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# the tough truth about quotas

**ALTHOUGH** Forecasting sales can be a bit like trying to predict where the magician is hiding the dove in that empty hat, there's no place for magic in a sound quota strategy.

Simply put, sales managers set quotas to define the expected level of performance. But, quotas set arbitrarily can't help your reps achieve their goals. Quotas set too high will do more harm than good, causing high salesperson turnover and creating a demoralized environment for those who stay.

Upper management promises great earnings growth to Wall Street over the next year and then backtracks to see how they can get to the promised number. Management then hands over the number to sales and says, "Just do it." But if

sales executives give that same number to their sales force without first breaking it down, it can cause frustration, according to Jerry Colletti, a managing partner of management-consulting firm Colletti-Fiss LLC in Scottsdale, AZ.

"You want to have customized quotas," says Colletti. "You want to set quotas that represent the real opportunity, by sets of accounts, by answering these questions: At what rate is the local market growing? How large is the market in each territory for our company's products and services? What do we have to offer – new technology, new products, new services? And when are they going

to be available so I can talk to my customers about what's coming? Who else is selling in my market?" To get the answers, the first step in allocating appropriate quotas, say top sales executives, is to get your field involved.

"Involve your sales professionals from the beginning of the planning process," says Daniel Boon, senior vice president and general manager of Amherst Corporate Computer Sales & Solutions in Tampa, FL, a company that generated \$312 million in revenue in 2001. "The more ownership you provide your sales force and the more input you offer them into setting their goals, the more likely they are going to be to take a smarter approach to achieving their goals."

Colletti agrees: "Involve the sales force and ask them what they believe can be sold. For example, if your company needs to get 15 percent growth overall, you don't need to get 15 percent everywhere. Some territories might grow 20 percent and others might grow only 8 percent. That's what the front-line management has to figure out."

To help them figure it out, Colletti suggests giving front-line sales managers and their teams access to data and access to finance and market people, so they can collaboratively arrive at how their company can reach its quotas.

Most importantly, says Brad Lawson, district sales manager for SAS Institute, the quota measurement system should be in alignment with a company's strategic goals and objectives. "Often companies give a quota and then change directions," he says. "You'll be fighting a losing battle if you base your quota on sales volume but later ask the sales force to start concentrating on the profitability of their sales."

## **NUMBERS, Numbers, NUMBERS**

So you have the big number; where do you start? "It's really up to the district manager to negotiate the quotas once they are handed down," Lawson says.

SAS, the largest privately held software company in the world, sells business intelligence software and services and generates more than \$1.2 billion in revenue. Numbers are handed down to district sales managers like Lawson, and that's when he begins to negotiate – armed with plenty of data.

"I use an analytical model to justify to my boss what my team's quota should be," he says. "First I look at the ongoing renewal software revenue that my district

## **Aim your strategy for results, not pie-in-the-sky pipe dreams**

By Renee Houston Zemanski • Illustration by Riccardo Stampatori

is generating; then I look at how many accounts my district had that were greater than \$500 million, and finally I look at the aggregate revenue of those accounts. Then I compare my district to other districts, so it allows my bosses to apply weight to each of those criteria. It's not an exact science, but it's much better than an arbitrary target."

Once Lawson has a team quota, the next thing he does is allocate it to his individual sales force.

"Look at the same things you looked at before and ask yourself, 'How many accounts does this person have? What is the industry concentration for that district? What is this person's capacity to execute?'" he says. "You can't give everyone the same quota. You have to match opportunity with capacity. If you build a quota that is arbitrarily large, you're not going to be able to rally the troops around it, and you're basically signing up for a suicide mission."

Colletti agrees. "It's very important when you give the message to your sales team to say, 'We are going to grow, but here is where we expect the growth to come from.' You have to get as much bottom-up information as possible, and you must do

this simultaneously with the business-planning process."

