### REVENUE PERFORMANCE MANAGEMENT

*Re-Engineering the Revenue Cycle*

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INTRODUCTION

Every year, The Conference Board’s global survey of CEOs consistently indicates that a top challenge is sustained and steady top-line growth\(^1\). Now, that may seem obvious, but CEOs in fact are focused on a wide range of issues – from shareholder concerns to product innovation to customer experience. What The Conference Board points out is that growth is the issue. Grow fast enough, and all is forgiven. Miss the number and you’re toast.

To stimulate growth, 88% of CEOs feel that the key is getting closer to the customer\(^2\) to build long-term, profitable relationships. And when you carefully examine where companies spend their money to acquire and develop these relationships, you are inevitably drawn to the sales and marketing expense line. In the software industry, for example, sales and marketing expenses are 40% of revenue. This is the largest single expense category, eclipsing even research and development. In industries as diverse as financial services, manufacturing and pharmaceuticals, we see a similar pattern – the expense line for sales and marketing is exceptionally large relative to other investment areas.

Now, combine both thoughts: revenue growth is the top priority for CEOs and sales and marketing are the biggest costs. You might conclude that, given the level of attention and resource commitment, businesses have probably cracked the code on generating revenue.

You’d be wrong. Despite technology innovations of the past decade, revenue remains a black box. Most executives simply don’t know which sales and marketing strategies actually work on a repeatable basis. To illustrate, put yourself in your CEO’s shoes. Ask your sales and marketing heads what the best strategy is for growing the business by 25% next year.

Do you get a consistent answer?

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REVENUE PERFORMANCE MANAGEMENT: THE NEXT FRONTIER OF COMPETITIVE ADVANTAGE

Over the past 10 years, Eloqua has studied the revenue performance of a wide range of companies and has identified a small group that consistently out-perform and out-compete their peers. The pattern we see amongst the fastest growing companies is that they understand how sales and marketing drive revenue. They know, often with great precision, how small changes in sales and marketing activities influence revenue outcomes. To manage revenue growth consistently quarter over quarter, these companies have developed disciplines in sales and marketing that:

- Transcend the traditional silos of sales and marketing teams;
- Profile customer information and behavior accurately;
- Guide the customer through the stages of their buying process with messages delivered at the right time and delivered through the right channel; and
- Can be measured and managed at every stage.

We call this idea Revenue Performance Management (RPM) and we believe that it will transform the front office of businesses of all sizes.

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\(^1\) CEO Challenge 2010, The Conference Board.
\(^2\) 2010 CEO report, “Capitalizing on Complexity” done by the IBM Institute for Business Value
RPM is a strategy for managing a company’s interactions with buyers through the entire purchase process to enable dramatically more predictable, rapid and profitable revenue growth. Using RPM principles, fast growing businesses can identify the drivers and impediments to revenue, rigorously measure them, and then pull the economic levers that will optimize revenue production.

THE BENEFITS OF RPM

Let’s look deeper at the fundamental advantages of re-engineering the sales and marketing funnel.

RPM helps businesses grow faster. In a study tracking the performance of early adopters of RPM principles, Eloqua found that these businesses not only outperform businesses that have just implemented marketing automation, but they significantly outperform the overall market. As you can see from Figure 1 below, this accelerated revenue growth is most pronounced in up-markets but also helps ‘protect’ revenue against market downturns.

RPM helps businesses better forecast long-term revenue. Whether you are private or public, investors want to understand the future. RPM lets executives form a relatively accurate picture of sales much farther into the future than ever before. By observing interactions at the beginning of the buying process – for example, lead quality based on type of content consumed – some businesses are able to determine not only a relatively accurate forecast six quarters ahead, but they can determine where that revenue is going to come from (segment) and for what offers (product mix). They can even adjust manufacturing plans as needed.

