The Economics of Business Development

By Andrew Sobel

In challenging times, people often search for innovative ideas and “silver bullet” solutions that will turn things around for them. And indeed, a downturn is a good moment to try some new and bold client development strategies. It’s also fruitful, however, to go back to the basics and recommit to the solid execution that helped build your business in the first place. So let’s look at the specific activities that lead to your total pool of revenues, and see if by doing so we can uncover some opportunities to have a more successful year.

Business development is not a science, but on one level you can actually break it down into a series of elemental events. If you think about it, your total revenues are a function of:

1. The number of conversations you have with prospective clients about their business (these could be with current or potentially new clients), TIMES
2. The percentage of those conversations that actually lead to identification of an issue that could be addressed by your services, TIMES
3. The percentage of those issues that you are asked to propose on, TIMES
4. The percentage of those proposals that are accepted, TIMES
5. The average size, in dollars, of each proposal.

Let’s bring this to life in an example: Suppose you meet with 100 people this year to have discussions about their issues. Suppose that 50% of these lead to identification of a specific issue you can address. Suppose that in 50% of these cases, you are asked to submit a proposal, either verbally or in writing. Let’s assume that you win 50% of the proposals you submit. Finally, let’s assume that each proposal has an average value of $160,000. All told, this will amount to $2 million in revenue. Of course, these are averages that I’ve set down in order to create a working example—they may not represent your own particular performance.
I admit that this equation is a somewhat idealized representation of the real world. Often, revenue sources are bi-modal—you may have a couple of long term clients who give you ongoing work; and then you may have to meet with 50 prospects to win equivalent new work. In other words, you could have two very different equations at work in your business. Don’t fuss about the specifics, however—think about each of these equation terms as a leverage point, as a key moment in your client development efforts.

To illustrate this, imagine what can happen in a year like this: there may be fewer opportunities out in the marketplace due to clients tightening their belts; your success rate on proposals may go down; and the average size of each proposal may diminish. What if, instead of 50% of your meetings resulting in the identification of an issue that you could address, only 30% of them do? Guess what, your revenues drop from $2,000,000 to $1,200,000. That’s huge. Or what if the average size of your proposals drops from $160,000 to $130,000? Total revenues decrease to $1,625,000. What if both happen? Total revenues drop to $975,000. You can play with the numbers all day long, but what they demonstrate is that you have to pay attention to a handful of key measures—key levers—in thinking about how to improve your business development efforts. For example:

- Are getting enough high-quality first meetings that are the result of potential clients calling you rather than you calling on them? If you have sufficiently developed your brand and reputation in the marketplace, then the percentages will look very different for the front end of this equation. Not all first meetings are created equal. Some are a shot in the dark—you’re effectively starting on your own 10-yard line and have to slog 90 yards down a sodden field filled with burly defenders. Others, which are the result of prospects calling you because they have a defined need, set you up immediately right near the goal posts. Big difference.

- Are you having enough first meetings? If there are fewer opportunities out there, you have to get more face time with more prospects. Using the example from above, if the percentage of your first meetings that result in identification of an issue drops from 50% to 30%, you need 167 first meetings, not 100. That’s a big change.
- Are you able to rapidly understand a prospective client’s agenda of critical issues, and relate your services to those issues in a compelling and persuasive manner? Can you build trust and credibility during a short conversation?
- When you write a proposal, do you leave no stone unturned? Do you define the issue broadly enough? Meet with all of the important buying influences? Add value in the proposal itself? Discuss the proposal with the client, to gain broad agreement about its contents, before writing it down and sending it in? Clearly identify the value that will be created for the client? (See my previous newsletter, “Don’t Write a Proposal Just Yet” at www.andrewsobel.com/articles.)

Some of the “average” percentages for the terms in the business development equation may not be that relevant, due to the bi-modality mentioned earlier, but they represent fundamental moments of truth that you must master. This equation can also help you diagnose where you need to redouble your efforts. Are you getting high quality first meetings? Are you being offered the chance to propose on the issues that are put on the table? Are you winning more than your share of proposals? Look at your own particular situation, and identify what you need to work on in the coming months.

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