

## Sales Quotas in Uncertain Times



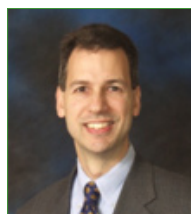
### Hold the line on sales quotas, or cut sales people some slack?

The economic crisis is making it hard for sales teams and companies to meet their sales goals. This is bad for companies; but it's even worse for sales people, many of whom rely heavily on incentive-based compensation. Should companies take a hard line and only pay sales people what their incentive contracts explicitly require? Or should they take a kinder and gentler approach and pay incentives even when stated goals are not met? And what should happen when the market does turn around? Here's the debate currently raging in executive suites around the world.

Here's the debate:

	Point	Counterpoint
<b>Take a hard line on sales quotas and incentives</b>	If we pay incentives when sales people don't make their goals, they won't take future goals seriously.	People understand this is a highly unusual situation and won't expect a bailout during normal times.
<i>"Don't pay incentives if sales goals are not met – regardless of what is happening in the economy."</i>	Paying people incentives they didn't earn will drive up costs. We can't afford to do that.	We can't afford not to. If people work hard and don't get paid, they will stop working hard – and will jump ship at the first opportunity.
	Sales people understand and accept the risks of incentive-based compensation. It's part of the game.	Risks and rewards for incentive programs should link to personal performance. The economic crisis was an external event that people could not have expected or controlled.

	Point	Counterpoint
<b>Pay incentives even if sales goals are not met</b>  <i>“Adjust sales quotas and incentives to reflect the challenges of a tough economy.”</i>	A sales goal is supposed to motivate people to work hard. If people try their best, we should pay them. It’s not fair to punish them for something beyond their control.	If our company didn’t get paid in the form of additional revenue, why should our sales people get paid more than what we contractually owe them?
	People need the money to pay their mortgages and keep their lights on. Helping them out is the right thing to do.	Let sales people take out a loan or cut back on spending. The lucrative incentives they will earn when the economy bounces back will more than offset their short term pain.
	If we cut sales people some slack when times are tough, it will increase their loyalty and make them work even harder in the future.	Cutting people slack just encourages them to slack off.



## My take

**Michael Vaccaro, Specialist Leader, Sales Effectiveness, Deloitte**

When it comes to adjusting sales quotas, the right answer is different for every company. Key questions to consider:

- What does the data reveal? To choose the best course of action, you need a clear understanding of the problem. For example, is it spikes of missed quotas in particular regions or sub-segments? Or a consistent level of poor performance across the entire team? Quantitative and qualitative analysis can reveal important patterns to point you in the right direction.
- What does the sales cycle look like? For some businesses, successful selling requires a short-term, transaction-oriented focus; for others, longer-term sales cycles and relationship-building are the norm. There is generally more latitude to modify targets in the latter case because existing goals tend to already reflect an unpredictable sales cycle.
- How was the initial quota set? If the sales team had a large role in determining their own goals, they are more likely to accept responsibility for falling short – even in a tough sales environment.
- What are the characteristics of our current sales culture? Different sales organizations have different cultures. Some take a hard line approach on everything; others are more forgiving. Your current actions should be consistent with past cultural precedents.
- What are the cash flow implications for the sales team? Sales people with low base pay may be struggling to pay their bills and mortgage. In these situations, it is especially important to offer some relief on quotas.
- Are your systems flexible enough? If you don’t have flexible technology tools for managing performance and sales incentives, making on-the-fly changes could lead to large errors in sales reports and payouts.

Companies leaning toward a hard line can still offer sales people a little relief while maintaining the full integrity of their quotas and incentives. Consider establishing a fixed, sales-wide pool of bonus dollars, with top performers getting a larger share. Or think about creating an additional, short-term incentive program to reward top performers, even if standard sales quotas are not met. Companies that have a “cushion” where their overall sales quota is less than the sum of quotas for individual sales people can use the cushion to cut the sales force some slack without disrupting the business’ overall targets.

Organizations leaning towards a kinder and gentler approach might want to consider changing metric weightings away from market sales and focusing more attention on key activities, behaviors and effort. Another possible strategy is to adjust quotas across-the-board, so it’s clear the adjustments – whether up or down – are driven by external factors that affect everyone. This helps send a message of fairness. Also, consider using standardized “windfall” and “reverse windfall” clauses to bring structure and consistency to goal changes. A standard framework for handling unusual events can help control costs when goals change.

