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Revenue Cycle Analytics:

Measuring and Forecasting Marketing's Impact on the Revenue Cycle over Time

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Executive Summary

Marketers know that measuring the impact they have on revenue is an essential part of transforming marketing from a cost center into a revenue generator, yet only 20% of companies say they excel at measuring the business performance of marketing initiatives.

Why the disconnect? Until now, no marketing automation solution has addressed the fundamental measurement problem created by the **time delay between when a marketing investment is made and when it delivers returns**. That's where revenue cycle analytics come in. Revenue cycle analytics is an approach to marketing analytics that creates milestones along the revenue cycle (from when a prospect first enters the buying process and through all the subsequent stages on the path to revenue and beyond), tracks how prospects move through the funnel over time, and creates models that predict future movement. As a result, revenue cycle analytics gives marketers the ability to accurately measure and forecast the effect that marketing has on revenue – and helps marketing earn a seat at the revenue table.

This whitepaper explores the reasons why time makes marketing measurement difficult, introduces the concept of "revenue stages" as a key element to an effective marketing analytics methodology, and discusses how marketers can create highly accountable forecasts that predict the impact they will have on revenue in future periods.

Introduction

Surveys of CMOs and other executives have repeatedly proven that marketers need to measure and demonstrate marketing ROI and the impact marketing programs have on revenue. Consider just a few studies:

- Over half of CMOs say that their top challenge is quantifying and measuring the value of marketing programs and investments. (CMO Council: Marketing Outlook 2008.)
- Three quarters (76%) of B2B marketing professionals agree, or strongly agree, that their "ability to track marketing ROI gives marketing more respect." (Forrester's Q1 2007 B2B Marketing Measurement Online Survey.)
- Almost 40% of organizations with 100+ employees say that implementing a Marketing Performance Measurement program is a top priority at the corporate level, i.e. not just within marketing. (Marketing Performance Advantage report from CMG Partners and Chadwick Martin Bailey, Oct 2009.)
- Two-thirds (65%) of marketers say that CEOs and CFOs are making greater demands than last year for marketing to show a potential return on investment (ROI) as part of securing budget. In addition, 8 in 10 marketers

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(79%) indicate that the need to measure, analyze and report marketing effectiveness was greater in 2009. (Lenskold Group/MarketSphere Marketing ROI and Measurements Study.)

This research clearly indicates that measuring (and forecasting) the impact marketing has on business metrics, such as revenue, is an essential part of transforming marketing from a cost center into an integral part of the revenue machine.

The Role of Time in Accurate Marketing Analytics

Despite this understanding – and the efforts of vendors and consultants to provide solutions – marketers have made little progress towards better marketing analytics. According to the Marketing Performance Advantage report cited above, only 20% of companies believe they excel at measuring the performance of marketing initiatives and only 24% believe they are improving business results based on this information.

Why is there such a discrepancy between the percentage of marketers that want marketing accountability and the number that actually achieve it? There are many reasons, but the most fundamental reason is that, **until now, no marketing analytics solution has effectively understood the deep role that time must play in an accurate marketing analytics solution.**

"Time" influences marketing analytics in many ways. At the most basic level, today's marketing investments may not have a payoff for a long time, and past marketing investments affect current period results. Approaches to measuring marketing ROI that do not properly incorporate time can lead to decisions that are biased towards short-term gains versus building true long-term value.

The more marketing wants to measure true business outcomes like revenue, the harder the problem of time becomes. This problem is true across all industries, but it is especially acute in businesses with considered-purchase products and a long revenue cycle.

Marketing Metrics

Marketing analytics can include hundreds of topics ranging from search engine rankings to customer satisfaction, marketing contribution to pipeline and profit, and more.

At the most basic level, there are fundamentally three kinds of metrics: (1) metrics that marketing uses internally to track how well it is performing, (2) metrics that track marketing's impact on revenue and other business metrics that executives outside of marketing care about, and (3) metrics that provide leading indicators about future performance.

This paper focuses on the metrics that help marketing earn a seat at the revenue table, i.e. the second and third types.

