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Sales planning like it's 1999?

Take the guesswork out of target setting.

Jason Angelos and Mark Wachter

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Economy Grocery Stores Corporation was one of the first companies to embrace quota setting as a mechanism to boost lagging sales. The year was 1939.[1] Since then, surprisingly little about the sales-planning or target-setting process has changed. While the use of spreadsheets and databases peaked in the late 1990s to allow companies to execute sales planning on a broader scale, planning is still—at its core—based on historical observations and gut feelings. And sales quotas continue to be, as one Economy Grocery executive noted nearly 75 years ago, "inevitably based on an arbitrary decision."[2]

As much as business-to-business (B2B) sales leaders may not want to admit it, the highly subjective, rearview approach to planning produces targets that are disconnected from the reality of sales performance. This issue is not only relevant to quota-bearing salesforces. Companies that leverage commission payment structures, such as insurance carriers or telecommunications providers, also struggle to accurately align active value contributions and sales coverage planning.

CSOs in all industries would welcome a better, more accurate, opportunity-based approach to goaling. But the lack of actionable data, along with the persistency of outdated mindsets, has led many of them to believe that change is impossible.

It's not.

With access to a new breed of digital tools and predictive analytics, CSOs can finally leave the 90s behind with a more intelligent approach to sales planning and target setting that drives—not hinders—profitability. Change is not only possible. For B2B companies, it's necessary.

Don't misquote me

Quotas are a big deal. In our experience, up to 90 percent of companies in certain industries employ quota-based compensation models.[3] Additionally, quotas inform or control nearly 25 percent of an organization's total sales-related spending.[4] It's a shame that popularity and importance don't equal effectiveness.

Accenture Strategy's research and experience has revealed a major disconnect between sales planning and company performance. That's reflected in the typical 20 percent gap between what businesses achieve and what they pay for. In fact, we estimate that poor quota setting causes companies to spend 6 to 10 percent more than they should.[5]

The cost of bad quotas

Accenture has found that, in general, every point of excess attainment created by ineffective quota setting creates two additional points of cost. Additionally, the cost of bad target setting is approximately 6 percent of sales incentives. That's $60 million for a company that spends $1 billion on sales incentives. With more accurate quotas, the company would be able to allocate that money to programs that drive topline growth.[6]

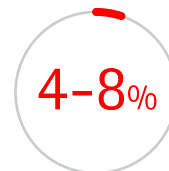
Further, CSO Insights has found that while 63 percent of sales reps meet or exceed their quotas, their companies achieve, on average, just 90 percent of their revenue targets.[7] It's not uncommon for companies to exhibit such discrepancies. They can achieve their sales plan, with just small percentages of their sales reps exceeding their quota goals. Conversely, they can have nearly all of their sales reps attain their quotas, while the company only achieves 75 percent of its sales targets.

One reason that quotas are so vexing is that they are largely based on false assumptions. For example, companies tend to use quota attainment as a barometer of high performance. But defining high-performance sellers as those who make their quotas is virtually meaningless. That's because high performance among sales reps is not consistent. While more than half of sales reps will be in the top quintile of sales performance at least one quarter of a given year, only 4 to 8 percent will sustain that level of performance over two consecutive quarters. Those 4 to 8 percent of sellers are consistently good half the time. About 28 to 32 percent simply get lucky once.

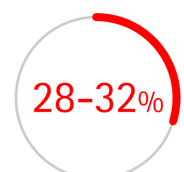
It's not surprising that many sales reps are critical of quotas. Internal surveys we've conducted with client organizations indicate that sales reps are dissatisfied with their quotas. They don't trust them. And, frankly, why should they? In today's environment, quotas are based on a toxic fusion of past performance, feelings and guesswork. This combination of inputs produces quotas that are woefully inaccurate. The repercussions are huge. A quota that is 10 percent too low may result in 30 points of extra payout. A quota that is 10 percent too high might translate into no incentive pay at all.

Sales reps, it turns out, are playing the quota lottery.

WHILE MORE THAN HALF OF SALES REPS WILL BE IN THE TOP QUINTILE OF SALES PERFORMANCE AT LEAST ONE QUARTER OF A GIVEN YEAR



ONLY 4 TO 8 PERCENT WILL SUSTAIN THAT PERFORMANCE OVER TWO CONSECUTIVE QUARTERS

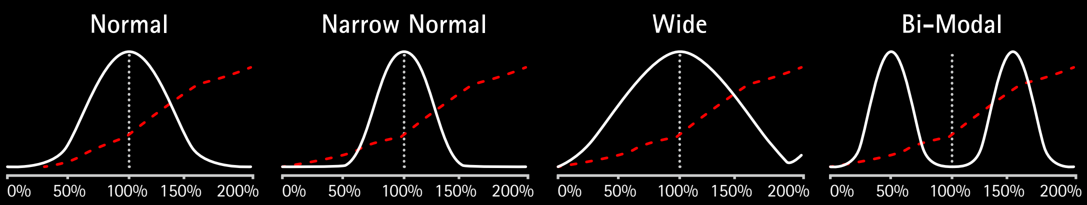


ABOUT 28 TO 32 PERCENT SIMPLY GET LUCKY ONCE

The inadequacy of quota attainment as a measure of sales performance can also be seen in quota performance distribution. When it comes to attaining quotas, average attainment and median attainment should be nearly identical. But in most companies they rarely are. Average is almost always higher. This disconnect, along with the shape of the performance distribution, provide further evidence that the accuracy of the target-setting process is off. The higher this variance, the greater the impact on sales-related spending.