Businesses pursuing a middle-of-the-road approach might want to consider short-term recoverable draws. If the sales team consistently met its goals in the past, then allowing people to borrow against their future expected incentives might make sense. Lowering or eliminating bonus thresholds is another way to generate short-term cash flow for the sales team and to acknowledge a tough sales environment. Also, consider making payouts more frequent. Dividing goals into smaller time chunks – for example, shifting from annual goals to quarterly goals, or from quarterly to monthly – puts cash in people’s pockets faster and helps restore positive momentum for the business.

Temporary modifications that work well can be integrated into the company’s standard sales quotas and incentive programs, helping to position the business for renewed growth as the economy bounces back.

## A view from the pharmaceutical sector

### **Edward Basanese, Principal, Deloitte Consulting LLP**

The Pharmaceutical industry and its treatment of sales quotas have changed in some dynamic ways over the last ten years. In the past, most companies maintained a “hard line” approach, where sales representatives were expected to take on significant at-risk pay structures that included higher leverage in terms of their overall pay ratio between base, fixed pay and variable commission pay. Pharma relied heavily on a direct-selling model and reps were then a primary means to get products into the hands of buyers with their influence on the sales process largely unquestioned.

Today, we see companies making many changes that impact sales pay philosophies – driven by new demands in commercial strategy, regulation, competitive pressures, and in the deployment of field sales professionals. It’s no secret there are less field sales staff working for pharma organizations nowadays, and those sales people are taking on new roles that require a different philosophy around compensation and goaling. We see three approaches as particularly prevalent:

- Increasing focus on salary and stable payout streams, similar to today’s traditional National/Strategic Account Managers – The expectation is that Sales Representatives manage their territory as a business and coordinate efforts with other field team members, essentially rewarding for efficient customer relationship management, not quick transactional volume type effort.
- Instituting team based plans that smooth out geographic sales variations, reflect the needs of customers today, and the process needed to sell to them- this entails a complex sets of accountabilities and relies on sales skills, tools, and techniques that are designed to enable higher sales volume and profitability.
- Setting quotas on a quarter by quarter basis, allowing finance and/or sales operations more flexibility and opportunity to react to market conditions.

All in all, it is a time of new ideas and innovations in pharmaceutical sales incentive compensation practices.

# A view from the technology sector

**Michael Herman, Principal, Deloitte Consulting LLP**

Effective quota setting is a frustrating topic for Sales and Finance organizations in all industries in the current economic environment. This issue is magnified even larger for companies in the Technology industry. Over the last five years, technology companies have employed increasingly complex go-to-market strategies that involve multiple sales channels and complex sales models that make annual quota setting difficult and midyear adjustments even more difficult.

Sales organizations of technology companies include front line sales reps, such as account managers and overlay roles, such as product specialist and channel managers. Quota is shared across all these roles and often across multiple geographies, verticals, and channels. Because technology companies drive end user demand through these multiple sales channels (e.g., Distributor, VAR, OEM) simultaneously, their quota setting process must not only align top down corporate financial goals with bottom up sales targets, but also account for the multiple ways of getting products to end customers.

Effective quota setting in technology companies requires that sales be tracked at multiple levels (e.g., product, territory, and region). While there are a number of technology-enabled Sales Performance Management systems that assist with tracking and crediting of sales, this is still a particular area that technology companies struggle with today. Tracking sales for third party channel partner is even more challenging as technology companies must rely on accuracy and timeliness of partner data. These challenges can impact the overall effectiveness of quota setting which has a direct impact on incentive compensation and can lead to higher than budgeted compensation spend.

A recent trend in the high-tech sector is the increased use of subjective measures (e.g., MBOs) with longer time horizons for business development sales reps. These sales reps are engaged early on with customers to gain insight into demand trends earlier on in the product lifecycle. The idea is to get their sales reps closer to end users to partner up the product lifecycle chain, with the ultimate goal of seizing “design win rights” early on in the sales process. With design win rights, these high-tech companies can become market makers for new product functionality instead of followers.

For more information, please visit: [www.deloitte.com/us/debates/salesquotas](http://www.deloitte.com/us/debates/salesquotas).

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