Trends, Challenges and Best Practices in Quota Management

Survey Results and Process Methodologies
The agenda for this session includes reviewing new research and some time-tested techniques

- The Role of Quotas in Sales Management and Compensation
- Common Quota Issues Observed in Sales Organizations
- How Quota Setting Impacts Financial Performance
- Hewitt’s 2009-10 Quota Practices Survey Overview
- Hewitt’s Top Recommendations to Improve Quota Allocation

Our consultants have been tracking these issues for twenty years, analyzing the impact on revenue growth and compensation cost
Hewitt views the various sales management disciplines as interconnected and building from a customer view.

To many companies, commissions or quotas are the first answer to the question “how do we drive revenue growth?” In most situations, many other answers exist.

Hewitt Sales Performance Model

Understand Business Drivers
- Customer Insight
- Business Strategies
- Value Proposition
- Competitive Dynamics

Align the Sales Force
- Organization Design
  - Selling and Service Model
  - Job Roles and Structure
  - Deployment Planning
- Talent Management
  - Recruiting and Selection
  - Career Paths
  - Training and Development
- Performance and Rewards
  - Compensation and Recognition
  - Quotas and Measurement
  - Performance Management

Realize Business Impact
- Creating a sales structure that is effective in meeting customer needs in an efficient manner…
- Ensuring the availability of the right talent for the right role at the right time…
- Maximizing the productivity of an engaged sales force to exceed business goals…

We help our clients improve sales performance by getting the most out of their investments in sales people, creating a rewarding environment for sales people and company shareholders.
Sales incentive plans are a tool to reinforce strategy and drive growth, but often use quotas to measure attainment. Effective sales compensation plans translate the key business objectives and sales strategy into a design that drives behavior to execute. In creating this alignment, there are 10 critical elements:

1. Business Objectives, Sales Strategy, & Roles

2. Eligibility
3. Target Pay Levels
4. Pay Mix
5. Upside Opportunity
6. Measures/Weights
7. Mechanics
8. Quotas/Crediting
9. Payout Timing
10. Administration

Competitive | Aligned | Effective
Quotas tend to emerge as a critical tool to manage productivity and cost as companies grow and mature.

I  
Start-up

- Characteristics: Commissions
- Characteristics: High Risk
- Simple Territories
- Solo Credit

$0-100 Million
10 to 20% CAGR

II  
High Growth

- Characteristics: Commissions
- Characteristics: Moderate Risk
- Split Territories
- Split Credit

$100M - $1B
20 to 40% CAGR

III  
Optimization

- Characteristics: Quota/Bonus
- Characteristics: Moderate Risk
- Accounts/Territories
- Multiple Credit

$1B - $5B
10 to 20% CAGR

IV  
Maturity

- Characteristics: Quota/Bonus
- Characteristics: Lower Risk
- Accounts/Segments
- Team Credit

$5B+
-10 to 10% CAGR
Many companies overlook quotas as a critical element of the “Total Rewards” picture for Sales professionals.

Source: 2009 Hewitt survey of 1200 sales representatives
Quotas, if set improperly based on incomplete data, can create overpayment and complacency in sales resources.

**Rep A**
- $2 million in annual gross profit
- 5% annual growth
- 80 customers in a 500 customer territory
- Territory has $10 million in gross profit potential (20% share)
- Average discount 10%

**Rep B**
- $1.2 million in annual gross profit
- 10% annual growth
- 50 customers in a 250 customer territory
- Territory has $4 million in gross profit potential (30% share)
- Average discount 5%

Which is paid more in your company? Which should be?
Common Quota Issues

- Lack of visibility into future market growth
- Sandbagging by reps (and management)
- Over-burdening top performers with higher quotas
- Negotiation of quotas favors more senior reps
- Failure to communicate quotas in a timely fashion
- Failure to communicate quota-setting methodology
- Unclear ownership of quotas
- Mid-year changes create perception of gaming
- Change management from commissions to quotas
- Meaningless quotas with no impact on pay, promotion or recognition
- Inaccurate quotas driving up sales force cost
How to tell if quotas should be used in your sales force:

1. Do you have insight into the sales opportunity in territories/accounts?
2. Do you have a strategic obligation to cover lower density markets?
3. Have you begun to specialize roles based on channel, customer size, strategy or skill set?
4. Have you begun to realize that effort is gaining importance relative to results when allocating rewards?
5. Does territory re-assignment cause disruption in customer relationships?
6. Are you reducing headcount in the sales force?
7. Is internal equity important in your organization?
8. Are you looking for another lever to boost productivity?

