

# key performance indicators for new business development

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This article explains how to build a business development scorecard that allows for accurate assessments and predictions of success. It explains the roles of leading/lagging indicators, provides examples of each, and identifies common measurement mistakes to avoid. It finishes by offering specific tips to identify your own indicators for use at your firm.

Most agencies employ measured and well-managed approaches to the functions of accounting and information technology. Some employ such systematic thinking to account services and even creative services. But few functions within the agency are as fuzzy, unsystematic, and elusive of practical measurement and management approaches as business development. This needn't be.

## If It Can Be Measured, It Can Be Managed

A common question regarding the business development function is: How do we know

if we are doing well? The easy answer is to wait until the end of the year and look at the numbers, but the question implies more immediacy: How do we know what today's activity will yield in results tomorrow, or more specifically: Is what we're doing today, enough?

Managing business development for success begins with measuring it, and while there are no measurements that will accurately predict success across all agencies, there is a fairly simple prescription for understanding the variables specific to your firm, and for using your own historical data to build a

predictive model specific to your unique circumstances.

## Key Performance Indicators

Key Performance Indicators (hereafter KPIs) are measurements that reflect the health of an organization, and for our specific purposes, the health of its business development system. They connect the firm's goals and strategies to its activities and outcomes, keeping management informed of overall health: past, current, and future. Chronologically, KPIs are broken into two different types: leading indicators and lagging indicators.

**Lagging KPIs** are historical measurements that look back to determine if success was achieved. Financial measures are lagging indicators: they prove how well the firm has performed. Agency Gross Income (AGI) from new clients is a lagging indicator of business development success.

**Leading KPIs** are activity or task-based metrics that are measured early and can be influenced to affect future outcomes. Leading indicators have the predictive power of success. They are measured today to determine if goals will be met tomorrow, and they are measured early and often enough to allow for changes that can impact the predicted outcomes.

Closing opportunities is an example of a leading indicator of business development success. For instance, let's say that ABC Agency has determined that a target value of four clos-

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## A NOTE FROM THE EDITOR

**H**ow many of us held onto a new business program—or even employee—too long, in retrospect? I know I did one time.

You've invested so much that you hate to start over. But you aren't really sure if what you are doing is work-

ing. Well, you know it's not working now, but you aren't sure about later.

Maybe it just needs a little more time? Or maybe if I wait longer, nothing will change and I'll have



lost all that time?

This second guessing never ends, and the only solution is to "objectify your dissent" with some indicators that take some of the emotion out of it. ●

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performance indicators...

ing opportunities at any given time will accurately predict that its business development goals are met at year end. If over the last two months the firm has never had more than two closing opportunities at a time, then the warning is clear, but it is not too late to take action to drive that indicator back to, or above, its target value. Management merely needs to know what action to take.

### Other Measurements: Metrics that Contribute to Leading Indicators

A lagging business development indicator such as a new client obtained is a pure result

or outcome. A leading indicator such as the previously mentioned closing opportunity is both an outcome and an activity. Some leading indicators are pure activities, but usually leading indicators are the sum or reflection of such activities, and some of these activities merit measurement as well.

In the example of ABC Agency above, one of the key metrics that drives the KPI of closing opportunities might be telephone introductions (specifically the volume of outbound dials). Underperformance on the KPI points to either a slow-down in dials, personnel performance issues (the new person in the business development position may have motivation or ability challenges), or

other variables surrounding the activity. To rectify the poor performance as portended by the low KPI value, the firm could choose to increase the number of dials.

While some of these indicators and metrics will translate to most firms, their target values will differ substantially across firms. There are few absolutes. It bears repeating: the key is to find the indicators that work for your firm, and determine what target values will correlate to achievement of your business development goals. We will look further at other valid indicators, but first let's examine three activities that should not be used as KPIs.

