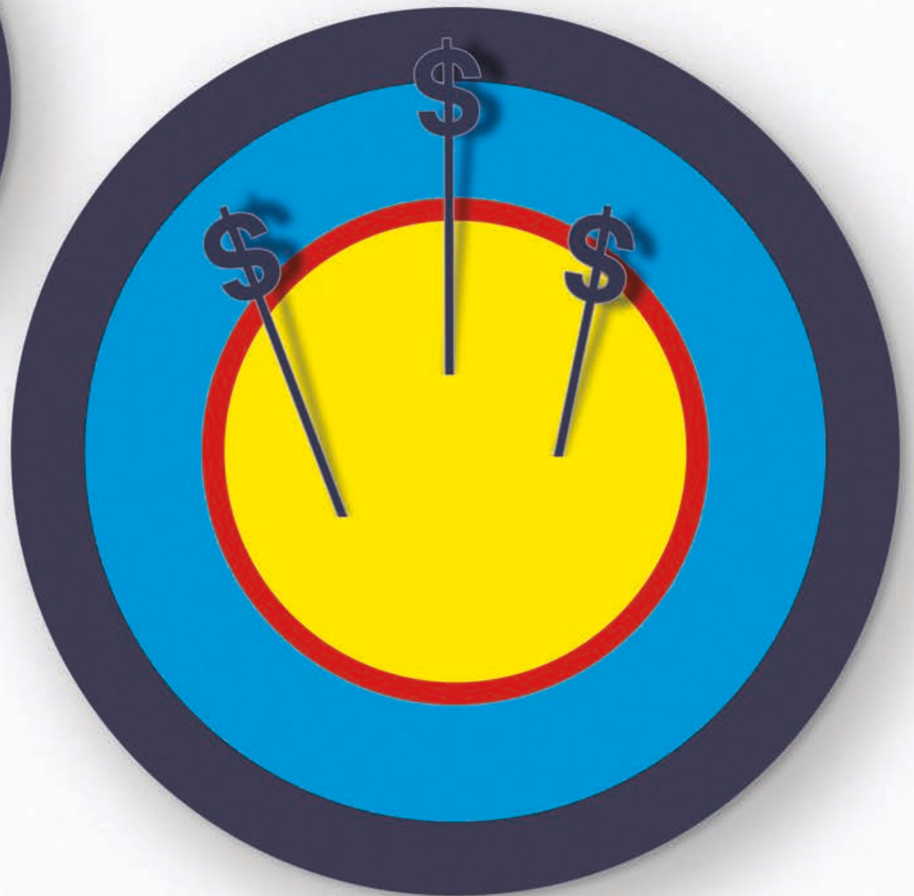
5 Mistakes to Avoid When Setting SALES



By Josh Miller, OnTarget Incentives LLC

"There's no way I'm meeting my numbers this year."

"Who set this quota? It makes zero sense."

"You have way too many people with attainment over 200 percent. You've got to raise those quotas."

Design sales compensation plans with accurate quotas to inspire strong performance.

It can often seem like no matter how you set your quotas, it's a no-win situation. Frequently, sales associates are unhappy with quotas that they feel are unrealistic. Other times, your organization's sales comp spend can seem too high relative to sales performance. Quotas are a typical scapegoat, particularly in cases where there are a number of associates with extremely high attainments.

While there is **no one-size-fits-all method** that works best for allocating quotas in every organization, rare is the organization that top-down still fits.

While quotas are sometimes unfairly blamed for core problems that may reside elsewhere, accurate and reasonable quotas also have a significant impact on company performance. Sales compensation plan design is a critical factor in sales performance, yet an optimal plan design for an organization can be crippled by poorly set quotas.

