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SALES & MARKETING INSIGHTS

How Should Companies Adapt to Challenging Sales Force Quotas in This Environment?

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With the economy in a slowdown, some companies' sales quotas are becoming difficult or impossible to meet, resulting in a disengaged and frustrated sales force. What should management do? This paper will address the challenges involved in readjusting quotas in an economic downturn.

Introduction

The economic downturn has reduced the likelihood of companies achieving annual financial targets. All departments—marketing, finance and sales—now realize quotas that were based on national forecasts are no longer realistic. The likely result? A disengaged and frustrated sales force, leading to reduced sales and increased turnover in both the short and long term. Consider Figure 1 below, which illustrates the relationship between sales and quotas:

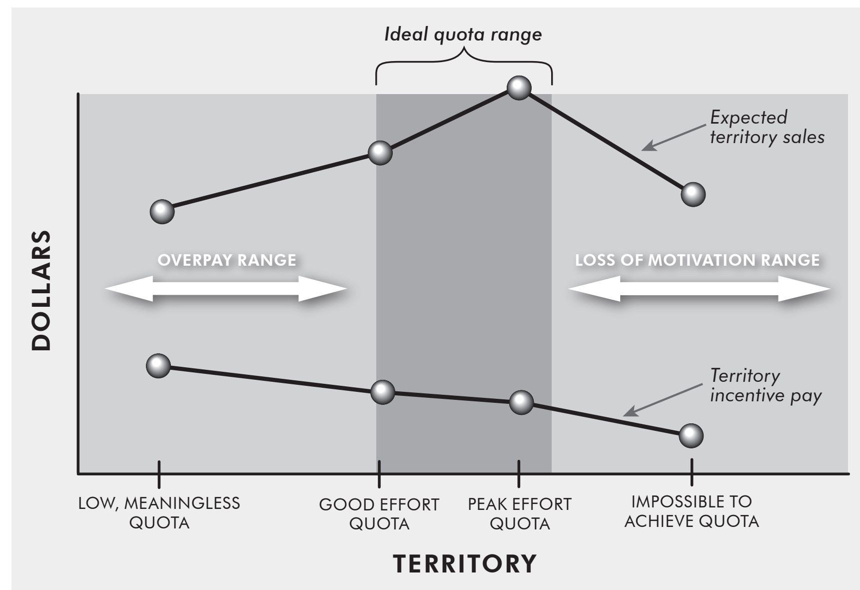

Figure 1. Sales quota linkage to financial plan: Sales organizations that have specific, challenging performance objectives outperform those with quotas that are too high or low.

Companies that set quotas that are impossible to achieve are limiting incentive costs, but they are also reducing sales compared to sales with achievable "stretch" quotas. These companies are also reducing morale and likely increasing short- and long-term turnover.

Three questions that we commonly encounter in this situation are:

1. Should we reset sales force quotas to more appropriate levels?
2. Should we change the plan design to lessen the pay impact and keep more people engaged?
3. Should we use SPIFs to drive sales representative engagement?

In this article, we will address these questions. As companies confront the economic downturn in terms of sales quotas, answering the above questions correctly can help make incentive earnings more realistic and reenergize a sales force.

Questions

Should we reset sales force quotas to more appropriate levels?

In a word, yes. An unachievable quota will result in fewer representatives earning target pay and lower sales overall (when compared to stretch quotas). While some companies have adjusted their financial targets to better reflect current market conditions, many are resisting for reasons that include uncertainty of what a new target would be, fears of setting a bad precedent and commitments to other business units, parent companies and shareholders.

When executives are unsure about setting a new target, it may be worthwhile to shorten the length of the performance period, allowing them to reset quotas if they are wrong. For example, if a company is currently on an annual plan, they should consider a semiannual or even quarterly plan. This creates flexibility in setting quotas.

If executives fear that the sales force will expect changes every time it is not meeting quota, the solution lies in communication. It needs to be clear that the reduction in quotas is temporary. The company should take credit for helping the sales force during a difficult time, and that salespeople can now attain these new quotas (albeit a stretch). In every communication, the company should reiterate that today's reduced quotas are not permanent and the company will link quotas to the national forecast when the economy improves.

Addressing commitments to internal and external shareholders is much more difficult. It is essential that the company formulate a rational argument why planned quota changes will result in increased sales in the short and long term.

Should we change the plan design to lessen the pay impact and keep more people engaged?

If quotas are not lowered, there are three changes to the core plan design that one can consider.

Lowering the threshold (the achievement level below which incentives are not paid). Below the threshold, salespeople will earn no incentive. If actual performance comes in well below 100% on average, a significant

number of sales representatives could earn nothing. Consider adjusting threshold levels so that the same numbers of representatives fail to earn incentive as have historically.

"Soften" the downside risk immediately below quota. Consider softening the downside risk in conjunction with lowering the threshold, so salespeople feel they have the ability to earn a significant portion of their incentive. When salespeople are below 50% of their target incentive, they largely give up and wait for next year. If they rise above 50%—putting them in the "hungry zone"—then the sales force becomes much more motivated.

Consider a ranking plan for all or part of the plan. Management can also convert quota levels into a "relative ranking plan" in which payouts are made based on national rankings, or the sales performance versus the quota. While this eliminates uncertainty—payouts are the same under any scenario—it may increase the level of undesired competitiveness within the sales force.

Should we use SPIFs to drive sales representative engagement?

If the company is averse to changing its core incentive plan, raising the SPIF/contest budget is another option. If there are no changes to quotas or the core sales incentive plan, sales incentive payouts will come in well under budget, and a portion of the budget savings can fund SPIFs/contests to increase sales and earnings.

Sales executives should ideally shift their focus from contests to SPIFs. SPIFs engage a higher percentage of the sales force than contests and get more people engaged in selling. It is important to create SPIFs that position a firm to be exceptionally strong post-recession. For example, SPIFs can support product launches or strategically important products that will drive sales when the economy recovers.

SPIFs do have caveats. Management should limit SPIFs to a relatively small number and make those effective and lucrative. In addition, companies should not pay for results that the sales force would have achieved regardless of a SPIF. They should motivate new or different behavior. Finally, SPIFs should be linked to long-term strategy and rolled out clearly and effectively.

Conclusion

If a company faces a national forecast its sales force knows is unachievable, management may be tempted not to act. While specific situations should dictate what is appropriate for a sales organization, inaction is likely to result in the sales force underachieving (even though sales incentive expenses will likely be below budget).

Sales management should consider its options. Challenge the status quo and show that lowering quotas could actually improve results, consider plan design changes or introduce SPIFs that drive business results and keep salespeople engaged. The result may initially increase the cost of sales, but will ultimately lead to higher sales and profits. ▮

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About ZS Associates

ZS Associates is a global management consulting firm specializing in sales and marketing consulting, capability building and outsourcing. The firm has more than 1,000 professionals in 17 offices around the world, and has assisted more than 700 clients in 70 countries. ZS consultants combine deep expertise in sales and marketing with rigorous, fact-based analysis to help business leaders develop and implement effective sales and marketing strategies that measurably improve performance.

As the largest global consulting firm focused on sales and marketing, ZS Associates has experience across a broad range of industries, including medical products and services, pharmaceuticals, biotechnology, high tech, telecommunications, transportation, consumer products and financial services.

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