### Measuring the Wrong Things: Written Proposals

Proposals are often seen as a step in the sales cycle, when in reality they are a tool and not a step. Further, they are a grossly overused and misused tool. I wrote in the August, 2004 issue (*Five Rules for Presenting Proposals*) that most written proposals need never exist. Their purpose is confused with that of contracts: the proposal should be the words that come out of your mouth, and the contract is the written document. The contract is simple; it does not

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attempt to do what the individual should have already done (close the deal). It is merely one in a series of commitments; one that is preceded by a verbal commitment, and followed by a financial commitment. It is a place to sign.

Contracts signed are a valid lagging indicator of business development success. A signed contract means a new assignment secured.

Proposals written are merely an indicator of poor sales process. (Go ahead and measure written proposals, but your target metric should be zero.) In my observation, the largest, most widely shared agency business development problem is the over-application of resources against early-stage buyers—buyers who have not yet formed the intent to act. At the top of the list of wasted resources is the writing of proposals for people who are not buying. This significant problem of lost time, opportunity, and momentum will only be exacerbated should written proposals be used as a KPI because there will be even more pressure to increase their number.

### **Measuring the Wrong Things: Meetings**

Many agencies measure business development activity and implied future success based on a loose metric of meetings with prospective clients. But any agency principal who has ever hired an out-sourced sales firm to get meetings has undoubtedly learned three important lessons on the subject.

First, getting meetings is not difficult.

Second, the number of meetings obtained is no accurate indicator of business development success to come.

Third, most meetings are expensive!

People respond to performance measurement of any kind, and to varying degrees will take inappropriate action to positively influence a performance outcome. If you measure meetings, you will get more meetings: at a significant cost.

The easiest way to increase your volume of meetings is to meet with people that you really should not: people whose firms are outside of your target market, who are not decision makers, who cannot meet your minimum level of fee engagement, or who are early-stage buyers with no intent to act and little likelihood of forming that intent anytime soon.

If you target meetings as an indicator and begin to measure them you will find the quality of those meetings decreases at least proportionally with the increase in their quantity. The net effect is that your focus on getting more meetings will be significantly detrimental to your business development success for the above reasons.

### **Measuring the Wrong Things: Weighted Sales Forecasts**

A weighted sales forecast is the value of an opportunity multiplied by the likelihood (percentage) that the opportunity will be converted into an engagement. A \$100,000 opportunity deemed to have a 70% chance of closing would be entered into the weighted

forecast as \$70,000 of projected revenue.

Sales figures are lagging indicators, measured after the fact. Attempting to project a lagging indicator is like trying to guess on Monday what

**The biggest business development problem is concentrating on early-stage buyers who have not yet formed the intent to act.**

Tuesday will look like from Wednesday. Just because the ultimate historical indicators of your success may be financial ones does not mean that the predictors of future success are, because they certainly are not. Financial indicators are always lagging indicators because they can only be measured after the dollars are in. When making assessments of future success keep your eye on the valid leading indicators because you can impact these! Don't bother trying to predict the future's past. Focus on the activities that you can impact today to ensure that you hit your sales targets tomorrow.

Another challenge with weighted sales forecasts is that they easily allow for overstatement of probable success. In

the formula of dollar value x probability, the forecast can be significantly affected by a slight exaggeration of either factor or by entering volumes of higher value, lower percentage opportunities into the report.

The real value of sales forecasts is that they help measure cash flow. There are tools of “when,” not “what” or “if.” Once the contract is signed the revenue forecast will help you predict when you will be seeing that revenue, not if you will be receiving it.

### **Measuring the Right Things**

When developing a KPI-driven scorecard for your firm, strive to have as few KPIs as possible. When used holistically, to measure the health of the entire organization across all functions and values, your KPIs might number somewhere between five and twenty-five. For the function of business development, two to four should suffice, which means one or two leading indicators and one or two lagging indicators.

There is no more accurate leading indicator than what I previously referred to as closing opportunities, explained now as late-stage opportunities.

### **Measuring the Right Things: Late-Stage Opportunities**

An early-stage opportunity is a buyer who has no intent to act. He may see that he has a need (or he may not) but he has not yet formed the intent to act on that need.

