Calming Quota chaos

Successful quota allocation methodologies demand flexibility. Business conditions will always change, and quotas must be responsive to these conditions. Choosing the right model for your organization—and communicating changes to your sales force—is the key to quota success.

By Matt Alderton

One of the only constants about business is change. Supply, demand, the opportunity landscape, and unforeseen forces all combine to create ever-evolving business conditions. As a result, companies need to be nimble enough to meet these changing demands, yet still provide consistent service and expectations. The same is true for sales quotas.

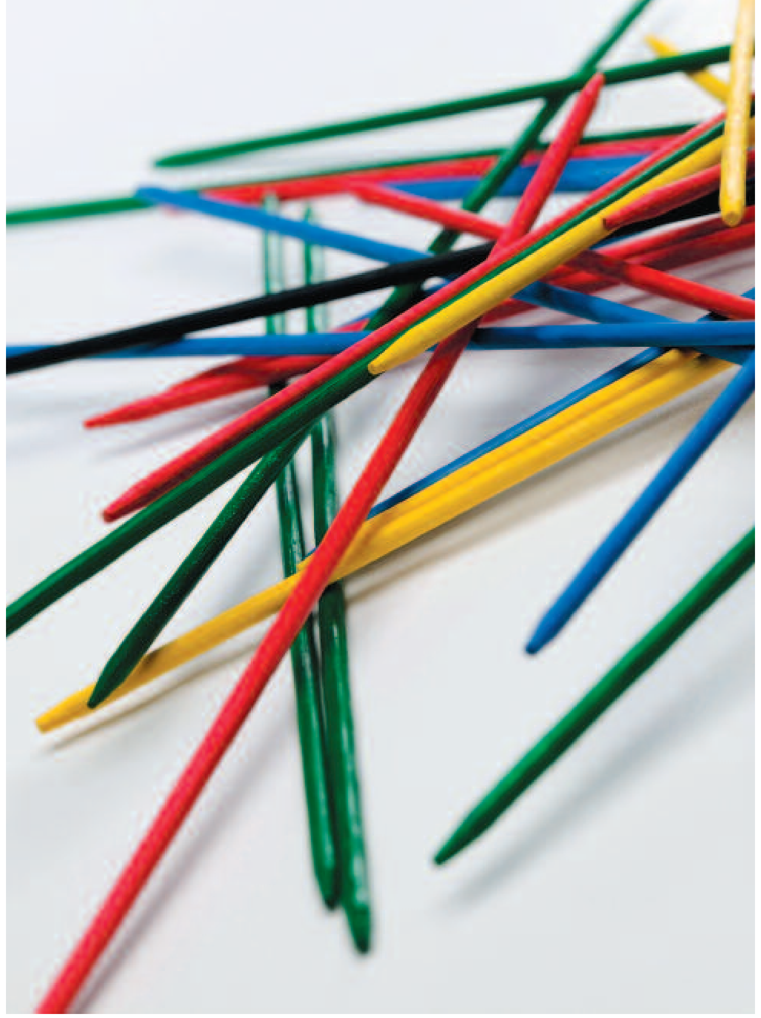
Although consistency is important to ensure all salespeople know what's expected of them, companies also must be ready and willing to revisit—and reallocate—their sales quotas when it's appropriate to do so, says Erich Sachse, a managing consultant with Synygy.

"Automatically, companies will want to say, 'A quota's a quota, and that number is what we need to meet as a company,'" he says. "Now more than ever, companies need to be willing to entertain adjustments based on uncertainties."

Of course, even if you've decided to adjust sales quotas, choosing exactly how to reallocate them can be difficult, Sachse acknowledges.

"Typically, you base quotas on potential," he says. "You try to measure the potential within a salesperson's control and pay them for their achievement of that potential. What's different now is that what's been historically measured as potential may not measure up anymore. So, it's important that people make their quota-setting methods not only about what's been successful or not successful in the past, but also about looking into an uncertain future."

Although sales organizations can't always see into the future, they can plan for it. Knowing when, why, and how to reallocate quotas can help your company prevail with a motivated sales force and a resilient bottom line.



THE QUOTA CONUNDRUM

Successfully planning and effectively executing quota adjustments starts with understanding how quotas actually impact your sales organization, says Dennis Spahr, vice president of New York City-based Sibson Consulting.

"Quota allocation can make or break not only a sales compensation plan, but also a sales organization," he says. "This is serious stuff, and if you don't get it right then everything else falls apart around it."

According to Spahr, the most effective quotas are neither too high nor too low; instead, they're somewhere in between. "If you have quotas that are allocated too high—and you have the best group of salespeople on the planet, but they can't make their quotas—you're going to upset salespeople, and you're going to de-motivate salespeople," he says, "not to mention create high turnover in the sales force and a lack of trust within the sales organization."

If you have quotas that are allocated too low, meanwhile, you risk damaging your organization's financial performance. "The problem is, you may have promised shareholders on Wall Street four percent growth; if your lowered quotas add up to an eight percent decrease, that's not going to work," Spahr says. "The other problem with having quotas too low is that you end up with people who actually exceed quota, which means you have to pay them a lot of money that you don't have."