The business-planning process is something very near and dear to Boon's heart. Reps at Amherst, a company that specializes in providing technology sales and resources to businesses, are required to do quarterly business plans explaining how they are going to reach their numbers. The plans cover their markets, customers, strategies, opportunities and obstacles. Twice a year they present these plans to their peers.

Boon helps by giving the sales force a snapshot of what it did the prior year – month by month and quarter by quarter. He asks reps to give a projection based on the market and new opportunities. Then they determine their goals.

Lawson spends most of his time, as he puts it, "creating an environment where this process has predictable results. The quota is a benchmark," he explains. "You have to have a system around it to make the best prediction. The hardest part of field-level management is creating a set of measures that are both forward and backward looking. You can't rely on pure rearview management. You have to ask, 'Are the things that are going on today going to affect the future?' and that's hard to do."

## REALLY, HOW IMPORTANT ARE QUOTAS?

A recent online survey conducted by Ockham Technologies Inc. in collaboration with Colletti-Fiss LLC revealed interesting data on sales quotas. The survey included 10 questions on quota setting and strategies. One hundred one executives (including top sales officers, sales operations managers and sales staff) representing a wide range of companies responded to the survey from February 13 to March 22, 2002.

Here are some highlights, along with comments by Jerry Colletti, managing partner of Colletti-Fiss.

"The number one reason why we wanted to do this study was to prove that quotas are still very important in running sales forces," says Colletti. "We've seen a lot of press recently on how companies are de-emphasizing sales quotas and putting more emphasis on customer satisfaction and customer loyalty. Well, 92% of the companies that responded said that they assign quotas to their sales force, which supports our view that quotas continue to enjoy widespread use.

"Additionally, 85% of our respondents indicated that their companies attach a high level of importance to sales quotas in gauging sales force success. Not sur-

prisingly, 86% reported that the number one reason why their company uses sales quotas is '...to align sales force performance with the business plan.' Other prevalent reasons include:

- 65%: to provide incentives to salespeople
- 53%: to control selling efforts (i.e., behavior/specific selling tasks)
- 48%: to set a performance standard.

"However, as we predicted, satisfaction with processes or tools used to assign sales quotas to salespeople falls well below the importance attached to quotas. 62 % indicated that they were only satisfied or somewhat satisfied with techniques used to assign sales quotas.

"Companies continue to be conflicted over the factors that should be considered in assigning quotas, the right process to use, or both. The prevalent practice is to rely on projections of what has been/could be achieved, e.g., the most important factors used to assign quotas. As reported by our respondents, these are:

- 69%: Business plan growth commitments
- 63%: Market/sales opportunity data
- 62%: Prior year sales results.

"Less consideration was given to these factors, which may be better predictors of capacity to achieve quotas:

- 44%: Field managers' judgment about sales growth opportunities
- 18%: Customer sales forecasts
- 10%: Salespeople's tenure and/or years of sales experience.

"Both our research and observation of 'best practice' in a wide variety of companies shows that a collaborative, negotiated assignment process between headquarters and field sales is the best approach to quota allocation. Yet, only 43 % of companies indicated that they use this process.

"In summary, we do not envision a time when sales quotas will not be important to sales force success. The challenge faced by many sales leaders is how to get it right – that is, assign sales quotas that are reaching, yet realistic."

Jerry Colletti is a managing partner of management-consulting firm Colletti-Fiss LLC in Scottsdale, AZ, and co-author of *Compensating New Sales Roles: How to Design Rewards That Work in Today's Selling Environment*.

## QUICK QUOTA STRATEGIES

Talk to your field managers and individual salespeople to get input before assigning quotas.

Use tools to help you get enough information/data to set accurate quotas.

Check out everything from customer sales opportunities and market growth to salesperson capability.

Look at past sales history and projected future growth.

Once data is collected, share it with your sales force.

Switching to a process like Lawson and Boon have is something Bill McAliney, director of North American sales at Kennametal Inc., had to do more than a year ago, and he believes it has helped his sales staff. Kennametal, based in Latrobe, PA, is the market leader in North America in metal-cutting tools, with annual sales of approximately \$1.8 billion.

