



# Debunking the 5x Pipeline Metric

## Hello Revenue Velocity

A MultiplyGTM Whitepaper

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## Why a 5x Pipeline Safety Net Is Flawed

During numerous tenures, leading numerous software businesses, numerous sales leaders, on numerous occasions, have assured me with words along the lines of *“we are going to hit our number; our pipeline is a healthy 5x revenue goal”*.

Oh how I wish it had been that easy! I think we probably missed our number as often as we hit it... The reason? The 5x model is a poor measure against which to gauge the performance of a business.

Why? A pipeline is not a reflection of revenue success; it is simply a buffer of **time** resulting from the deals that you currently have in-play. Instead, it is pipeline **flow** that truly drives revenue.

## Pipeline State and Flow

A marketing and/or sales pipeline is analogous to a water reservoir. Both are essentially holding tanks that have a given volume or state (at a point in time) as well as a flow in and out.

Reservoirs capture water (in-flow), temporarily store it, and then release it (out-flow). If the in-flow and out-flow rates are equal, then the level of the reservoir remains constant over time. Balanced flow doesn't alter the volume of water in a reservoir. You can have very high in-flow and out-flow rates and yet still have a low level of water in the reservoir. It's only an imbalance of flow that causes the level (state) to rise or fall.

The exact same is true for marketing and sales pipelines. Pipelines get fed with newly acquired leads or opportunities (in-flow) that then flow through various stages of the customer acquisition journey through to deals or wins (out-flow).

If deals are processed and closed at a faster rate than new leads are introduced, then the pipeline drains. Conversely, if the rate of new leads added to the top of the funnel is greater than the rate of wins, then the pipeline actually grows in volume!

Simply measuring the volume of deals or \$ revenue within a pipeline and comparing against a 5x benchmark doesn't tell us how robust or supportive our pipeline is of our goal. What we need to focus on, is achieving a balanced flow (a net zero between in and out flow). Net flow variations determine how quickly our pipeline either drains, maintains state, or fills up over time. Knowing this, we can easily calculate how much additional activity we need to invest to maintain our trajectory to successfully hitting our number.



## Revenue Velocity

If balanced flow is our leading indicator, then how best should we measure it? Let's consider a business that has a 100-day sales cycle and generates 1 win per day at \$10,000 per deal (out-flow). We can measure this performance in terms of \$ revenue/day or **revenue-velocity**. This is a simple calculation for bottom of funnel or out-flow. In this example,  $1 \times \$10,000 = \$10,000/\text{day}$ .

To measure in-flow using revenue-velocity, we can look at the number of new leads added, conversion rates, and average deal size:

- 10 new leads added to the top of funnel per day
- 10% conversion rate from top to bottom of funnel
- \$10,000 average deal size

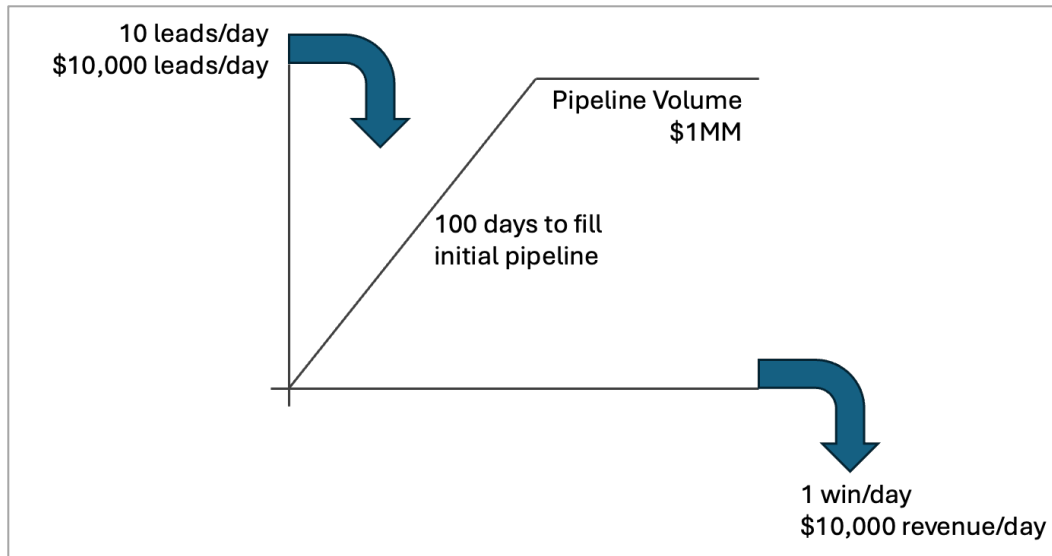
$10 \text{ leads/day} * 10\% \text{ conversion} = 1 \text{ equivalent win/day} * \$10,000 \text{ average deal size} =$  in-flow revenue velocity of \$10,000/day.