A recent AGI survey shows 40 percent of organizations reported their quota accuracy to be acceptable, which is important to finance and field-level sales personnel because it can drive sales growth for that organization. Rare is the organization where both finance and field-level sales personnel are happy with quota accuracy simultaneously. That's why investing in finding that balance can be so important to enabling the sales growth that organizations seek. Redesigning sales compensation plans without ensuring that quotas are equally well assigned is a wasted opportunity.

Here are five mistakes organizations make in setting quotas — and how to avoid them:

Why Evenly Distributed Quotas Don't Work

Meet sales associate A. Her quota attainment last year was 95 percent, and this year it is almost to 160 percent on a $1 million quota. She seems to be hitting it out of the park this year.

Now meet sales associate B. His quota attainment last year was 110 percent, but this year is at 72 percent of his $1 million quota without much time left. He seems to have really gone downhill since last year.

At first glance, it would seem obvious that sales associate A is performing better in the current year. But is it quite that simple?

Since sales associates A and B both have the same quota, there's a good chance that their quotas were set using a top-down allocation method that involves setting a high-level target and then evenly distributing it to sales associates. Organizations use the top-down method because it is simple and because there is no great differentiation between territories for their sales associates.

While top-down is one of the most common methods of quota distribution, most organizations do not have such homogenous territories. Another reason top-down quota allocation is used is because it's simple, but that method doesn't work in most cases. It would be like evenly distributing the same travel budget to every department in an organization without caring about employee counts or the frequency of travel for each department. While there is no one-size-fits-all method that works best for allocating quotas in every organization, rare is the organization that top-down still fits. Whether territories are based on geography or accounts, there are too many differences between territories to evenly distribute quotas. For the

organizations that already use a bottom-up approach or hybrid model, simply using prior year sales within each account can cause a different set of problems. Consider this: If customer A spent $500,000 on computer equipment last year, does that make that customer more likely or less likely to buy the same amount next year? If the sales are for laptops and other machines that need replacement sporadically during a year, then the same amount in sales or more may be reasonable to expect. But if the $500,000 was a capital expense for equipment that is designed to last for years, then the fact that $500,000 was sold last year means the value of the account for quota purposes this year should be less.

TAKEAWAY: **An overly complex quota allocation model can eat up resources and your risk is greater when allocating over simple quotas. Think about the factors that drive the differences in success for individuals in your sales organization and consider how those may change from one year to the next.**

MISTAKE 2 Too Many High-Performing Outliers

The first order of business is to find out what percentage of your sales organization has more than 100 to 150 percent attainment. If 80 percent or more of your performers are more than 100 percent attainment, then you'll want to consider across-the-board quota increases to drive stretch performance. If you have a cluster of 10 percent or more of performers with an attainment of more than 150 percent, then you'll need to look at what is driving their success. Were they assigned to accounts or territories that had sudden, aggressive growth? If so, were those reasons repeatable? If not, were they assigned to accounts that historically had sales similar to current year performance and quotas were not distributed in such a way to account for that history?

TAKEAWAY: **Ask questions about what drove the performance of those outliers. The answers will determine your course of action for the coming year.**

MISTAKE 3 Too Many Low-Performing Outliers

This happens most often in two instances. The first is when the organization or industry sector goes through an overall slump with sales numbers down across the board. The second is when a company invests in growing the salesforce, yet sales cycles are long. In that instance, new hires should be expected to have relatively low performance. If your organization has longer sales cycles, think about your ramp-up program. For the first six to nine months you want to allocate quota, or establish management-by-objective standards (MBOs) based on building pipeline.

TAKEAWAY: **Consider ramp-up programs for new hires in organizations with longer sales cycles. Tie performance to pipeline growth rather than closings until the point in time when it becomes reasonable to expect closings from the associate who has properly built a pipeline.**

MISTAKE 4 Mid-Period Territory Changes Without Assessing Quota Impact

Depending on your industry, things can move fast. Mergers and acquisitions happen. Clients change go-to-market (GTM) strategies. Products change and some element of employee turnover is a constant.