*If you answered “yes” to three or more of these questions, quotas should be a strong consideration for your sales force and incentive plans*
Hewitt’s 2009-10 survey on quota practices showed that the median company expected 60% to achieve quota.

**Percent of Sales People Expected to Achieve At Least 100% of Their Quota**

In reality, only 24% of sales people achieved quota in 2009. How do we handle this?

Source: 2009-10 Hewitt Quota Practices Survey
The good news is that most companies did not pay out excessively for this performance, but...

- How do you maintain a robust employee value proposition for these sales roles?
- How do you sustain sales force engagement?
- What deeper analysis is needed?

**Overall Sales Organization Performance Against Goal in Last Completed Fiscal Year**

- Average=91%
- n=37

**Total Sales Incentives Paid As a Percent of Total Target Amount In Last Completed Fiscal Year**

- Average=83%
- n=38

Source: 2009-10 Hewitt Quota Practices Survey
A strong pay:performance correlation can help confirm that the company is protected and quotas are working.

\[ y = 1.0130x + 0.1076 \]

\[ R^2 = 0.8957 \]
Differentiation for top sales performers is critical to attracting/retaining the right people through downturns.
In spite of the preceding data, companies report being more subjective and lenient on underperformers…

For What Reasons are Across the Board Quota Changes Made?

- Key product launch date change: 33%
- Significant over-performance: 20%
- Significant under-performance: 33%
- Territory change: 20%
- Economic recession: 53%
- Natural disaster: 27%
- Customer bankruptcy: 13%

n=15

Percent of Respondents

Source: 2009-10 Hewitt Quota Practices Survey
...although companies were just as likely to reduce headcount, so it was top sales reps that got quota relief

Which of the Following Actions Did You Consider in 2009 as a Result of the Economy?

<table>
<thead>
<tr>
<th>Action</th>
<th>Did Not Consider</th>
<th>Considered</th>
<th>Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculated achievement differently (i.e. year-over-year vs. absolute performance)</td>
<td>55%</td>
<td>31%</td>
<td>14%</td>
</tr>
<tr>
<td>Set goals for a shorter period than usual</td>
<td>46%</td>
<td>14%</td>
<td>39%</td>
</tr>
<tr>
<td>Create a special incentive plan</td>
<td>31%</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>Removal/lowering of incentive plan thresholds</td>
<td>38%</td>
<td>48%</td>
<td>14%</td>
</tr>
<tr>
<td>Reduction in sales headcount</td>
<td>32%</td>
<td>29%</td>
<td>39%</td>
</tr>
<tr>
<td>Across the board quota reductions</td>
<td>50%</td>
<td>32%</td>
<td>18%</td>
</tr>
</tbody>
</table>

n=30

Source: 2009-10 Hewitt Quota Practices Survey
Sales goals are going up, so productivity boosters are going to be needed to overcome a lackluster economy

- R&D/Product Management need to launch innovative products
- Marketing needs to create more differentiators
- Sales Management needs to identify accounts with more potential
- Human Resources needs to supply superior Sales talent
- Finance needs to help determine how to equitably divide this growth goal

Source: 2009-10 Hewitt Quota Practices Survey
How are companies setting quotas?

Measures For Which Quotas Are Set

- Revenue: 87%
- Gross Profit: 38%
- Strategic Products: 29%
- Units: 24%
- New Products: 18%
- Other: 9%

Frequency of Quota Setting

- Annually: 62%
- Quarterly: 20%
- Monthly: 9%
- Every 6 months: 2%
- Other: 2%

Other than a two-fold increase in the use of Gross Profit as a measure, companies are staying on “safe” ground, largely setting annual quotas for revenue.

Source: 2009-10 Hewitt Quota Practices Survey
How are companies setting quotas?