RPM helps business optimize resource allocation. By better understanding which initiatives have the most revenue impact at each stage of the revenue cycle, decision makers can begin...
doubling down on the right campaigns and cut those that may feel good but don’t drive the business. For example, foreseeing a potential revenue shortfall two quarters ahead, executives may decide to shift dollars towards ‘quick win’ campaigns that tend to accelerate opportunities but result in smaller average deal sizes.

For example, Platts, the leading global provider of energy information in the physical and futures markets, realized through its RPM strategy that it needed to reduce its demand generation programs, dropping the number of leads sent to sales by 64%. In turn, they were able to improve lead qualification rate from 30% range to more than 70%, and lead to opportunity rates from 23% to 31%. This had a huge impact on revenue, spiking marketing’s contribution rate from 22% to 28%.

**RPM helps businesses to spot revenue ‘outliers’ and make adjustments.** Lacking visibility into the integrated revenue cycle, most businesses rely on CRM data that is ‘self-reported’ by the sales team or measure sales effectiveness simply by quota attainment. This can conceal other important factors in sales effectiveness, like true close rates. By viewing the entire funnel, from initial interest to qualified lead, executives can spot irregularities in the pipeline and better measure sales performance. For example, a sales rep may have a good win rate against opportunities she accepts. She may consistently meet quota. But if she is in a high production territory, her true win rate against qualified leads (her ‘at bats’) may be significantly lower than those of a peer in a territory that yields fewer leads. This data can lead to more optimal allocation of resources by splitting high production territories, investing in sales training or increasing field marketing coverage in ‘weak’ territories.

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**THE EMERGENCE OF RPM**

RPM as an idea and business strategy has blossomed due to three key trends that have taken place over the past decade. Let’s take a look at each of these contributing factors to understand how organizations can be truly successful with RPM:

1. **360 degree view of the customer is now possible.**

   Customer data is everywhere. With the advent of search, social, and web analytics, the opportunities to integrate a wealth of data from disparate customer databases have exploded. At the same time, data integration has significantly improved and the cost of data storage has significantly decreased. Web services and cloud-based integration options have made it relatively simple to assemble data from various sources for more robust analysis and modeling of the purchase process. Furthermore, this allows marketers to start tying customer behavioral data from all online and offline sources with past purchase and customer service history to segment and communicate with the buyer in a personalized fashion previously only dreamed of.

2. **That which can be measured - can be improved.**

   Whether a for-profit business, a non-profit organization, or a government agency – Business Process Improvement has long been an area of interest to drive business results. Most BPI techniques aim to reduce variation and/or waste in processes, so that the desired outcome can be achieved with better utilization of resources. Given that sales and marketing represent the largest expense category for many organizations, it is no surprise that companies have wanted to apply these process improvement techniques to the front office to manage performance and revenue output.
Now that the customer can be profiled in such detail, the entire purchase process can be measured and analyzed. As a result, we have ushered in the era of accountability where marketers have no option but to justify their efforts in terms of revenue contribution. Famously, Motorola, the pioneer of Six Sigma, saved $17B from 1986 to 2004 by successfully applying techniques across the business starting with product design, manufacturing, and supply chain management and then moving into customer service, sales and marketing.

3. Sales and Marketing can scale personalized customer interactions.

The drive for process improvement has led to significant adoption of sales and marketing automation systems to help the business engage with the buyer at the right time, with the right message, via the right channel. For years, marketers have dreamed of getting to true 1-to-1 marketing – the ability to segment customers so specifically that different marketing messages can be sent based on their individual demographic and psychographic characteristics. But without the right technology, such personalization was just not possible. With the arrival of pre-packaged software applications delivered over the web, marketers have jumped on the automation bandwagon. The results are impressive: businesses are employing sales and marketing automation for lead management processing as well as scaling high-touch, personalized communications in event marketing, sales cycle nurturing, and customer development. For the first time, sales and marketing professionals can be relevant and helpful to the buyer -- accelerating their purchase process rather than being an obstacle to overcome.

As a business strategy, RPM requires the right mix of people, process and technology in order to drive real revenue growth. Marketing automation is certainly one enabling technology, but not the only. After all, businesses use all kinds of tools and services to drive revenue – from social media tracking tools to website analytics to sales force automation. But even more important than investing in technology is the development of business practices that are universally accepted and adhered to.