“When I first came into this position, I felt there was some inequity in the way we set quotas; it was not done in a systematic manner that was fair to all the sales force,” McAliney says. With this new system, Kennametal does much more analysis than it ever did in the past, looking at the economic forecast by market segment and specific industry leaders. Each region talks to the area managers who get feedback from individual salespeople. McAliney believes there is much more sales force buy-in as a result.

“The sales reps were involved in the process so they understood it better,” says McAliney. “It is much more equitable and much more accurate. By and large, the sales force believes in the process because we make it interactive.”

Interactive seems to be the key word in setting quotas and making sure they are attained. Once quotas are set, sales executives monitor daily sales transaction reports so if quotas aren't being met, they can help the sales force meet them.

“Don't micromanage,” says Lawson. “Begin with a well-defined selling process and then coach and mentor to make sure that process is being followed.”

### TOOL Time

The processes Lawson, McAliney and Boon use are more time-consuming because of the interaction needed to get accurate data, but in long run, they all say it's well worth the time they put into it. But many sales executives may argue that time is a luxury they can't afford. Are there any tools out there to help?

“We run a lot of the information through Access database, and we have a customized application that was developed by our sales team,” says Boon. “We use this for the yearly and quarterly goal process, but for the daily, weekly and monthly data we use a company intranet that serves as a data warehouse for the reps. At any given time, a rep can see how he or she is tracking and how other reps are tracking.”

McAliney agrees: “If you are going to have a system that the people in the field are going to believe in, you really need some kind of a software system, whether you purchase something complex and robust from a software vendor or just build a basic Access system internally. We almost flood the sales force with data, so everyone has the opportunity to accurately set the quotas.”

If a company doesn't have time to develop their own system, there are software programs available to help them improve the process used to allocate sales quotas. SalesRazor software applications, created by Ockham Technologies, which was recently acquired by Sales Incentives Inc., offers SRQuota to help managers make better use of their time and manage the quota process. The software combines third-party information on market potential with best-practices processes to help companies create individual sales personnel quotas. It allows companies to use such

different techniques as territory management and adjusted growth rates.

“Accurate quotas are a requirement,” says Ockham's former CEO and president Jim Triandiflou, now INcentive Systems' vice president of alliances. “Accurate quota setting gives managers their best shot at making their numbers. This software replaces instinct and spreadsheets with facts and process.”

The best things about the software, says Triandiflou, are that all the quota information is in one place and it eliminates the guesswork. You can even figure overallocation into the mix.

Process, systems and tools – they are all things companies need to make that quota number attainable. When it comes to justifying your number, make sure you use whatever software you have to its fullest potential to give you the best insight.

### A Fuzzy FUTURE

Insight is valuable, but no one knows for sure where the economy is going. And the plain truth is that you still need to set a quota.

“It's probably the most difficult year in terms of forecasting,” says McAliney about 2003. “You can look at all the economic indicators and they tell you one thing, but economists are very mixed about when the recovery is actually going to happen. The crystal ball is fuzzier this year than it's ever been.”

When the economy doesn't rebound as expected, many companies lower quotas to make them more reasonable to their sales teams. “If not, they run the risk of losing some of their top salespeople,” says Colletti. “In a bad economy, companies have to figure out how they keep their A and B salespeople, because if they drive them out the door it will take the company years to recover when the economy rebounds.”

McAliney sees it another way. “I'm a firm believer in not changing quotas,” he says. “Even though it was a difficult year this year in terms of the economy, we had to have confidence in how we set the quotas. If we change them during one severe economic downturn or upturn, then when do you make that decision again? I would rather make adjustments in the compensation system instead.”

The bottom line: quota setting is not an exact science, but by involving your sales force and using the right strategies, it can be more accurate. And accuracy can make or break your sales in this economy. So go ahead, lose that crystal ball. •

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