So the net: our lead generation activities, which are producing a revenue-velocity of \$10,000/day exactly balances our win rate revenue-velocity. As such, we experience a balanced flow and a steady volume pipeline.

As a side note, it should be noted that if we start from an empty pipeline, it will take 100 days for the first win to occur (based on our sales cycle). From day 0 to 100, the pipeline fills up from \$0 volume to \$1MM on day 100. It is only after day 100 that our pipeline flatlines at \$1MM in our balanced revenue-velocity state.

After day 100, wins start to occur. As they occur, the pipeline will start to drain by \$10,000 per day unless our lead generation activities continue to flow into the pipeline at a continued \$10,000 revenue velocity.





**Example of a balanced-flow pipeline**

In our example above we didn't even mention a revenue goal. Instead, we looked at the sustainability of our trajectory, and this is telling. Revenue success is all about building a sustainable trajectory.

### What Can 5x Help Us With?

One insight we can capture from the '5x' measure is that from a given point in time, knowing the current pipeline volume along with net revenue velocity, we can determine how long we will survive before we run out of leads! It tells us **runway time** (in context of current lead generation activities) as opposed to it being a true indicator of revenue outcome.

If we currently have a pipeline volume of \$1MM, and we are draining that pipeline a net negative revenue velocity of \$20,000/day (due to vacuum of required leads), then we can easily determine that we will survive for another 50 days before we run dry.

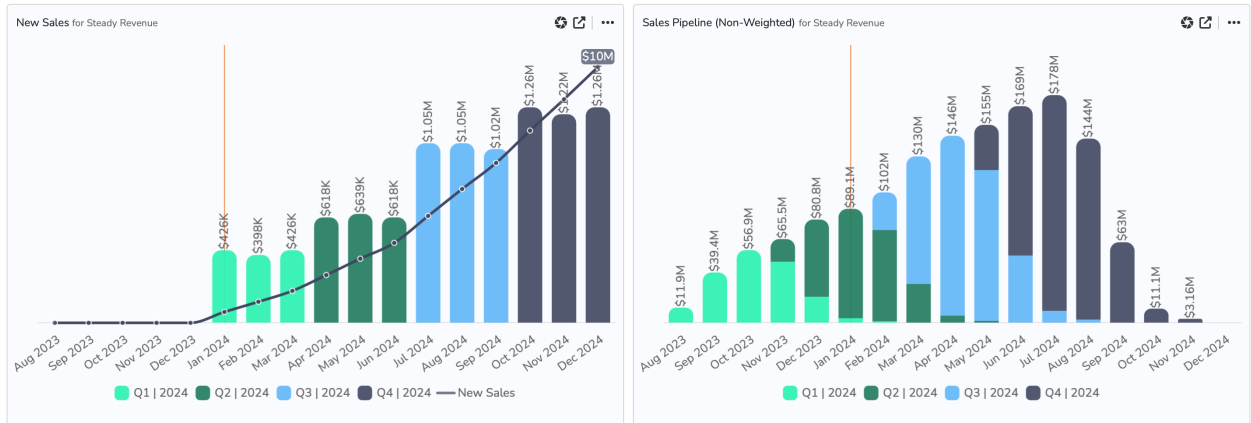
### Why is This All So Difficult in Reality?