Incentive costs vary according to quota performance distribution

Consider four scenarios in which a company generates $100 million in revenue. A wide performance distribution in terms of quota attainment will result in the company paying 4 percent more in target incentives (Tis) than it would in a scenario of normal quota distribution, and 11 percent more than a narrow distribution scenario. These overpayments can take a significant toll for companies that spend $100 million or more in sales incentives each year.



	Normal	Narrow	Wide	Bimodal
Revenue	$100,000,000	$100,000,000	$100,000,000	$100,000,000
Cost of Ti%	120%	113%	125%	134%
Cost of Ti	$2,400,000	$2,260,000	$2,500,000	$2,680,000
Total Cost	$4,400,000	$4,260,000	$4,500,000	$4,680,000
CCOS	4.40%	4.26%	4.50%	4.70%

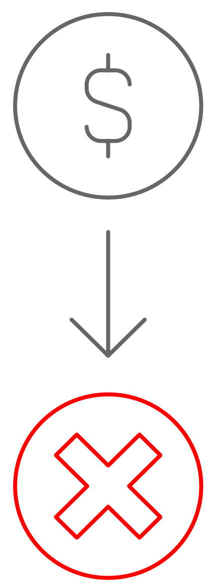
Stop the madness

CSOs have focused on making the goal-setting process faster and more efficient. They are much less concerned with improving the accuracy or relevance of the data that underpins their calculations. They continue to rely primarily on hunches, intuition and guesswork.

Thanks to digital advances, CSOs now have the chance to re-invent their approach to target setting and optimize everything from territory coverage to revenue. But to seize that opportunity, they must be willing to reject the status quo. And they must overcome a mindset that has stymied the target-setting process for decades. That means they must:

Stop overpaying for under performance.

As noted, the link between quota attainment and business performance is broken. In some cases, the link doesn't exist at all. Sellers are often rewarded for being at the tail end of a successful team's conga line. In fact, as much as 20 percent of sales attainment can be attributed to lucky sellers who weren't directly involved in the deal.[8] Compounding the problem is the proliferation of overlay selling roles, which get credit for a sale regardless of their involvement. Acknowledging this wastefulness is the first step to ending it.



Stop playing the quota lottery.

Sales performance, as defined today, is highly random due to poor sales planning and inaccurate target setting. Those considered “top sales performers” usually aren’t—or aren’t for very long. CSOs need to acknowledge the performance variability among their sales team members and admit that their current incentive programs rarely reward sellers appropriately.

Stop relying on their gut.

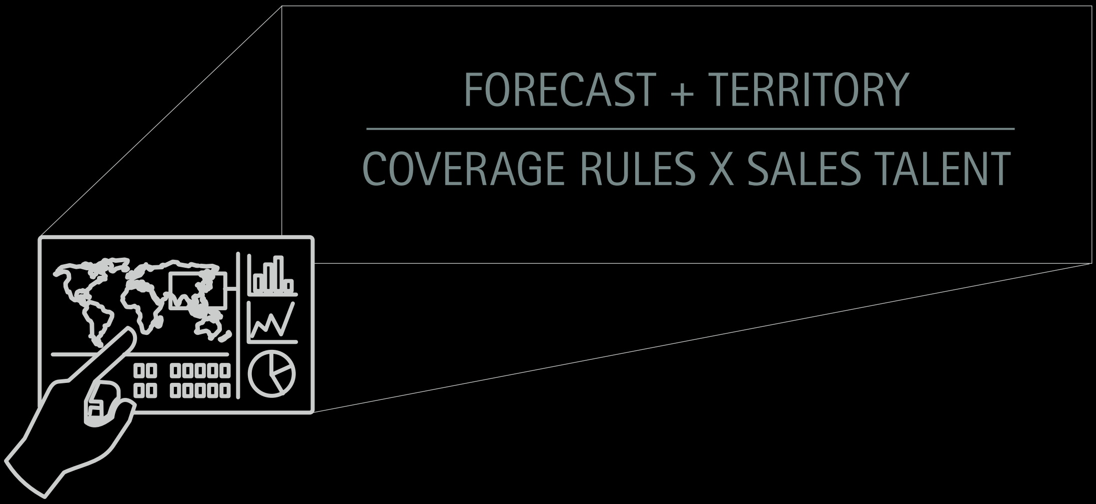
Nothing derails goaling formulas faster than compounded guesswork and intuition. CSOs need to accept that guesswork makes quotas worse, not better. And they need to realize that tools and predictive analytics are now available to create a more rigorous sales plan, based on relevant and accurate data and projections.

