"Effective leadership is not about making speeches or being liked; leadership is defined by results not attributes."

Peter Drucker

(Nov 19, 1909-Nov 11, 2005)

DRIVING THE QUARTER

In many organizations, the amount of revenue generated is the single most important and emotionally engaging indicator of corporate health. Whether or not revenue should be the most important metric for a company is easy to debate philosophically, but for Sales Executives this discussion is a total waste of time. If you can forecast well, hit your numbers and grow revenue, life is good. If you can't, being a Sales Executive is not the career for you.

If you ever sit with a Sales Executive after a missed quarter, you'll hear a combination of reasons why the revenue for the quarter was below target. The reasons are either external (the customer has no need for our products) or internal (we can't make what the customer wants).

The purpose of this chapter is to provide a structured process for forecasting and driving the production of revenue. Specifically, for any given quarter, you will have a clear view of revenue status and the actions needed to drive the organization to meet or exceed the target.

A lot rides on calling the current quarter right since revenue growth is the engine that drives the company. In addition, your commitments are represented to outside stakeholders such as your Board and the investment community.

In a business with a large number of customers, where no one customer represents more than 1% to 2% of revenue, the customer changes throughout the quarter usually "wash each other out", i.e., they often don't move the overall revenue number. But when dealing with Major Accounts, where revenue is tied up in a few customers, one phone call can tank your quarter.

When your overall market slumps, you'll get several of these calls, and revenue will go into free fall. All hands conference calls will be launched; planes and trains will be boarded to beg for business culminating in a white-knuckle ride to close out the quarter.

Conversely, when an industry is red-hot, you'll be scrambling to meet the needs of the customer. Companies that can best execute in uncertainty and chaos will gain market share and increase profitability. Whether your company gains or loses in turbulent times, the responsibility to organize and mobilize the company and get results will fall on upon your shoulders as the Sales Executive.

With this process as presented below, you will manage the chaos inherent in a crisis situation, and gain market share, because you will always have a high confidence view of revenue and will be driving actions to achieve the target.

This process requires that all the key stakeholders (Sales, Marketing and Operations) understand their current quarter business at a very detailed (usually line item) level. There is just no other way to get control.

It is a big effort initially, but once everyone is on top of their business you only have to manage the changes to stay in control.

In our example we will assume a portfolio of products managed by multiple Marketing staff, a sales team serving a number of customers and an operational group delivering the products.

Key Point: *Managing revenue to expectations is the single most important thing a Sales Executive does and is critical to the company.*

PROCESS OVERVIEW

The process centers around creation and judgment of the Revenue File, which builds a current picture of revenue vertically by line item and horizontally by breaking the total for each line item into its elements of shipments, backlog, forecast bookings, etc. (see Figure 1).

The Revenue File is at the center of a Review Meeting. The meeting is attended by all with information needed to build a high confidence view of revenue and whose actions are needed to drive gaps to the revenue target.

The meeting is chaired by a member of the Executive Team (you as the Sales Executive are an excellent candidate), who generates the "positive tension" to bring out the best in the team. The Process Owner actively moderates the meeting, with each product line discussion being led by the Marketing team member for that product line.

Key Point: *A successful implementation of this process requires personal commitment from both an executive sponsor and the assignment of a senior resource to own and drive the program.*

Team members leave the Review Meeting aligned on the numbers and any actions they have to close prior to the next Review Meeting.

Management can learn a lot by watching the team in action. It is an opportunity to teach members of the Marketing team how to organize across functional boundaries and drive the team. It provides a great insight into how effective Sales and Operations are at adapting to business conditions to produce maximum revenue results.

In a fast paced business with short product lead-times, i.e., most technology companies, a weekly review cycle is appropriate. More stable businesses may be comfortable on a bi-weekly cycle, moving to weekly reviews in the last month of the quarter.

THE PROCESS OWNER

A Process Owner must be assigned the task of preparing the baseline numbers, actively moderating the Review Meeting and publishing an updated file with action items resulting from the meeting.

