion-stage sales success. Ultimately, the benchmarks that make the most sense for your company will depend on a number of factors, including your sales cycle, sales model, product, and market. As such, you shouldn't necessarily attempt to optimize your sales model to match the benchmarks for each of these metrics. In fact, setting internal benchmarks based on the performance of your top reps against each of these metrics as well as their selling skills, product knowledge, and territory management skills can be even more valuable. By comparing the rest of your team to your tops reps you'll have a truly level playing field for the comparison.

The one thing that is absolute, however, is the importance of tracking the nine metrics listed in this report. The calculations for those metrics are universal and measuring them is absolutely critical to successfully scaling an expansion-stage sales organization. Over time, the data yielded from doing so will allow you create your own benchmarks, which will provide ultimate context for your business going forward.

To learn more about how OpenView Venture Partners can help accelerate your success, contact us at (617) 478-7500 or e-mail info@openviewpartners.com.

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NOTE: To create this report, OpenView compiled and analyzed data and insights from an array of sources, including publicly available reports and blogs, a variety of B2B technology companies, and multiples sales and lead generation leaders and consultants:

- Lead Generation Metrics & Compensation Report (The Bridge Group, Inc.)
- SaaS Inside Sales Metrics & Compensation Report (The Bridge Group, Inc.)
- Periodic Table of Inside Sales Metrics (The Bridge Group, Inc.)
- Outbound Index Issue #1 April 2013 (The Bridge Group, Inc. / AG SalesWorks)
- Optimal Sales Metrics for Lead Generation (InsideSales.com Blog)
- 2012 Marketing Benchmarks: Awesome Stats and Essential Guidance to You're your Revenue Performance (Marketo)
- 2011 Inside Sales Metrics Report (Reality Works Group)
- 2011 Sales Development Metrics Report (Reality Works Group)
- Matt Bertuzzi, Marketing Consultant, The Bridge Group, Inc.
- Bob Apollo, CEO, Inflexion Point
- David Meyer, Managing Director, Clarify Solutions
- Simon Blackburn, President, Cedarcone
- Mike Bosworth, Author and Founder, Mike Bosworth Leadership
- Lee Salz, CEO, Sales Architects
- Anneke Seley, Author and Speak, Sales 2.0
- Jay Famico, Analyst, SiriusDecisions