QUOTA ALLOCATION PHILOSOPHIES

What the sweet spot is for your sales quotas depends on your sales organization's size, industry, and circumstances, according to Spahr, who says organizations that want to reallocate quotas have three basic models to choose from.

The first model is flat standard quotas. Predominant in the software industry, the flat standard quota system assumes that every salesperson has an equal sales opportunity. Therefore, organizations employing this model allocate an identical quota to everyone in their sales force based on the organization's projected inflows and outflows.

"It's usually based upon a standard production formula," Spahr explains. "Organizations say, 'In this industry, it costs us *this* much to pay for a sales rep. So for us to pay you, you have to produce, say, $1 million. Now go out and do it.'"

The second model is top-down/bottom-up quotas. Opposite the flat quota system, this model involves quota negotiations between executive officers and front-line salespeople, who barter for a fair quota based on the organization's top-down revenue goals and the individual sales rep's bottom-up sales forecast.

"What that means is the CFO and the CEO give the entire organization, for example, a 10 percent growth goal," Spahr says. "The salespeople then do an analysis of their territories and say that the best they can do is 2 percent growth. So, the district manager listens, then goes back and looks at the sales reps' market share, and they agree on a 7 percent growth goal."

One sales rep might have a larger growth goal and another sales rep a smaller one, based on a bottom-up assessment of realistic sales opportunities in their individual territories. Overall, however, everything must add up to meet the top-down, organization-wide growth goal of 10 percent.

The final model is a fair-share quota strategy. This model falls between flat and top-down/bottom-up quota allocation. It includes a standard organization-wide growth goal, as with flat models, but based on individual opportunity, as with top-down/bottom-up models. In other words, a sales rep must contribute his or her "fair-share" to an organization-wide sales goal based proportionally on their share of total sales.

"For example, everyone has to grow 10 percent from where they were last year," Spahr says. "That seems fair on the surface, but what if I'm starting at $10 million, and I have a giant territory, and my accounts aren't growing? For me to grow them 10 percent is unheard of. Meanwhile, you have a new territory that's starting out at $2 million, and you can grow it by 100 percent in your sleep. Is it fair that we have the same growth goal? That I'm bringing in $10 million and not meeting my quota and you're bringing in $4 million and receiving awards? That's a disconnect there."

A modified version of fair-share quotas solves the problem by mandating that organizations level the playing field with quotas that are based on pre-determined criteria and realistic opportunity. "For instance, 10 percent for everyone isn't fair," Spahr says. "So territories over a certain size only have to grow 5 percent while territories under a certain size have to grow 15 percent."

CHOOSING THE RIGHT QUOTA ALLOCATION STRATEGY

Although there is neither a right nor a wrong quota allocation philosophy, some strategies can be better or worse for your sales organization depending on its goals and its resources, Spahr says.

"Which option should you pick?" he asks. "The answer is based on a couple of things. One, what are the common practices in your industry? Two, what levels of complexity can you stomach?"

Answering the first question is easy: If you sell software, for example, reallocating quotas based on a top-down/bottom-up system wouldn't work; salespeople in the software industry are accustomed to flat standard quotas.

Answering the second question is more difficult. If you have a large sales organization with lots of support staff, an abundance of specific sales data with which to set fair quotas, and budget earmarked for quota setting and sales compensation design, you can tolerate more complex quota allocation systems, such as top-down/bottom-up models, which have the advantage of building more sales organization buy-in and creating more accurate sales forecasts.

If, on the other hand, your sales organization is small and lacks sales data, flat standard quotas may prove more feasible, as they're simpler by far. Finally, if it's important for your sales organization to mandate growth and reject the status quo, you'll probably find a fair-share quota model most attractive.

COMMUNICATING QUOTAS

Because all quota allocation strategies have drawbacks and disadvantages, it's important to mitigate their risks with a clear and comprehensive communication plan—especially when you're changing allocation models or adjusting individual quotas, Sachse says.

"It's always important to communicate," he says. "The more you communicate with the sales force about the quota allocation process, the more credibility you have as an organization and the more understanding your salespeople will be if you find yourself changing quotas."

Spahr agrees, and suggests that setting quotas in a vacuum will likely engender distrust within the sales organization, which leads to turnover among top-performing salespeople, even when the job market is weak.

"Sending out a memo saying, 'Here's your quota for 2009, good luck,' isn't going to cut it," he says. "I recommend having a 'train the trainers' session with your various sales managers, and sitting down one-on-one with individual sales reps to explain how their quota was set and why. That goes a long way."

While you're at it, Sachse adds, don't just communicate the quota. Communicate the circumstances in which it was allocated, and the circumstances in which it may be changed. "More organizations are talking about what the assumptions are going into the quota and what circumstances, if they change, would necessitate an adjustment," he says. "They're trying to determine up front the worldview that they're setting quotas in so that if something drastic happens, they can make a fair adjustment to the benefit of their sales force and their entire sales organization." ■