I've used the term "actively moderating" because the role requires more than just seeing that these particular trains run on time. In addition, the Process Owner must jealously safeguard the integrity of the process and challenge the team to deliver a good product.

So, beyond having excellent data management capability and good project management skills, the Process Owner needs to be tenacious, have a thick skin and a healthy sense of humor. Exceptional energy and courage are also required to drive this process, which can feel like "herding cats" even on a good day.

Likely candidates for the Process Owner are the leader of Sales Operations or a senior member of the Finance team. Give careful consideration to the candidates for this job, as the person who fills this position will make all the difference in the quality of the process.

This position is a great learning experience and career growth opportunity, in that one gets to learn how the various functions of the business interact in the entire book to build to ship to bill process.

In terms of workload, it can range from two days a week to a fulltime job, depending on the size of the portfolio.

Key Point: *Assigning a Process Owner is a "critical hire" requiring a wide range of skills, a lot of energy and a big dose of courage.*

PREPARATION OF THE REVENUE FILE

The process revolves around the revenue file, which details the current status of revenue relative to target. A general version of the template is shown below in Figure 1.

Figure 1 is a basic view, breaking out shipments, backlog and "turns" bookings. If there are other significant sources of revenue, such as strategic inventory programs or unscheduled backlog, additional columns must be added to complete the picture.

Key Point: *Building the correct revenue template for your business is a matter of starting with shipments and, moving left to right, thinking through all of the additional components that complete the view of revenue.*

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Customer	Product Family	SHIPMENTS $	Comm Backlog $	Comm Rev $	At Risk Rev $ (-)	Forecast $	Unbkd FCST $	% of Bkng/Shp	Mktg Adj. FCST $	Upside to Total $	TOTAL PERIOD $	Potential Upside $'s	Opportunity Value $'s	Action	Action Owner
Cust A	Prod Name	2,000	1,200	3,200	100	4,000	900	80%	3,820	200	4,020	300	4,320	Book Order	John D
Cust B	Prod Name	1,000	600	1,600	-	2,500	900	70%	2,230	-	2,230	-	2,230	-	-
Cust C	Prod Name	1,500	1,300	2,800	50	3,500	750	90%	3,450	100	3,550	100	3,650	Close Qual	Mary W
	Prod Line A Tot	4,500	3,100	7,600	150	10,000	2,550		9,500	300	9,800	400	10,200		
Cust D	Prod Name	4,000	2,400	6,400	100	8,000	3,400	80%	9,020	200	9,220	300	9,520	Book Order	John D
Cust E	Prod Name	1,000	600	1,600	-	2,500	900	70%	2,230	-	2,230	-	2,230	-	-
Cust F	Prod Name	3,000	2,600	5,600	50	7,000	2,900	90%	8,160	100	8,260	100	8,360	Close Qual	Mary W
	Prod Line B Tot	8,000	5,600	13,600	150	17,500	7,200		19,410	300	19,710	400	20,110		
	Prod Family Tot	12,500	8,700	21,200	300	27,500	9,750		28,910	600	29,510	800	30,310		

Figure 1. Example of how to build Revenue from its components, moving from right to left.

You'll recall from the previous chapter that our example company recognized the Marketing function as the owner of revenue, so consistent with that, worksheets in this process are organized by product rather than by customer.

Column Definitions:

A) Customer Name

B) Product Name: Note that the column header is named Product Family. Based on how the company views the portfolio, each worksheet could represent a Product Line or a Product Family made up of a few Product Lines.

C) Shipments to Date

D) Backlog committed to ship by Operations

E) Sum of Columns (C) and (D) equaling Committed Revenue, meaning the business is either shipped, or booked and operations has committed to ship.

F) Committed Revenue currently viewed as "at risk". Examples could be breaking news on a production problem or a demand issue. How much revenue to consider "at risk" is a judgment call.
Throughout this chapter, any number that involves judgment will be called "judged". Care should be taken to always make clear what person or function is making that judgment. In this example, the "at risk" revenue for a product line is judged by Marketing.