Is Seasonality Applied to Quota Setting?
- Yes: 38%
- No: 62%

Buffer Applied to the Business Plan Relative to the Sum of the Individual Contributors' Quotas
- >0%<=2%: 33%
- >2%<=5%: 22%
- >5%<=7%: 44%

n=27, Median=5%

Source: 2009-10 Hewitt Quota Practices Survey
How are companies setting quotas?

- **Top-Down Simple Increase** - Exclusively top-down methodology where everyone gets the same growth goal (like 5%) over prior year final results or quota.

- **Individual Last Year Plus** - Exclusively top-down methodology where management gives everyone different growth goals.

- **Bottom-up Sales Potential** - Exclusively bottom-up methodology based on cumulative sales input about client opportunity.

- **Fair Share Allocation** - Bottom-up sales potential is used to allocate top-down overall number proportionately.

- **Hybrid/Combination/Other** (please specify)

**Quota Setting Methodology**

- 18%  
- 24%  
- 27%  
- 7%  

Approximately 45% of companies are using no bottom-up data to set and allocate quotas. This is an opportunity for improvement.

*Source: 2009-10 Hewitt Quota Practices Survey*
How are companies setting quotas?

Degree to Which Factors/Data Sources are Used in Setting and Allocating Quotas

Factors/Data Sources

Source: 2009-10 Hewitt Quota Practices Survey
As one would expect, respondents would most like to address the use of data in the quota-setting process.

Where You Would Focus Quota Setting Improvements

- Use of data to inform quota decisions
- Communication to reps about process
- Speed of process
- Setting the overall goal
- Allocation process and how individual quotas are determined

Source: 2009-10 Hewitt Quota Practices Survey
Sales Operations, while not present in all companies, appeared to be the most suitable owner for quotas.

Sales Operations was 45% more likely than Sales Management to employ a method using bottom-up data. Finance and Human Resources appear ill-equipped.

Source: 2009-10 Hewitt Quota Practices Survey
Hewitt’s Top Recommendations for Effective Quotas

1. Segment customers to determine differences in size, buying practices and growth rates

2. Invest in data and methodology to calculate sales potential at the account or territory level

3. Break down revenue into retained, penetrated and acquired (new account) categories to understand the real underlying growth dynamics

4. Understand sales capacity using sales process, time allocation and funnel shape

5. Consider ramp-up and onboarding pace for new hires

6. Strengthen quota links to compensation with thresholds, accelerators

On top of these techniques, the owners of the quota-setting process should expand periodic measurement, modeling and communication with the sales force to understand quota performance drivers
Different segments covered by different roles may require distinct quota-setting methodologies

<table>
<thead>
<tr>
<th>Segments</th>
<th>Financial Services</th>
<th>Telecom</th>
<th>Healthcare</th>
<th>Utilities</th>
<th>Retail</th>
<th>Consumer Goods</th>
<th>Govt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global / Strategic</td>
<td>$3000 M</td>
<td>$500 M</td>
<td>$400 M</td>
<td>$300 M</td>
<td>$400 M</td>
<td>$150 M</td>
<td>$1000 M</td>
</tr>
<tr>
<td>Major</td>
<td>$1000 M</td>
<td>$400 M</td>
<td>$200 M</td>
<td>$200 M</td>
<td>$100 M</td>
<td>$100 M</td>
<td>$500 M</td>
</tr>
<tr>
<td>Core</td>
<td>$500 M</td>
<td>$200 M</td>
<td>$100 M</td>
<td>$100 M</td>
<td>$0</td>
<td>$50 M</td>
<td>$250 M</td>
</tr>
<tr>
<td>Small</td>
<td>$250 M</td>
<td>$100 M</td>
<td>$50 M</td>
<td>$0</td>
<td>$0</td>
<td>$30 M</td>
<td>$120 M</td>
</tr>
<tr>
<td>Total</td>
<td>$4750 M</td>
<td>$1200 M</td>
<td>$750 M</td>
<td>$600 M</td>
<td>$500 M</td>
<td>$330 M</td>
<td>$1870 M</td>
</tr>
</tbody>
</table>

$10 B
Estimating Sales Potential by account sets up a more meaningful discussion about goals and opportunity.