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Introducing Revenue Cycle Analytics

Revenue cycle analytics is a new approach that combines technology with unique methodology and services to make it easy to measure and optimize the revenue cycle and accelerate predictable revenue. By combining rigor and consistency with understandable and easy-to-use tools, revenue cycle analytics helps transform marketing from a cost center into a revenue driver for their organizations.

Revenue cycle analytics incorporates time in three unique ways to deliver more accurate and more actionable marketing analytics:

- An original methodology for modeling the stages of the revenue cycle and measuring how prospects convert through these milestones over time.
- Predictive analytics that calculate future conversions from one stage to another, allowing marketers to estimate the impact marketing will have on future periods.
- A time-series analytics engine that stores historical data for accurate marketing analytics over time.

Revenue Stage Methodology

A methodology that incorporates time is the essential foundation for accurate marketing reporting and analytics.

Traditional sales methodologies, such as SPIN Selling and Miller-Heiman, provide standard benchmarks and best practices for the sales function. These sales methodologies form the foundation for the best sales analytics. However, marketers have not traditionally applied the same level of rigor to modeling their portions of the revenue cycle. This is unfortunate, since without it marketers will never be able to understand the impact their activities have on moving prospects forward.

Why is this? Prospects created today may not turn into revenue for months, or years, down the road. No marketer can wait that long to measure their effectiveness. Marketing professionals need analytics that lets them see performance trends across the funnel, and allows them take action on the insights before it is too late.

That is why defining the stages of the revenue cycle (including how different types of prospects move through the stages over time) is the foundation of revenue cycle analytics. By measuring and reporting on the number of leads and accounts that enter each stage in a given period, it allows marketers to discuss results in a rigorous way that shows how lead generation and lead nurturing activities are affecting every stage of revenue.

Defining the stages of the revenue cycle enables the marketer to measure the quality of any given marketing program at any point in time. It helps the marketer determine which lead generation sources create prospects that convert better and faster down

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the funnel. It also gives marketers insight into the programs that can accelerate the pipeline by tracking which marketing touches influence conversion from stage to stage.

See the Appendix, “The Marketo Revenue Stage Methodology,” for a deeper dive into Marketo’s unique methodology and a description of Marketo’s best-practice template for a revenue stage model.

Benefits Beyond Analytics

A revenue stage model creates a common language that the entire organization can use to measure results, understand the status of any prospective customer, and define the actions that are required from each department. Based on this common language, sales and marketing can better coordinate their activities and ensure alignment throughout the revenue cycle.

A revenue stage model also provides operational benefits that improve lead management processes to let you:

- Customize lead nurturing based on where each prospect is in the cycle and automatically move prospects between nurturing tracks as they move through the funnel.
- Adjust lead scoring rules and sales alerts by stage; example, visiting the pricing page may be an interesting sign for an early stage prospect but expected from a late stage opportunity.
- Trigger campaigns and sales actions as prospects transition from stage to stage.
- Define service level agreements for how long a lead can stay in certain stages and automatically send alerts and trigger campaigns when leads go stale (e.g., reassigning a lead if no sales action is taken within a specific time).

Sample Questions That a Revenue Stage Model Helps Answer

- **Lead Generation:** How many people entered each stage in a given period (e.g. how many new prospects last month, how many marketing qualified leads last week)? Are these trending up or down?
- **Lead Counts:** How many people are in each stage of the pipeline? How many accounts? How does that vary by type of lead? Are the balances going up or down over time?

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- **Conversion:** What is the conversion ratio from stage to stage? Which types of leads have the best conversion rate? Are any conversion rates trending up or down over time?
- **Speed:** What is the average "revenue cycle" time? How does it break down by stage? Do certain types of leads move faster through the pipeline? How are the speeds changing over time?
- **Program Effectiveness**: For each marketing program, how many people responded and what stage are they in now? Which marketing programs help prospects move faster through the funnel?
- **Cost:** What is the cost per lead for each stage? Are these costs going up or down? Do certain types of leads or programs generate lower cost but higher quality leads?

Only an analytic solution that understands movement through each of the revenue stages over time can deliver this kind of insight.

