Creating and Managing a Sales Pipeline Report

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Law firms have long employed a standard practice in predicting revenue: this year's revenue + X%. That's fine, as far as it goes, however, this approach provides only a limited view of all of the opportunities and all of the revenue potential in the firm's pipeline. Traditional commercial businesses long have utilized a simple business tool, the weighted pipeline, to better drive and forecast revenue. Perhaps it's time for law firms to evaluate this tool, as well.

First, we need to draw a distinction between a pipeline, and a weighted pipeline.

Our definition of a law firm pipeline consists of five discrete stages of the sales process:

- Stage 1 is the establishment of a new contact. You've made a connection and are considering how to transform this contact into revenue
- Stage 2 is a follow-up meeting, call, videoconference or other outreach that helps you determine if there is a specific opportunity for pursuing new work
- Stage 3 is your response to what you have learned in Stage 2. It might be informal (e.g. documentation of the specific needs the prospective client may have identified, or suggestions for additional future intersections with the contact), or more formal (e.g. an RFP response, or submission of a proposed budget or scope of work)
- Stage 4 is the time period between a client's acceptance of a proposal and the time that it is formally signed, and
- Stage 5 is closed business.

Pipelines are great tools to help firms track activity across the firm and ROI, but they are only as good as the information that goes in. That's why we recommend that every piece of support (research packet, resume, slide deck, proposal, etc.) prepared by the marketing or business development team be linked directly to one of the stages of opportunity on the pipeline. Otherwise, the pursuit is a random act of BD and not directed at a real opportunity.

Law firms are experienced in accounting for revenue at Stages 4 and 5 of the pipeline, but have not perhaps considered how to do so for opportunities found in Stages 1, 2 and 3. The weighted pipeline is the tool that allows businesses to forecast the revenue potential resident in these earlier stages.

Your firm probably already has a pipeline that describes the various stages of opportunities. To create a weighted pipeline:

- Begin with Stage 5 engagements – closed business that is "in the door" already and which appears in your records as current WIP. There is a 100% certainty that this revenue is real. Multiply your revenue estimate by 100% and enter it in the revenue column.

- Next, proceed to Stage 4 opportunities. Here, your weighted pipeline would include all the sales pursuits for which the firm, the practice, or each lawyer, has been asked to prepare a proposal, a budget, an RFP response, etc. for a specific opportunity. Another way to think of this stage is those prospects who you think of as having, say, an 80% probability of engaging the firm. Multiply the estimated engagement size by 80% and add it to the revenue column.
- After that, move to Stage 3 opportunities – ones for which specific engagement possibilities are being discussed and the probability of closing new business is 50%. Estimate the revenue potential for each of these opportunities, multiply it by 50% and add it to the revenue column.
- Stage 2 prospects represent a solid (but not yet specified) opportunity for pursuing new work from an existing or new client. Choose a potential success ratio (25%), multiply by it by the revenue opportunity, and make the entry.
- Finally, make some conjectures about Stage 1 opportunities – ones where lawyers have met, had a call or video conference with a new prospect or a new contact at a client organization and which may turn into business. For these opportunities, enter the revenue potential (admittedly a stab in the dark at this stage of a relationship) and do the math.

The sum of all five entries in the revenue column is a broader and longer term look at revenue opportunity for the firm. It will, by definition, be larger than the revenue streams that most firms normally consider. Note that the efficacy of a weighted pipeline depends on the ability of lawyers and staff to make reasonable estimates of the size of potential engagements, and realistic estimates of the chances of closing. Most firms find that over time their experience with estimates of engagement size and closing ratios become "more real." When they do, the weighted pipeline becomes a better revenue-prediction and management tool.

Pipeline management is where the rubber meets the road when it comes to how lawyers are spending their sales time. Either the opportunity is real or it is not. If it is real, then estimate the dollar value of that potential opportunity and focus on next steps to move it through the sales pipeline

In this article, we've only scratched the surface of the weighted pipeline topic. Feel free to contact us to learn more about how weighted-pipeline management can literally change the way the firm is thinking about and driving new revenue opportunities.

For a copy of our Pipeline Form, please email us at scoulter@lawvision.com.