Best Fit Line: \[ y = 1253x + 2918 \]

- Sales Potential
- $17,954
- 12 Physicians in Practice

# Physicians in Practice
Growth goals can be significantly easier or harder based on different retention trends in a business.
Sales is like any other work process... basic rules of time and motion still apply and impact sales capacity

<table>
<thead>
<tr>
<th>Process</th>
<th>Time</th>
<th>Leads</th>
<th>Proposals</th>
<th>Wins</th>
<th>Deliveries</th>
<th>Retained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate Lead</td>
<td>4 hours</td>
<td>1000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualify Lead</td>
<td>6 hours</td>
<td>700</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design &amp; Propose</td>
<td>30 hours</td>
<td>400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiate &amp; Close</td>
<td>25 hours</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fulfill &amp; Deliver</td>
<td>45 hours</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service &amp; Retain</td>
<td>20 hours</td>
<td>170</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Man-hours</td>
<td></td>
<td>4000</td>
<td>4200</td>
<td>12000</td>
<td>5000</td>
<td>3400</td>
</tr>
</tbody>
</table>

Knowing sales potential is half of the equation... a good manager will also seek an understanding of sales capacity and raise a red flag when process yield doesn’t seem to match the business plan and quotas.
Often, companies report that their highest turnover exists in a rep’s first two years when many fail to reach goals.
Target Total Compensation, pay mix, upside, and quota performance distribution should work together.

- Top 10% of Performers
  - TTC $150K
  - Target Variable $50K
  - Base Salary $100K
  - 1:1 Upside $50K
  - 2:1 Upside $50K
  - 4X
Questions and Discussion
Appendix

Supporting Slides
Over 50 companies participated in Hewitt’s 2009-10 study of quota-setting practices and performance

- Acorde Technologies
- ADT Security Services
- American Hotel Register Company
- American Medical Systems
- AmQuip
- Astellas Pharma
- Asula
- Blue Cross Blue Shield of Illinois
- Blue Cross Blue Shield of Minnesota
- Boehringer Ingelheim
- Cardinal Health
- CDW Corporation
- Comcast Corporation
- Contact Science
- Cornerstone Real Estate Funds
- Crown Imports
- Datacard Group
- Dominion Enterprises
- Flexigrow
- Global Staffing Services
- Hewitt Associates
- Herff Jones Inc
- HMNA Software
- Hollister Incorporated
- Johnson & Johnson
- Kraft Foods Inc.
- Lenovo
- Nalco Company
- NetEffect
- Omron
- Panduit
- Pro Tect
- RedLinx
- Pitney Bowes
- Sara Lee Corporation
- Siemens PLM Software
- Slea Buaic, LLC
- Smurfit-Stone Container Corporation
- Snap-on Incorporated
- Systems Management Services
- Thermo Fisher Scientific
- Total Services
- U.S. Cellular
- VWR International
- Walgreen Co. (WHS Division)
- Xerox

Source: 2009-10 Hewitt Quota Practices Survey
Survey Respondent Demographics

Respondent's Department/Function
- Sales Management: 22%
- Sales Operations: 6%
- Human Resources: 27%
- Finance: 45%
- Other: 6%

Ownership Structure
- Publicly Traded: 45%
- Privately-Held: Private Equity or Similar: 40%
- Privately-Held: Family Owned: 15%

Total Revenue of Responding Companies
- <$1B: 8%
- $1B-$3B: 14%
- $3B-$5B: 16%
- $5B-$10B: 57%

Growth Rate of Responding Companies
- <=0%: 18%
- >0%<=2%: 14%
- >2%<=5%: 36%
- >5%<=7%: 14%
- >7%<=9%: 18%
- >9%: 14%

Source: 2009-10 Hewitt Quota Practices Survey
Survey Respondent Demographics

Industries Represented

- Business/Professional Services: 15%
- Durable Manufacturing: 7%
- Insurance: 4%
- Medical Products: 13%
- Pharmaceuticals: 5%
- Retail: 4%
- Technology Products: 29%
- Technology Services: 22%
- Consumer Products: 7%
- Distribution: 15%
- Energy: 4%
- Non-Durable Manufacturing: 2%
- Real Estate: 2%
- Other: 9%

Other Industries = Packaging, Telecom, Finance

Note: Participants were asked to check all that apply.