Measuring intent in others is not always easy, but it’s usually possible. Someone who has

formed the intent to solve their problem or capitalize on their opportunity almost always does so with a timeframe in mind, and an event backing up that timeframe. Further, behavioral psychologists will tell you that the timeframe to take action must be within the next six months. Intent to act on something outside of six months is not real intent; it’s wishful thinking.

A late-stage buyer is someone who has a need (further, he acknowledges that your firm is qualified to help him with it) and who has decided to act on that need, and to do so within the next six months. Probing on the timeframe should reveal that it is not arbitrary, but rooted in an upcoming deadline, milestone, or event.

As an example, consider a brand development agency engaged in a discussion with a prospective client about the prospect’s need to re-brand the company. When asked about his timeframe he explains that he would need to begin within sixty days in order to get final identity approval at the board meeting in September. He has a need that matches the agency’s supply (re-brand) and a timeframe that dictates he take action well within six months (sixty days) backed up by an event (board meeting). With the right answers to some more nuanced probing (e.g.: “Is the rest of senior management as committed to doing this as you are?” “What happens if you don’t meet your deadline?”) the agency should be confident in labeling this a late-stage opportunity.

*The ability to make the distinction between an early-stage opportunity and a late-stage one is the key to improved business development measurement and management.* Most agencies quantify their new business opportunities in more subjective terms of hot/warm/cold or suspect/prospect, but the lack of meaningful criteria for these labels impairs their predictive ability. By separating early-stage opportunities from late-stage you will know who is closest to buying and therefore who deserves the fullest business development resources of the firm, in turn allowing you to concentrate on the real opportunities.

While late-stage opportunities is a KPI that should translate to most agencies, the target value for this indicator will differ from firm to firm. With time you will find the meaningful number for yours. View your target value for this KPI as a threshold, and not a cumulative figure: your objective is to stay at or above a certain number of late-stage opportunities at any given time. Falling below that number should serve as a warning of sub-target performance ahead.

### **Measuring the Right Things: Lead Generation Metrics**

I mentioned earlier that your one or two leading indicators of business development success are driven by specific activities, many of which merit measurement. These metrics are the activities that you increase or improve to drive your leading indicator back to its target value. These will vary

from agency to agency, and even within one firm they will change and evolve. They are the metrics of lead generation.

**The Ladder of Lead Generation.** There is a hierarchy of lead generation activities that sees the pr/publicity-based activities of speaking and writing at the top, advertising and promotional activities in the middle, and the selling activities of personal introductions and unsolicited enquiries at the bottom. The activities at the top of the lead generation ladder are long term activities that well-positioned expert agencies employ to get prospective clients to seek them out. Those at the bottom are the more immediate activities of reaching out to prospective clients. Strive to climb the ladder over time (and be seen as an expert), but regardless of where you are on the ladder, all your activities of lead generation should be measured. Together they drive the leading indicator of late-stage opportunities.

**Dials/Conversations/Qualifications.** The telephone is the primary tool of business development for many agencies. Even when a firm has climbed to the top of the lead generation ladder (e.g.: the principal has written a book and/or speaks regularly to groups of prospective clients) outbound dials is still a metric worth measuring. Intuitively we all understand the power of the phone: when the business development cupboard is bare, we instinctively start dialing (or we feel guilty about not dialing).

Dials are a driver of a more desirable activity/outcome: con-

versations with decision makers, which in turn drive something even more coveted: qualification of the opportunity as early-stage or late. Enough of these qualifications and you will reach your target value of late-stage opportunities: your leading indicator of business development success. Your own historical data (and some trial and error in the early going) should accurately predict that keeping your late-stage opportunities at or above your target value will see you reaching your business development goal.

**Advertising/Promotion.** Some agencies employ ongoing advertising programs to drive lead generation, while others employ sustained or sporadic mailing programs. These can be measured in terms of insertions, impressions, mailings, or dollars.