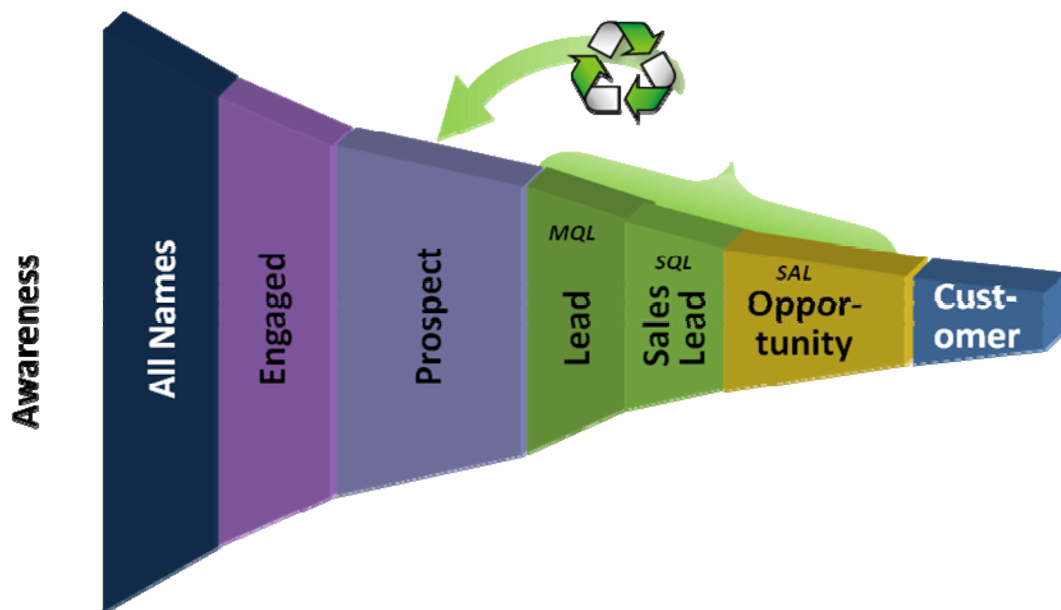

Figure 1: A sample set of revenue stages. See Appendix for details.

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Predictive Analytics to Estimate the Future

Marketing analytics that only look backwards to report on what happened are not sufficient enough to drive marketing's seat at the revenue table. To become a true revenue driver, marketers need to use predictive analytics to estimate the future impact of today's programs and make forecasts about the impact marketing will have on future periods.

By building a deep understanding of how each type of lead moves through the various revenue stages, revenue cycle analytics allows the marketer to predict what stage prospective customers will be in over time.

For example, the chart below on the left shows the number of conversions by day from a hypothetical pool of 10,000 prospects, excluding the first day. The chart on the right shows the cumulative conversions over time.

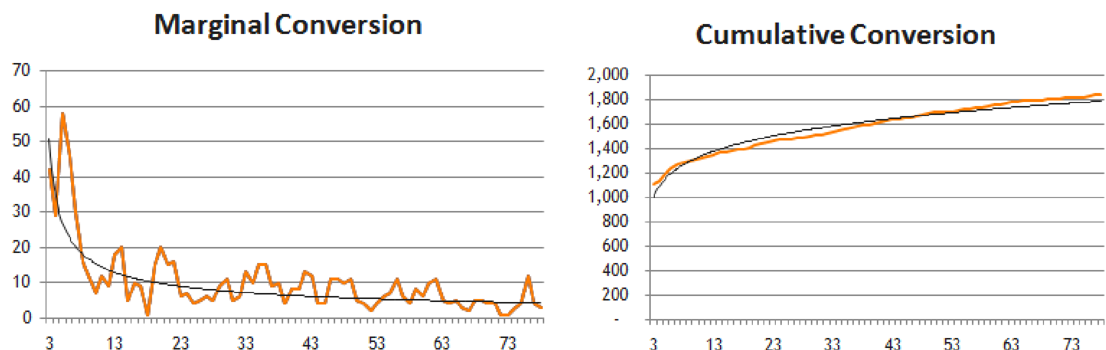

Figure 2: Conversion over time from an Inventory Stage

By understanding these conversion trends, revenue cycle analytics enables marketers to discuss marketing program results in a much more sophisticated manner. Most marketers have faced the dilemma of wanting to measure the true ROI of a tradeshow, but not being able to until enough time has passed. With revenue cycle analytics, the marketer can apply their understanding of how similar leads have performed to make estimates for what the long-term impact of the program might be.