Source: 2009-10 Hewitt Quota Practices Survey
Survey Respondent Demographics

Number of Sales Employees at Responding Companies
- <=100: 45%
- >100<=300: 28%
- >300<=500: 9%
- >500<=1000: 6%
- >1000<=2000: 6%
- >2000<=3000: 2%
- >3000<=4000: 4%
- >4000: 2%

Average: 770
n=53

Change in Sales Headcount from 2008 to 2009
- <=0%: 15%
- 0%-2%: 15%
- 2%-5%: 15%
- 5%-10%: 15%
- >10%: 9%

Average: 6.8%
n=47

Percent of Sales Headcount That Carries a Quota
- 0%: 6%
- 0%-50%: 14%
- 50%-75%: 14%
- 75%-99%: 6%
- 100%: 47%

Average: 76%
n=49

Percent of Sales Headcount Eligible for Incentives
- 0%: 61%
- 0%-50%: 6%
- 50%-75%: 22%
- 75%-99%: 10%
- 100%: 6%

Average: 86%
n=49

Source: 2009-10 Hewitt Quota Practices Survey
Hewitt Associates Is a Global HR Consulting and Outsourcing Company

Since 1940, we have helped our clients and their people succeed together by anticipating and solving their most complex rewards, talent, and financial challenges.

Whether your organization is a complex global organization, a growing midsized business, or somewhere in between, we can help ensure that the investments you make in people succeed.

<table>
<thead>
<tr>
<th>Rewards</th>
<th>Talent</th>
<th>Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>We help control the risk associated with rewards programs and their potential impact on business performance and financial results.</td>
<td>We help manage the potential of critical talent, executives, and next-generation leaders while minimizing the retention and compliance risk of a global workforce.</td>
<td>We help balance the potential and risks of benefit program investments and increase the speed and return on their most complex M&amp;A transactions.</td>
</tr>
</tbody>
</table>
Hewitt has built strong points of view on sales compensation with research, publishing, and client work

Hewitt is committed to performing cutting-edge research on performance and pay in the sales function globally

Hewitt Principals have developed new frameworks and intellectual capital for publishers such as WorldatWork
Professional Biography—Scott Sands

Scott Sands is a Principal and Sales Force Effectiveness Practice Leader located in Atlanta, Georgia. He works with senior executives in large, global companies to identify opportunities for revenue growth, select the proper sales channels, refine selling processes and messages for specific market segments, staff organizations with the right type and number of sales professionals, set fair but challenging goals, and design motivational incentives. He has 18 years of experience in industry and with leading professional service firms, including Briggs & Sands Consulting, Sibson Consulting, The Alexander Group, and Watson Wyatt. His recent client work includes: Fortune 1000 telecommunications, technology, pharmaceutical, insurance, banking, energy, and heavy manufacturing companies including: Adobe, Assurant, AT&T, Avaya, British Petroleum, Broadcom, Cisco, Cox Communications, CSC, Dell, Electrolux, EMC, General Electric, Intelsat, Johnson & Johnson, Merial, MetLife, National Semiconductor, Nortel, Northrop Grumman, Qwest, Roche, SonyEricsson, Sprint, Symantec, Travelers, Unisource, Verizon, VeriSign, and WellCare.

Scott is a frequent author and speaker at national conferences. His work has appeared in Workspan, Selling Power, SAMA’s Velocity, and Sales & Marketing Executive Review. In 2006, he co-authored the WorldatWork’s bestselling book Sales Compensation Essentials. Scott holds a bachelor’s degree in Electrical Engineering and Mathematics from Vanderbilt University and a MBA with a focus in Marketing and Organization Effectiveness from The University of Texas.

Scott oversees all dedicated Sales Force Effectiveness consulting resources in North America. He coordinates with global Hewitt Talent and Organization Consulting (TOC) resources to ensure that this fast-growing segment delivers proven approaches, cutting-edge insight, and client business impact.

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