Five mistakes organizations make in setting quotas:

- Evenly Distributed Quotas Don't Work
- Too Many High-Performing Outliers
- Too Many Low-Performing Outliers
- Mid-Period Territory Changes Without Assessing Quota Impact
- Too Much Quota Over-Assignment

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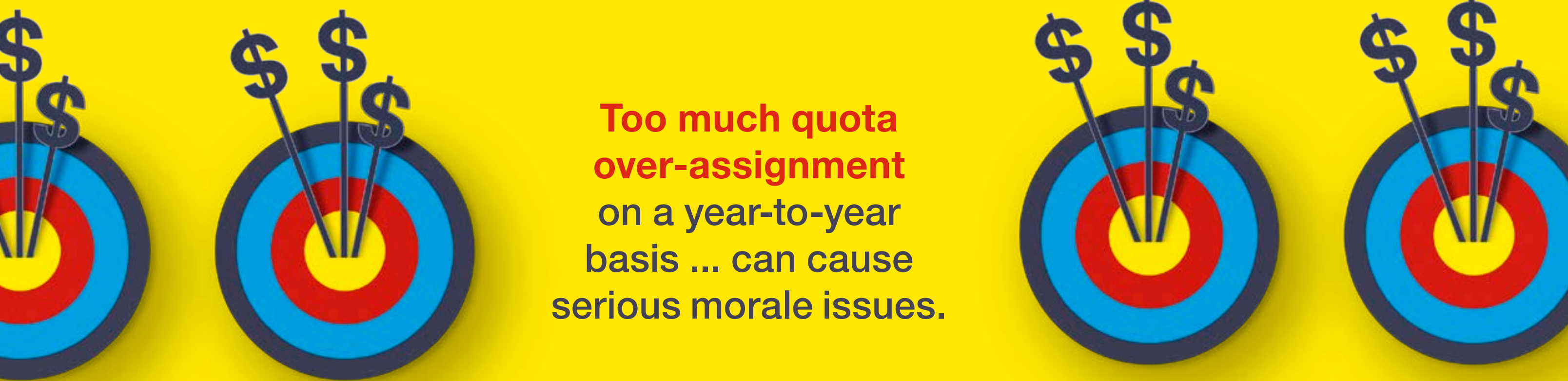

Therefore, it should not be surprising that many organizations often have to reshuffle teams and accounts/territories for many reasons. The common mistake though is organizations not considering the effects of these changes on associate and manager quotas. If an associate leaves your organization, and hiring a replacement immediately is impossible, then you may have to shift account responsibilities among remaining members of that sales team. If so, remember to allocate a pro-rated amount of quota based on how much time is left in the year and pipeline to the team members. Other sales associates can become disgruntled if they learn that another associate landed a big deal in an account that was given to them midyear without a proportional quota increase. Even worse, they may consider it lucky if the closer was given the deal when it was already in-flight, making the closer's attainment a poor comparison in relation to peers.

TAKEAWAY: As accounts and territories shift during a year, consider proportional quota changes to minimize risk and perceptions of unfairness.

Too Much Quota Over-Assignment

Depending on your industry, there's a good chance that you over-assign quota at the bottom level of your sales organization. This is common and not necessarily a bad idea in principle. But as with other factors in quota setting, too much of any one thing can be a bad thing. Too much quota over-assignment on a year-to-year basis, particularly if it causes multiple consecutive years of fewer than 50 percent of associates meeting or exceeding quota, can cause serious morale issues. Quotas become viewed as unreasonable and more than a stretch. Sales associates can become unmotivated and good employees can start looking elsewhere.

TAKEAWAY: If you over-assign quota, make sure you don't over-assign too much multiple years in a row. This can be tricky since over-assignment typically starts with aggressive top-level targets. But if history isn't backing up those top-level targets, make sure you raise the questions to the appropriate executives to make them aware of potential morale issues due to a streak of years with too much low attainment. ws

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