With revenue cycle analytics, the marketer can answer questions on topics surrounding:

- **Program Effectiveness**: For each marketing program, in what stage do we expect the responders to be in any future period? How many *additional* leads, opportunities, and won customers can we expect this program to create?

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* **ROI:** Based on what was spent, what has happened and what we expect to happen, what is the current ROI of the program and what is the expected ROI over time?

Marketing Forecasts

Predictive models also allow the CMO to make marketing forecasts that predict the impact marketing will have on revenue in future periods.

> By sharing marketing forecasts with Sales, the Chief Sales Officer can make a more accurate forecast for future periods – and as a result, marketing becomes an integral part of the revenue discussion.

Revenue forecasts are traditionally a Sales-only domain. It is this ability to make revenue forecasts – and to be held accountable for delivering against them – that is the single biggest factor that gives the sales function more credibility (and power) than marketing at most companies.

However, because the sales forecast is based on what specific accounts will do at specific times, it becomes increasingly inaccurate the further out you look. That's where marketing forecasts come in. By using analytical rigor and a deep understanding of how prospects move through the revenue cycle, marketing forecasts allow the CMO to answer questions such as:

* How many additional people and deals do we expect will enter each revenue stage during future periods?
* How many incremental qualified leads will we create next month? How much marketing-driven revenue will we create next quarter?
* How does that compare to the plan?

As an example of a typical marketing forecast, the CMO might say, "Next quarter, marketing will generate an incremental 30 new deals worth $4.0 million of bookings that are not currently in the sales forecast. This is three deals and $350,000 higher than our Commit plan."

By sharing these marketing forecasts with Sales, the Chief Sales Officer can make a more accurate forecast for future periods – and as a result, marketing becomes an integral part of the revenue discussion.

Times-Series Analytics Engine

The third way that revenue cycle analytics incorporates time is the use of a time-series analytics engine that stores historical data for accurate marketing analytics over time.

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Typical marketing automation solutions only store and analyze operational data. This can provide accurate portraits of the pipeline as it is right now, but does not support efficient analysis of historical information or trend data. For example, say you have a potential customer "B. Obama," and on January 1st his "lead status" field changed from "Prospect" to "Lead." With an operational system, if you ran a report in January asking for leads by Status by Month, "B. Obama" would be counted as a Lead even in December since the operational system only stores his current lead status.

More generally, with an operational system that doesn't store history the marketer cannot easily get answers to questions such as "how many prospects did we have in the pipeline at the beginning of the quarter", "how many people moved from the prospect to qualified lead stage last month" or "what is the 12-month trend for conversion from prospect to lead?"

If you want to understand how marketing performance is trending over time, a marketing automation system that does not also have a time-series analytics engine will not suffice.

Conclusion

Successful marketing analytics need to deal with the time delay between when a marketing investment is made and when it delivers returns. Revenue cycle analytics delivers this in three ways:

1. An original methodology for modeling the stages of the revenue cycle and measuring how prospects convert through these milestones over time.
2. Predictive analytics that calculate future conversions from one stage to another, allowing marketers to estimate the impact marketing will have on future periods.
3. A time-series analytics engine that stores historical data for accurate marketing analytics over time.

One final note: Marketers need a rigorous understanding of how time affects marketing ROI, but that rigor does not need to be hard. Marketers don't have the time for massive analytics projects or complicated tools, and marketers should not need a PhD to understand the impact they are having on revenue.

That's why the Marketo's Revenue Cycle Analytics solution combines the rigorous techniques described in this paper with easy-to-understand reports and easy-to-use tools. To learn more or see a demo of Marketo's sophisticated yet easy-to-use solution, visit www.marketo.com or contact Marketo Sales at +1.877.260.MKTO (6586).