G) Total Revenue Forecast for the Quarter taken from the company's current Forecast.

H) Turns Revenue, i.e., revenue that must still be booked **and** shipped or "turned" in the quarter. This is calculated by subtracting Committed Revenue (F) from Total Forecast (G).

I) Probability of Booking and Shipping or "turning" in the quarter. Percentage judged by Marketing.

J) Marketing adjusted forecast. This is the number that Marketing feels is an accurate view today, assuming team members follow through on currently identified actions.

The value is a calculation of Committed Revenue (E) minus Revenue at Risk (F) plus remaining bookings forecasted to "turn" in the quarter. "Turns" bookings are calculated by multiplying Unbooked Forecast (H) by Probability of Booking/Shipping (I).

K) Upside to Total $'s. If the team finds additional high confidence revenue between the time the file is distributed to Marketing for review and the end of the Review Meeting, those dollars are included here. These are usually additional "turns" bookings. This number is judged by Marketing.

L) Total Quarter Revenue. This is the best prediction from Marketing of where the quarter will close for that line item. It is a calculation of Committed Revenue (E) minus "At Risk" Revenue (F) and any expected turns bookings (calculated by column I) plus any Upsides (J).

M) Potential Upsides. Any additional upsides captured by the sales team. If these are judged by Marketing to be solid enough to add to Total Quarter Revenue, these $'s will move to Upsides (J) or be seen as an increased "turns" booking probability (column I).

N) Possible Revenue. Total possible revenue as calculated by summing columns (L and M).

O) Actions needed to drive Possible Revenue (N). Captured by the Process Owner during the Review Meeting.

P) Name of Action Item owner.

The yellow columns contain baseline values inserted by the Process Owner during preparation, such as Shipments to Date and calculated values such as Total Quarter View. The columns in green are those judged by Marketing and the columns in blue are updated by Sales for review during the call.

PREPARATION FOR THE REVIEW MEETING

Initially, the Process Owner loads fresh shipments/backlog data from the system (yellow columns) into the worksheets. Marketing adjustments and sales inputs from the previous cycle are preserved, which will calculate new values for Total Quarter Revenue (L) and Possible Revenue (N). The Process Owner then publishes the file to Marketing for review.

Marketing, in collaboration with Sales and Operations, reviews the file and judges all columns identified with green headings in Figure 1. Marketing team members submit their judged files back to the Process Owner for consolidation and distribution.

Figure 2 shows a suggested timeline for preparing the file assuming a weekly cycle in working days.

Day -4	Day -3	Day -2	Day -1	Day 0
Process Owner to Marketing	Marketing Review	to Process Owner for Consolidation	Distributed to Attendees	Review Mtg

Figure 2. Suggested timeline for a review cycle starting with the Revenue File going to Marketing for review and completing with the Review Meeting

These are tight time lines, but keeping the cycle compressed ensures that the team is working with fresh baseline data.

The Process Owner, with the support of the entire executive staff, should require that deadlines be respected. This is particularly important if there are multiple Marketing team members judging the worksheets.

If a deadline for returning a judged file is missed, the tardy team member is working with old data, resulting in a largely pointless Review Meeting. Hold the team to the deadlines, make poor performance an uncomfortable experience and the good performers won't miss more than once.

Key Point: *Holding the team to deadlines as you move through the cycle is critical to keep the process crisp. You will be challenged early, so make sure to hold people accountable.*

PREPARING FOR THE REVIEW MEETING

All participants at the Review Meeting must give the Revenue File a careful review prior to the call. The Review Meeting is a very fast paced affair so you need to come prepared with concerns, disconnects and opportunities that came to light during your preparation.

As an aid for everyone's preparation, the Process Owner can create summary worksheets (Excel Pivot Tables) from the Revenue File. Examples include slicing totals by Customer or by Product Line, building lists for required Turns bookings or Possible Upsides sorted High to Low.

My preference is to review the file starting with the largest customer and identify meaningful changes. The 80/20 rule comes into play in a big way. Review the changes, starting with your largest customers and a simple story will jump out at you.

