

5 Tips for Creating Sales Quotas that Drive Revenue.

MAKING YOUR SALES QUOTAS WORK FOR EVERYONE.

No one ever said that sales compensation planning is easy. It has a reputation for being confusing, complex and error prone. Perhaps that's why 30% of companies don't even establish sales quotas.

But the fact is, there's simply no better way to drive business results. Without quotas, your reps would have nothing to shoot for — and you'd have no realistic way of knowing whether you'll meet your company's revenue goals.

There is no one right way to set a quota, and the methodologies vary from company to company. The following tips will guide you in the right direction to make the most informed decisions possible.

Your sales goals can be realistic, measurable and achievable. We'll show you how.

TIP 1 Collect data and ask questions.

In this economy, next year's sales may bear little resemblance to last year. Which means creating your new goals isn't going to be as simple as taking old metrics, tacking on a certain percentage increase, dividing that evenly among sales reps, and calling it a day.

The first steps to designing effective quotas are to aligning your sales strategy to your company's overall corporate strategy.

Start with your company's revenue goal. Ask yourself:

- What are next year's opportunities?
- What's a reasonable revenue goal?
- Are marketing campaigns bringing in better leads, are new products being launched, are new sales tools being made available?
- What's going to happen in the economy?

Once you've nailed the basics, it's time to customize your quota data by deciding:

- Are your quota allocations tailored to each rep's role? For example, if a rep is responsible for selling to a vertical market, his or her quota should be defined by that market segment.
- Are the reps doing the same jobs as last year, or has there been a change in job roles?
- How dense is the territory? Is it time to split a territory to allow for better coverage or consolidate territories ?
- What is the potential of each territory? *(Read more about this important topic in tip #2)*

TIP ② Investigate the potential of each territory.

Not all sales territories are created equal. Each has unique histories, growth potential, and challenges. If you don't explore the differences — and account for variables like territory workload and sales potential, you might end up favoring some reps over others. Consider using existing geographic and territory data sources to fuel your recommendations and empower sales managers with the insights and confidence they need to refine their quotas.

Some of the most important factors that go into determining territory potential include:

- Number of possible accounts
- Number of businesses
- Average sales to those businesses
- Demographics
- Travel time needed to prospect each business

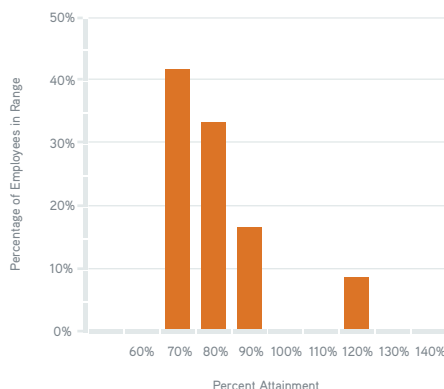
Many companies resort to equal growth methods because they don't trust their data — or because they doubt that a new process would be better than the one they already have in place. However, when they do that, they fail to realize that completely disregarding territory potential could have far reaching negative effects once the fiscal year is under way. Understanding your territory potential and factoring it into sales quotas can have a dramatic effect on productivity and, ultimately, profits.

TIP ③ Make sure the goals you're allocating are aggressive – but realistic.

To improve the chances of a company reaching its revenue goals, it's not uncommon for executives to over allocate quotas. Problem is, when the bar is set artificially high, you'll end up rewarding only a few rock stars — and frustrating the rest of your sales force. About the last thing you want is for your sales rep to give up trying to meet a goal they don't think they can reach — and start looking for a new job.

Ideally, you'll want more than 60% of your reps making their quota. Take a look at your sales attainment distribution from previous years or see how your sales are tracking so far this year.

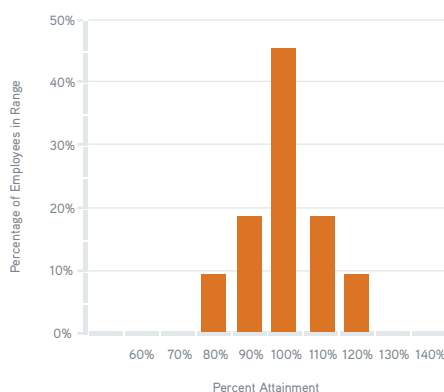
TYPICAL COMPANY



If the performance of your sales team resembles the chart to the left, chances are you have one of the following problems:

- **Your quotas and territories are out of balance:** Your few top performers have rich territories and do not need to work as hard as others to find business.
- **Your team has the wrong skills:** Reevaluate the skills needed for success and invest in training or make organizational changes.
- **Your quotas are overallocated:** Making better decisions based on available data and making quotas more attainable will alleviate this issue.

BEST-IN-CLASS



Best practice is to design your plans so that at least 60% of your team meets or exceeds quota. Achieving this will foster a culture of success and everyone will want to be part of that winning team. In the end, that translates into increased revenues to you.

TIP 4 Here's one way to check the reasonableness of your quota.

Here's a good formula for getting an accurate sales quota:

Sales Quota Formula = Territory potential (÷) your firm's average sale size (or specific product or service) in dollars (÷) number of leads needed to generate a proposal (x) average closing ratio (x) average value of one deal.

Making the calculation make sense

THE DATA:

\$10,000,000 TERRITORY POTENTIAL	\$50,000 AVERAGE SALES SIZE	10 NUMBER OF LEADS PER PROPOSAL	25% AVERAGE CLOSING RATIO
STEP 1: <div><div>\$10,000,000</div><div>÷</div><div>\$50,000</div></div> <div>200 OPPORTUNITIES IN TERRITORY</div>		STEP 2: <div><div>200 OPPORTUNITIES</div><div>÷</div><div>10 LEADS NEEDED TO GENERATE 1 PROPOSAL</div></div> <div>20 VIABLE OPPORTUNITIES TO SELL TO</div>	
STEP 3: <div><div>20 VIABLE OPPORTUNITIES</div><div>x</div><div>25% CLOSING RATION</div></div> <div>5 WINS</div>		STEP 4: <div><div>5 WINS</div><div>x</div><div>\$50,000 AVERAGE VALUE OF SALE</div></div> <div>\$250,000</div>	
\$250,000 SALES QUOTA			

Now, the question you should ask yourself is, is the quota reasonable? In this example, a \$250,000 quota should be easily achieved, whereas a \$350,000 quota may be a stretch, and a \$500,000 quota may be impossible.

TIP ⑤ The last thing you want is a failure to communicate.

By the time your measurements are set, you've done all the hard work. But all the calculations and data discovery in the world won't do much for you if your quotas aren't properly communicated.

Having the right documentation can make all the difference. Use it to make sure your reps know how you determined your quotas — and that they understand your plan is fair and unbiased.

Sales Motivator provides written commission agreements that clearly spells out what you want them to focus on selling and how they will be compensated — from high-level goals all the way down to the terms and conditions.

Use it as a discussion guide. Once your reps understand the plan — and how they can benefit from it — they'll be better focused on the activities you need them to, and the company will be better positioned to meet its goals.

Click [here](#) to download a sample sales compensation plan.



Cornerstone Software, Inc. is the developer of Sales Motivator,[®] a web-based, self-service software solution that lets small- and medium-sized businesses design, administer and communicate great sales compensation plans.