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Appendix: Marketo Revenue Stage Methodology and Best Practices

The first step in revenue cycle analytics is to model the stages of your company's revenue cycle, starting with awareness and moving through marketing to sales to closed business and beyond. By formally defining each stage, as well as the business rules that determine when a prospect moves from one stage to the next, you create the foundation to understanding, measuring and forecasting your revenue cycle.

In this appendix, we share Marketo's methodology and best practices for modeling your revenue cycle.

Three Categories of Stages

Your company may use only a few revenue stages, or you may model something much more sophisticated. No matter what specific stages you choose, there are only three categories of stages:

- **Inventory Stages**: An inventory stage is a "holding pool" where leads and accounts can sit until they are ready to move to another stage. A lead can be in an inventory stage for one day, one year or more – by definition, there is no time limit on an inventory stage. Common examples of inventory stages include: the prospect pool, where leads are nurtured until they are sales-ready, and active opportunities that are being worked on but are not committed to a certain time.
- **Gate Stages**: A gate stage is a simple qualification check with no time dimension. For example, say your company only wants leads for companies with more than $100 million in revenue. When a lead hits the gate stage, if the company has more than $100 million in revenue then the lead moves to the next stage; if not, it moves to the disqualified stage.
- **SLA Stages**: SLA stands for "service level agreement." These stages are used when there is a defined maximum time in which a lead needs to be evaluated or processed before moving forward or out of the process. For example, when a lead is determined to be "sales ready," it could move into a "marketing qualified lead" SLA stage where the appropriate sales representative has 14 days to contact the lead and decide whether to accept the lead, disqualify it or recycle it back for further nurturing. If a lead is in that stage for more than 14 days, it becomes "stale" – which can trigger a process of alerting sales management, or even reassigning the lead to a different sales rep.

Revenue Stage Model Best Practices

A best-practice revenue stage model is based on three fundamental principles:

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- **Sales resources are relatively expensive.** To provide the highest value, sales should not engage with prospects until prospects are ready to engage with sales. Sales interactions should start relatively late in the pipeline (once leads are well qualified) and involve lower cost channels, such as marketing, to develop relationships with everyone else.
- **No lead left behind.** Do not let potential customers end up in "lead purgatory."Use SLA stages where possible to make sure leads are flowing forward or being recycled back to marketing. Have relatively few inventory stages (perhaps just one in marketing) so that there are no places where prospective customers can sit idly.
- **A prospect's journey from initial awareness to customer is often non-linear.** Sometimes leads originally deemed "sales ready" are not. Because no lead should ever remain stagnant in the system, these leads should be recycled back to marketing for nurturing.

The Marketo Model

Marketo's revenue stage model first defines the "**happy path,**" i.e. the traditional funnel that leads linearly from new lead to closed, won business. For example:

HAPPY PATH STAGES	ALL NAMES	ENGAGED	PROSPECT	LEAD	SALES LEAD	OPPORT-UNITY	CUSTOMER
Category	***Inventory***	***Gate***	***Inventory***	***SLA 21 day***	***SLA 7 day***	***Inventory***	***Inventory***
Definition	*Entry point for everyone*	*For those that respond to a program, review, if qualified*	*Qualified prospects who are not yet sales ready*	*Marketing qualified leads ("sales ready")*	*Sales quail-field leads*	*Sales accepted leads, actively working*	*Closed Won deals*

This model has few opportunity stages; many companies may want to add additional Sales stages, and even model additional stages after Closed Won, to model the customer lifecycle.

Next, recognizing that not all leads follow a linear "happy path," the model also defines "detour stages" to capture leads that are not qualified, or that require a few rounds of nurturing before becoming ready. For example:

DETOUR STAGES	DISQUALIFIED	INACTIVE	RECYCLED	LOST
Category	***Inventory***	***Inventory***	***Inventory***	***Inventory***
Definition	*Names marked as not-in profile*	*Prospects that have gone non-responsive*	*Qualified but needs more nurturing (linked to Prospect)*	*Lost opportunities (ongoing nurturing)*

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The final step in defining the revenue stage model is specifying the business rules that determine when a prospect moves from one stage to the next (including how leads move from Detour Stages back to the Happy Path). For example:

- A person may move from “Engaged” to “Prospect” if their company has revenue above $10 million a year and is in one of the target industries
- A “Prospect” may move to “Lead” when the lead score goes above 100 points
- A “Prospect” may move to “Inactive” if they have not responded to any campaigns or visited the website in more than six months
- Leads in “Inactive” may move back to “Prospect” if they respond to a new program

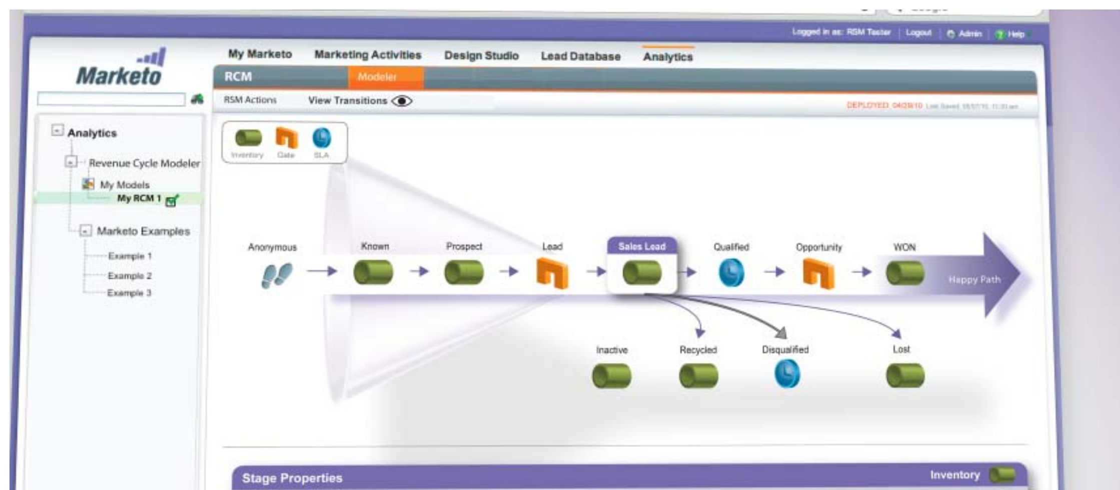

Figure 3: Screenshot of Marketo Revenue Stage Modeler showing Happy Path, Detour Stages, and the various stage types

Lead Types

With the structure of the revenue stages and transitions in place, the next step is to define the various types of leads that you will want to track. This is important because different types of leads will move through the revenue stages differently; some will have better conversion rates than others, some will convert faster than others will.

Some examples:

- **Lead source:** Leads generated from pay-per-click will usually convert faster than leads from purchased lists.

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- **Company size:** Leads from large enterprises may convert more slowly than SMB leads.
- **Division:** Whether your divisions are by geography, business unit or both, the leads from each division will most likely behave differently.

Other examples might include industry, product line and channel source.

Drilling into the differences in conversion rate, velocity and cost for each lead type – and tracking what is trending up and down – is a great way to make a better marketing investment and mix decisions. If leads from a certain source, or for a certain product, are converting faster than others are, then it may be a sign to invest more.

About Marketo

Marketo is the revenue cycle management company, revolutionizing how marketing and sales teams of all sizes work — and work together — to accelerate predictable revenue. Marketo's solutions are both powerful and easy to use, providing explosive revenue growth throughout the revenue cycle from the earliest stages of demand generation and lead management to deal close and continued customer loyalty.

Marketo Lead Management helps marketers acquire, nurture and qualify more high quality sales leads with less effort; Marketo Sales Insight helps sales understand, prioritize and interact with the hottest leads and opportunities to close business faster; and Marketo Revenue Cycle Analytics enables marketers to measure, optimize, and forecast the revenue cycle. Marketo won the 2010 CODiE award for 'Best Marketing Solution' and was voted 'Best Marketing Automation Application' and 'Best Mass Emails Solution' by Salesforce customers on the Force.com AppExchange. As of April 2010, more than 500 enterprise and mid-market clients in 14 countries have selected Marketo.

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