Be sure to think through how you want to review the data, and work with the Process Owner to incorporate summary worksheets to support preparation for the Review Meeting.

THE REVIEW MEETING

The Process Owner moderates the meeting. Communication ports are opened and the meeting begins on time.

The Process Owner provides an overview of significant issues observed since the last Review Meeting to provide context. The moderator then rotates through each Marketing team member to review their product line(s). For the sake of efficiency, a formal rotation can be established so that each Marketing team member joins the meeting around the expected time to review their business.

Opportunities for upsides should be explored. Disconnects are resolved and any changes to the numbers are captured by the Process Owner along with any action items.

The flow of the discussion moves line item by line item, generally moving left to right along Figure 1 and stopping to discuss any number that requires action and commitment to close a gap or capture an upside.

There is not time to review every line item, and Marketing team members should focus on those few larger line items that require action and represent a gap to target that needs to be closed or an upside that can be captured.

Ideally, the Marketing, Operations and Sales teams are aligned on revenue at the end of the Review Meeting. If there are deadlocked items, Marketing breaks ties during the meeting in terms of what is published. If needed, deadlocked items can be worked offline.

Any substantial changes from the previous week should be challenged to make sure they don't reflect panic on the downside or a lack of rigor in assumptions on the upside. Any late breaking operations or demand issues need to be discussed and factored into the number.

Inventory available for sale should be highlighted and the Sales team challenged to move it. Any possible opportunities are added to the Possible Upsides column (M). The Sales team then takes the action to close the actions during the week so those dollars move into the upsides column (K) or better yet the Backlog column (D) for the next review cycle.

Key Point: *The Executive Sponsor and Process Owner work together to keep the call moving forward, capturing actions rather than allowing discussion around details and keeping the focus on the larger "80/20" line items.*

It is good practice to ask each member of the Marketing team their view of "the range", i.e., the high, expected and low numbers for that product line. Adding these ranges up at the end of the call is a useful benchmark to your gut about the risk in the Total Quarter Revenue number (column L).

The length of the meeting depends on how many product lines need to be reviewed, but ideally the call runs for about an hour, perhaps a little longer. If substantially more time is required, consider breaking the Review Meeting into two calls.

It is likely that you will find calls taking longer at the beginning of the quarter when the numbers carry more risk and the team is getting organized around them. The calls should tighten and take a little less time as you move toward quarter end.

After the call is closed, the Process Owner cleans up the numbers, documents action items generated during the call, and publishes a final file to all attendees.

Managed properly, everyone comes away from the call aligned on the number for the quarter with a range top and bottom. Each member also understands the action items they must close prior to the next Review Meeting to close on the target.

Key Point: *Given the tight cycle (usually weekly) it is important not only that the call is crisp and focused, but also that the Process Owner publishes the updated Revenue File the same day.*

THE ART OF DRIVING THE REVIEW MEETING

Assuming the Sales Executive chairs the call, they play the critical role of setting the tone and driving the meeting forward. The Review Meeting will set the standard for how you expect your team to drive themselves and the company.

Consider the following when preparing to run a meeting:

*Focus on the 80/20 rule. The only way to keep the call on track is to keep the discussion focused on high value line items, particularly those that experienced change during the week.

*Estimates should always be what the person feels is most likely. It's the answer to the question, "if you had to put $1000 of your own money on this number, what number would you pick?"

*Avoid rat holes. Help the Process Owner keep the call moving forward. When the call dives into an issue, take an action and move on.

*Be aggressive, particularly when it comes to finding creative ways to make up gaps, move unsold inventory, solve operations problems, etc. Do not force people to sign up to numbers or actions they don't believe in. It is much better to start with numbers/actions the team believes are reasonable, execute on those actions and then work on the next set of actions to improve the revenue view.

You must be aggressive calling out poor preparation or a lack of urgency.

In preparation for a particular Review Meeting, I noticed that our largest customer had dropped two of their high volume line items by almost a third from the previous week, firmly placing the quarter into the disaster category.