Maintaining a balanced revenue velocity wouldn't be so difficult if it weren't for **revenue growth**. Revenue goals change over time (quarterly cycles; year-on-year increases, change in focus from new sales to expansion to retention etc.) and so our required revenue velocity changes too. Maintaining a balance of lead-gen and sales against a target that is changing both from a micro and macro perspective requires a complex model against which to follow.

The best solution is to build a closed-loop GTM model that reflects how much lead generation is required to support a given goal over a given time-period. This model should also be able to account for quarterly sub goal variations; year-on-year growth targets as well as added complexities such as multiple offerings (and

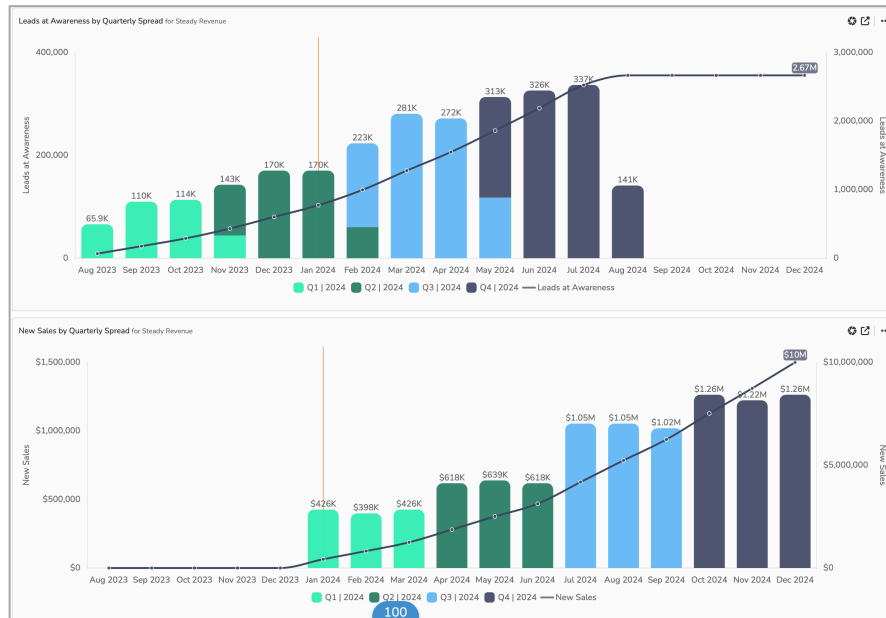


average sales price) and differing pipeline performance by region, seller and ICP. From this, the model can forecast not only required lead volume, but then also time-phase **when** the leads are needed along with the required state of the pipeline at any given time. In short, it needs to generate a time phased and balanced revenue-velocity forecast.



Example of Required Pipeline Volume to Support a Quarterly Revenue Ramp

The dimension of time is so critical to these models. Knowing how much lead-time is needed to adequately feed the pipeline relative to the close rate is key. Then use the required pipeline volume as a yardstick against which to track your performance. Are you maintaining the right revenue-velocity balance as you progress?



Pipeline Feed Timing Relative to Win Timing



You may well have a killer Q1, but if you drain your pipeline too quickly and lose revenue-velocity balance, then you are simply driving your organization towards inevitable delayed failure. Remember, success is all about **balanced** flow and not volume.

## Conclusions

As illustrated above, the key to achieving a revenue goal is to maintain a balance between lead generation activity and sales wins.

By measuring both lead generation activity and sales wins by the same unit of measure (revenue-velocity), we can easily model and forecast what is required, and when to achieve such a balance.

Tracking in-play pipeline volume is more a measure of remaining runway or time. Rather than just measuring pipeline volume at a given point in time, track how it changes over time. Use this to course correct as required.

In a balanced state model, a small pipeline volume is simply a reflection of a short customer acquisition journey and NOT a reflection of how much revenue you will generate. The **longer** your sales cycle, the **bigger** your pipeline volume will inevitably be.

If you can successfully model and march to a closed-loop, balanced revenue-velocity model, then it's hard to go wrong. Your chance of revenue success is far greater than simply hoping you will be OK by carrying a '5x pipeline'. The math behind the model simply doesn't lie. The key in all this, is flow, not state, drives success. Even more, a **balanced** flow is the holy grail that is easily achievable with these steps and the model outlined above.