The pattern that emerges among best in class adopters of RPM shows the following four business practices are key to a successful RPM strategy:

1. Modeling the integrated sales and marketing funnel
2. Continuous improvement through industry benchmarking
3. Making data actionable with deep analytics
4. Long-term forecasting to identify future revenue opportunities.

Let’s explore each of these practices in depth...

MODELING THE INTEGRATED SALES AND MARKETING FUNNEL

Many organizations develop a sales process with defined stages fairly early in their evolution. This helps executives get more accurate sales forecasts for the current or next quarter. But what about longer-term forecasting of two, three or four quarters into the future?
An exception is any departure from the business rules that can skew internal or external reporting. For example, a business may want to exclude certain types of inquiries from customers that may not represent a new buying cycle.

If Inquiry type = partner THEN remove from Inquiry count AND remove from Inquiry Stage

To answer these questions, marketing and sales executives must first clearly define what the revenue cycle looks like, including the stage names, qualifications required for each stage, and the business rules that support the proper roles and responsibilities at each stage. They need to agree upon the rules of movement from stage to stage. This can be difficult, especially for the early stages of the buyer’s journey – when buyers first diagnose a need and begin to evaluate potential solutions. That’s because the buyer’s journey is non-linear in nature. Instead, buying cycles are characterized by fits and starts. It may take months for a potential buyer to move beyond that evaluation stage to engage with sales. They may drop out of the process altogether, only to emerge months later at a more advanced stage.

A fundamental pillar of an RPM strategy is having a system that can accurately calculate the volume, progression and velocity of prospects within each of these stages. This system needs to not only be scalable, to properly account for the many thousands of data points indicating movement of buyers along their journey, but it, above all, must be flexible and intelligent. It must handle exceptions – any departure from the business rules that could skew internal or external reporting.

For example, a business may have multiple buying funnels based on the revenue cycle of a specific set of products. As a result, the business may want to exclude partner-sourced buying opportunities from one buying funnel and only include it in their indirect sales funnel. Or, the business may want to exclude certain types of inquiries from customers that may not represent a new buying cycle. Based on the characteristics of the selling model, there may be dozens of exceptions and rules. If the system cannot accommodate these exceptions, the accuracy of the entire forecast model is compromised.

Once the integrated sales and marketing funnel is clearly defined across the business, the organization can begin to understand and act on changing dynamics of the overall revenue cycle in terms of its size (revenue potential), shape (revenue cultivation efficiency), and velocity (time to revenue). Businesses can also begin to more accurately forecast long-term revenue targets and plan for long-term revenue cycle improvements.
CONTINUOUS IMPROVEMENT THROUGH INDUSTRY BENCHMARKING

Modeling the funnel is revealing in that it gives a business their first end-to-end view of the integrated sales and marketing process, showing the impact that any change at one stage in the process can have on revenue potential. But, what is important to measure? How do you know if your performance is good or bad?

Enter benchmarking - the continuous process of comparing performance against prior achievements and industry best practices to improve revenue results. Let’s look first at benchmarking against oneself. Virtually every RPM adopter studied consistently records their performance to compare current metrics against year over year and quarter over quarter benchmarks. At first, this is done by simply taking “snapshots” of their integrated funnel to record its size (revenue potential), shape (revenue conversion efficiency), speed (time to revenue), and cost (dollar invested to closed revenue dollar). These metrics need to be defined and calculated in a way that can be compared consistently across the organization as well as to industry data sets for proper analysis.

With enough consistent data, not only do patterns emerge concerning the health of the revenue cycle, but the impact of best practices and process improvement become evident. Changes in lead scoring may restrict the pipeline but improve conversion later on. Better targeting and segmentation may yield increases in prospect volume. Sales intelligence tools may accelerate the revenue cycle. The organization begins to see how investments in personnel, processes and technology can significantly change revenue performance.