During the Review Meeting it was mentioned almost casually that the reason for the decline was that they "didn't need it anymore." I had to single out that sales person on the call and send them packing to build a recovery plan, which in this case required an emergency customer visit. The situation provided an opportunity to build a better plan and send a signal to the team that when you bring bad news you must have the details and a recovery plan already set in motion.

Said another way, the tone of the Review Meeting needs to be characterized by "positive tension." Facts, ideas and potential opportunities to improve the number need to be aggressively challenged but in a constructive way.

Keep the focus on problems and opportunities, not on the people. Issues with team members should be saved for face-to-face conversations at a later time.

*Contribute: make sure to personally bring ideas for additional upsides to the table. You're not there to keep score but to improve the plan and to challenge and commit the team.

*Have a path to the target. Every call should end with a path to hitting the target. If the number has collapsed, it may be a high-risk plan. But there should still be opportunities in column (M) that can be worked to get back to the target. You need to set the expectation with the team that they are never off the hook to hit the revenue target.

The test of whether an action item should be taken is whether it is a reasonable request from a business perspective, even if it is difficult or awkward to approach the customer.

For example, a customer may not be contractually required to take a particular shipment, but if the company can call in a "marker" from a past favor, then you should try to make it happen. Even if they don't agree to take the shipment, they'll owe you one next time.

If a member of your Sales team gives you push back, the old line "if the products sold themselves, the company wouldn't need us" is a good start (and is true).

Key Point: *The key to a good Revenue Call is that everyone comes prepared knowing their business and with ideas on how to close any gaps to the revenue target. Make sure to call out team members who are not prepared.*

ISSUES TO WATCH

Given this meeting centers around revenue, the beating heart of the business, it is crucial that this process is consistently effective as it is your best option to keep the organization aligned and knocking down actions to hit the revenue target.

However, given its cross-functional nature and all the moving pieces, there is a lot that can go wrong. Below are issues that can render the process ineffective and put you at risk of losing a clear view of your revenue.

- Care should be taken in choosing the day for the Review Meeting. Friday and Monday are obvious choices. If the file goes out on a Friday, everyone can review it over the weekend and be prepared for Monday. On the other hand, Monday is typically a packed day for many companies, and having the meeting on Friday allows for a less distracted and more focused meeting.
- The VP of Sales and the VP of Operations should attend the review and be active in driving their teams. Other Executives, particularly the CFO and CEO are welcome to attend the meeting, but they should be careful not to disrupt the tenor and flow of the meeting.
- If a Senior Executive wants to weigh in during the call in a significant way, this should be coordinated with the Process Owner to make sure that the meeting stays on track.
- Challenge the team, work issues, make people really focus on performance. Be relentless, but also be relentlessly fair. Being tough does not mean being senselessly brutal: you need people working creatively, not shutting down due to fear.
- Never override the number the team believes in, otherwise the numbers, *and the process itself*, lose all credibility. If the Executive team wants to challenge the output of the Review Meeting, this is perfectly appropriate but it should be done in a separate meeting.
- This process can scale from a startup to a Fortune 50 company. As the number of product lines and summary reports expand, Excel becomes an increasingly unwieldy platform. In this case, it is straightforward to migrate the process to a custom application bolted to the corporate MRP system.

You'll come up the learning curve a lot faster if you, as the Sales Executive, chair a meeting with the Process Owner and a few other team members from the early Review Meetings to generate lessons learned and drive improvement.

The process outlined in this chapter cuts across functions, is driven to tight timelines and requires that the Review Meetings be driven with the right tone and approach. That's a lot of things to get right. To that end, feel free to contact me and I can bring the resources of InSite Partners to bear on ensuring the success of your implementation.

With this process running and modified to your needs, you will have an aligned team where everyone understands the current status of revenue and the actions required to close the gap between the current view and that quarter's target.

Once you have a firm grip on the current quarter, you'll need to shift to a longer forecast horizon, with very different objectives, and it's to that task that we now turn.