**Speaking/Publishing.** Your lead generation strategy is all about driving late-stage opportunities to or above your target value. One recommended strategy is to aim high on the ladder early in the year, setting goals for the longer term, esteemed activities of speaking and publishing, and then top up any shortfall with those activities lower on the ladder, such as advertising, mailing, and dialing. Over time strive to increase the number of top rung activities such as speaking and writing and you will become less dependant on the expensive middle rung activities of paid media, and the labor intensive, to some distasteful, activities of telephone introductions. By simply measuring all of these activities and correlating them

to your late-stage opportunities you will be able to determine how many dials or ads any speech or article will save you.

**Other Measurements.** Website traffic and opt-in lists such as newsletter subscriptions are also activities/outcomes whose measurement should lead you to discern patterns and make connections to your leading indicators. While lead generation activities largely drive qualifying conversations with new, previously unqualified opportunities, your opt-in lists provide valuable measurement on the nurturing of your early-stage opportunities, and ultimately the conversion of early-stage opportunities into late-stage ones.

### **Historical Measurements: Lagging Indicators of Success**

The bulk of this article is devoted to leading indicators and their contributing metrics simply because most firms routinely use lagging indicators effectively. They are the financial metrics of billings, gross revenue, AGI, EBIDTA, new clients engaged, etc.

For the purpose of isolating business development success from delivery or retention success, AGI from new clients is an effective lagging indicator, as is projected AGI from new clients. Number of new clients can be misleading as a lagging indicator unless the agency has a strictly-enforced, meaningful policy on the minimum level of fee engagement for any new client.

To determine the most meaningful lagging indicator of

# beforecast

The idea of using leading indicators in tandem with lagging indicators, financial with non-financial, to provide a more balanced view of the health of organizations was championed by Kaplan and Norton in a Harvard Business Review article, and subsequent book, *The Balanced Scorecard*. Since the article's publication in 1993 the balanced scorecard approach has been heralded as the driver of a new era of management sophistication. Today you can find over 120 management books and as many consulting firms dedicated to the subject. In a recent survey of 6,000 corporations, consulting firm Bain & Company found more than 60% of them employ balanced scorecards and over 80% of them were highly committed to them, seeing them as ongoing effective management tools.

business development success for your firm, simply ask the question, how will we know our business development program was successful when we look back on the year?

## Tips for Building Your Own Scorecard

What follows are a few last pointers to help you build your own scorecard of business development success.

**Begin by Measuring.** Management guru Henry Mintzberg proved years ago that simply measuring activities drives improvement in them, so begin by measuring. In as soon as a couple of months you will begin to correlate your metrics to your leading indicator. Soon after, you will be able to make rudimentary projections about the level of activities required to meet your desired outcomes. More time and measurement brings more information and refinement. Eventually you will have a very tight predictive model, specific to your firm, of what you need to do today to ensure that you meet your busi-

ness development objectives tomorrow. Taken as a whole the task may seem daunting—all this measuring and calculating—but it's really not that complicated, and every urge to make it so should be resisted. Begin simply by measuring and eventually patterns will emerge.

**Improve with Time.** Your initial KPIs may prove over time to be less than perfect, and that's fine. Early in my own business I made the correlation between a certain volume of web traffic in one month and meeting revenue goals in the following month. It served me well for awhile and then it began to change as both my site and business changed.

The shift quickly made me realize that the rudimentary metric of total traffic volume was really masking a more complex indicator of business development success. The point is that my initial rough understanding of the more basic metric was still of value to me, and over time I refined it to make it even more valuable. It was never ineffective—it was just

more effective with more time, understanding, and refinement.

**Tie KPIs to Goals and Strategies.** 'More is better' is not a goal. Set your business development target result, share it with everyone in your firm, then work to determine what target values of your leading indicators will accurately predict achievement of that goal. Measure and manage to a stated objective. Your strategy in reaching that objective is as simple as where on the ladder of lead generation you intend to focus.

**Keep it Simple and Easy.** Resist all urge to add more and more indicators and metrics. Instead, embark on a quest for simplicity. Employees and outsiders should be able to deduce your strategy by looking at your indicators and metrics. If they cannot, then you've over-complicated.

In summary, business development need not be the fuzzy function within an agency. Its various components can be easily measured, and therefore readily managed and improved over time. ●

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