This inevitably leads to questions about the performance targets themselves. What is a healthy conversion rate? How does that differ by business and sales models? How does one company’s revenue cycle compare against that of its peers’ and competitors’? Businesses begin to seek industry data against which they can compare their results in order to learn where to focus improvement and apply best practices employed by their peers.

A key rule of thumb with benchmarking is to not let the quest for perfection obscure the need for consistency. Marketers at Polycom, a billion dollar communication and collaboration equipment company, started by benchmarking simple metrics quarter over quarter to establish patterns in the revenue cycle. “A really important lesson for people who are just beginning the measurement journey is to recognize it won’t be perfect but, even measuring imperfect data, you can plot trends and learn from them. You just need to be doing things consistently for awhile to be able to tell the story. It’s a continuous improvement process,” says Jennifer Pockell-Wilson, senior director of Global Marketing Operations, Polycom.

MAKING DATA ACTIONABLE THROUGH DEEP ANALYTICS

The ultimate goal of RPM is revenue predictability. But to predict revenue accurately, business executives need many views of their revenue cycle. Those views can vary significantly depending on who is consuming the data. Where CFOs may be more interested in understanding sales and marketing costs and return on investment, a CMO may be more focused on the rate of marketing’s contribution to pipeline and revenue.

To facilitate the slicing and dicing of revenue, forward-thinking businesses are starting to invest in data marts and business intelligence applications. These tools allow an analyst to view a single opportunity through many lenses — value, time, and cost — to make necessary adjustments in strategy or tactics to enhance efficiency. But these applications can also be complex to use, requiring specialized skills to manipulate data sets.
A key requirement of RPM then, is an analytics platform that offers the power of business intelligence, with specific application towards the metrics of demand creation and revenue management. Executives will want a set of pre-configured charts and graphs that allow them to monitor, at a glance, the performance of the revenue engine, without having to drill too deeply into the underlying data.

For example, here are seven key Revenue Performance Indicators that executives pay attention to at those businesses adopting an RPM Strategy:

- **Marketable Reach**—a critical indicator into understanding the macro potential of revenue opportunity.
- **Total Weighted Marketing Pipeline** - Based on the probability of conversion, Total Weighted Marketing Pipeline Indicates the value of potential revenue at the corresponding early milestones of the buying process. Lack of enough weighted value at any critical stage is an early warning for potential trouble to come.
- **Total Weighted Marketing and Sales Pipeline** - Based on the probability of conversion, Total Weighted Marketing and Sales Pipeline Indicates the value of potential revenue across all milestones of the buying process. Lack of enough weighted value at any critical stage is an early warning for potential trouble to come.
- **Total Revenue Conversion** - a good indicator of the ability to convert interested buyers to closed revenue. Ideally, this should trend upward overtime. Negative trending indicates leaks and inefficiencies in the sales and marketing process.
- **Buyer Cycle Acceleration** - a good indicator of the ability to quickly move an interested buyer to closed revenue. Negative trending could indicate changes in the buying process and signal the need to make changes in the communication and overall sales and marketing processes. Positive trending is an indicator that investments in messaging and sales and marketing processes are paying off.
- **Days Leads Outstanding** - the amount of time it would take to ‘win’ out your funnel at your current conversion rates. DLO is a good way to determine if there are inefficiencies in your funnel blocking buying cycles from moving to closed revenue.

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**SAMPLE JOURNEY TO RPM**

From working with hundreds of organizations, Eloqua has identified the four phases that every organization experiences during the pursuit of predictable revenue growth. Let’s follow this journey through the experiences of a high-growth software company.

**Phase 1: Sales Pipeline Management**

ACME Software is ramping up its direct sales force and looking to get consistent insights into quarterly pipeline performance.

**People:** After staffing up the field sales force, the VP of Sales determines that he will need a Sales Operations Manager to help define and support a consistent sales execution process.

**Process:** ACME analyzes its recent closed won opportunity data to identify common themes in the purchase process. Then, they define and implement a set of Opportunity Stages to manage the Opportunity with key milestones, expected timeframes, and weighted forecast percentages.

**Technology:** To enable automated workflows and consistent reporting, ACME Software rolls out a sales force automation system.

**Phase 2: Demand Generation and Lead Management**

ACME Software has experienced tremendous growth over the past year and has hired a VP of Marketing to improve market segmentation and brand reputation. After defining a clear go-to-market strategy for the business, the VP of Marketing is ready to turn on a direct marketing machine to drive more qualified leads for the field sales team.

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3 CSO Perspectives: Jennifer Pockell-Wilson, Senior Director of Global Marketing Operations, Polycom
• Cost Per Revenue - helps you understand how cost-effective your sales and marketing campaigns are

LONG-TERM FORECASTING TO IDENTIFY NEW REVENUE OPPORTUNITIES

So how predictable can revenue be? A quick look at the state of revenue forecasting suggests that the current tools (sales force automation) and processes (sales stages) aren’t getting the job done. In fact, only 52% of sales reps meet quota, and companies achieve only 78% of their revenue plans.

What lies at the heart of this problem is that sales forecasting has failed to keep pace with fundamental changes in the buying process. The simple truth is that salespeople have much less influence over buyers than they’ve had in the past. In fact, interaction with sales is one of the final steps in the purchase process and so salespeople miss the opportunity to fundamentally influence the decision making process. Despite this, the sales forecasting process hasn’t fundamentally changed – executives still rely on that first interaction with a salesperson as a means of determining whether the business will meet revenue projections.

Figure 4. RPM improves long term forecasting by accurately modeling deal movement much earlier in the marketing and sales process

By modeling the earlier stages of the marketing and sales funnel, organizations can not only improve forecast accuracy, but extend those forecasts further into the future. The keys to success are data quality, flexibility in the forecast model and a disciplined approach to process through each step in the funnel.

THE JOURNEY TO RPM

As with any business strategy, success with RPM does not happen overnight. RPM requires a cultural commitment to measurement and optimization from the management team to the individual contributors. Companies that choose to embark on this journey progress through four stages:

(Continued from last page)

People: The VP of Marketing quickly determines the need for Campaign Managers and a Marketing Operations function to systematically drive demand.

Process: ACME Software focuses on profiling the online behavior of their prospective buyers to score and prioritize leads for sales as well as drive future targeting based on past behaviors.

Technology: To monitor online behavior and trigger automated campaign and scoring workflows, ACME Software decides to roll out a marketing automation platform that integrates directly with the sales force automation system.

Phase 3: One View of the Truth

ACME’s Software is struggling to understand which sales and marketing initiatives are really driving revenue simply because there is a discrepancy in metrics and data being reported from both the sales and marketing organizations.

People: The VPs of Marketing and Sales come together and incorporate a Revenue Steering Team made up of key sales, marketing, and finance professionals for the purposes of establishing one view of the funnel and to drive sales and marketing efficiencies.

Process: The Revenue Steering Team will focus on defining and modeling integrated sales and marketing funnels for their 3 different business units. And, this team will establish the business KPIs, consistent standards for reporting and dashboards across all sales and marketing resources, and provide a management view of funnel dynamics in terms of value, performance, and effectiveness.

Technology: To effectively model the integrated sales and marketing funnels, ACME Software invests in a business (Continued on next page)
Phase 1: Sales Pipeline Management

The first phase to building and managing the revenue engine simply starts with sales. Sales people are the easiest to tie to revenue growth. Establishing a standard sales process where the entire sales function is consistently managing opportunity development enables the business to get some control and insights into revenue growth. This phase commonly lasts anywhere from three months to a year depending upon the size of the sales organization.

Phase 2: Demand Generation and Lead Management

Once the organization has established effective pipeline management, the next phase is to identify opportunities to automate demand creation, nurturing, and qualification. This is the phase where the organization begins to develop sophistication and expertise in its ability to segment, attract, and engage buyers based on the buyer’s behavior and interests. Furthermore, automation is used to qualify and route leads to the appropriate follow-up resources to accelerate the buyer’s decision-making process. These efforts are managed to determine influence on revenue growth.

Phase 3: One View of the Truth

The organization is ready to define a truly integrated sales and marketing funnel in order to establish a single view of revenue growth. At this stage, the organization is closing the loop from inquiry to opportunity close and monitoring the Value, Performance, and Effectiveness of sales and marketing resources. This requires alignment, collaboration, and dashboard standardization across the entire front office of the business. This phase can occur concurrently or subsequently to the previous phase.

Phase 4: Continuous Optimization

Now that the revenue engine is built, the organization is ready to optimize and scale its performance. This final phase is about committing to process improvement and outcome predictability. That includes moving from internal performance benchmarking on quarterly and yearly basis to regular comparison against industry benchmarks to ensure the organization is meeting performance objectives. The business is now actively engineering the revenue cycle and proactively allocating resources in order to meet forecasts that are several quarters in the future.

ASSESSING YOUR RPM READINESS: KEY QUESTIONS

Developing a core competency in RPM is easier when you know where you are as an organization – and where you want to go. If you are looking to get started with RPM or take your revenue growth to the next state of maturity, start by asking these questions:

1. Do you know why and how customers buy from your organization?
2. Are the sales and marketing teams truly aligned to revenue?
   a. When the heads of sales and marketing disagree on strategy, how easy is it to resolve?
   b. Is marketing incented on revenue targets?
   c. Is there a core team in place made up of sales and marketing professionals to regularly solve problems, improve process, and benchmark performance? If not, do the sales and marketing professionals meet routinely?
3. Could the company culture be described as measurement or results-driven? Able to embrace change? Focused on customer innovation?
4. Does the management team trust the data on the customers and buyers? Is there a governance board with defined data quality processes and policies?

If the answer is no or you are unable to clearly answer any of these questions, your organization has an opportunity to improve its maturity with RPM

CONCLUSION

The history of business is the history of ideas. Leaders that harness the power of these ideas early enjoy a significant advantage. The Scientific Management theory of F.W. Taylor, the Total Quality Management philosophy of W. Edwards Deming and Joseph Duran, and Motorola’s Six Sigma strategy are shining examples of how ideas have led to true business transformation.

Careful analysis of the world’s fastest growing companies has identified a small group of businesses that consistently out-perform their peers through business transformation. It’s not luck that has led to their amazing results. It isn’t due to broad and amorphous differentiators, like “leadership,” “innovation” and “culture” that are frequently cited by various business magazines. The truth is far more specific.

These businesses have proven out their own powerful business idea – that predictable, rapid and profitable revenue growth is formulaic. Though their businesses may differ, their approach to managing the revenue cycle is remarkably consistent. Each has invested in the people, process and technology to:

- Analyze, model and forecast the movement of revenue through an integrated marketing and sales funnel.
- Implement and adhere to a standardized methodology for the adoption of best practices at each revenue stage.
- Consistently benchmark performance to optimize results.

This is RPM – an idea with its own potential to transform business as we know it today. The pioneers have created a new science of growth by running a high-performance sales and marketing engine that uses data to drive decision-making.

Now, a new generation of business leaders needs to follow the path to predictable revenue.

ABOUT ELOQUA

Eloqua helps clients dramatically accelerate revenue growth through Revenue Performance Management. Eloqua provides powerful business insight to inform marketing and sales decisions today that drive revenue growth tomorrow. The company’s mission is to make its customers the fastest growing companies on Earth. Thousands of sales and marketing professionals rely on the marketing automation power of Eloqua to improve demand generation and lead management while driving more qualified leads. Eloqua’s customers include Adobe, AON, Dow Jones, ADP, Fidelity, Polycom, and National Instruments. The company is headquartered in Vienna, Virginia, with offices in Toronto, London, Singapore and throughout North America. For more information, visit www.eloqua.com, subscribe to the It’s All About Revenue blog, call 866-327-8764, or email demand@eloqua.com.