Regain control

Once they've adjusted their mindsets and agreed to stop doing things that impede quota value, leaders can start making the changes to transform their goaling process. We recommend they focus on three things:

1. Commit to the fight for more intelligent quotas.

Leaders need to embrace a more intelligent approach to setting targets—one that allows them to set quotas by territory and product group, accurately forecast market potential, and match opportunity with talent. To build that smarter approach, CSOs need to identify and invest in digital solutions such as territory visualization tools that optimize sales coverage, as well as predictive analytics that allow them to replace historical data and guesswork with a true understanding of the marketplace.



2. Arm themselves.

In addition to investing in tools that enable them to look forward, CSOs may want to consider augmenting their workforce with digital tools, advanced analytics or robotics. In addition to integrating data related to markets, industries, customers, sellers and channel partners, the use of cognitive computing frees sales managers to help their sales reps hit their (more accurate) quotas. While such digital tools can dramatically improve goal-setting processes, they are only effective if the information upon which their recommendations are built is of high quality. This means sales leaders need to already think carefully about the data that will be fed to the machines.

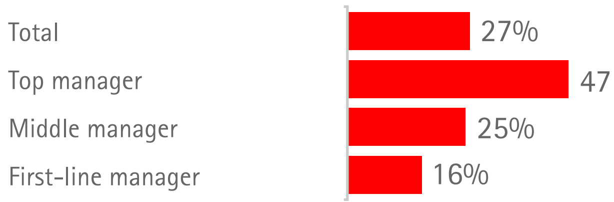
3. Prepare the troops.

The benefits of digital tools, predictive analytics and machines are clear. But that doesn't mean the transition to a new way of working will be easy.[9] CSOs need to overcome their sales teams' resistance to intelligent target setting and sales planning. A strong change management program and advocacy from the highest levels of the organization will be key. It will also be important to clearly explain the machine's logic. A phased transition can help sales reps and managers see the value for themselves. One technology company introduced machine-derived recommendations, which sales teams could accept or reject. Once the teams saw the accuracy of the machines' projections and the specificity of the forecasts provided (e.g., by product type per account per territory), they were sold.[10]

Lower level managers are skeptical about taking advice from machines.

Trust system advice in business decisions.

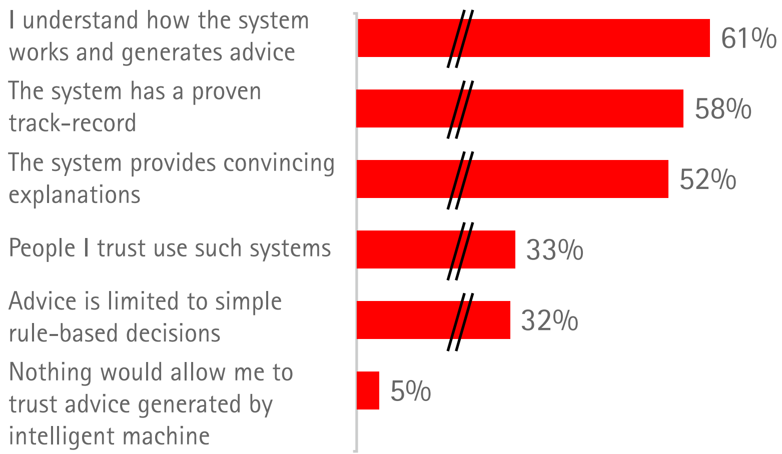
Q10. I would trust the advice of intelligent systems in making business decisions in the future.



Managers are reluctant to blindly follow the advice a machine dispenses. It seems that humans want machines to explain their logic before they will accept it.

What would allow you to trust system advice?

Q11. What would allow you to trust advice generated by an intelligent system? (choose up to three)



Join the quota revolution

Sales planning and target setting have not changed for decades. It's clearly time for a quota makeover—if not a full-scale revolution.

Companies now have an unprecedented opportunity to take the emotion and guesswork out of the equation. With digital tools, analytics and a new mindset that values accuracy over efficiency, sales leaders can gain a true understanding of market potential. They can align the right people to the right opportunities. And they can finally close the gap between the sales performance they achieve and the sales performance they pay for.

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Notes

[1] William Applebaum, "A Case History of Sales Quotas," *Journal of Marketing*, Vol. 7, No. 3 (Jan., 1943), pp. 200-203.

[2] Ibid.

[3] Accenture Strategy analysis and experience.

[4] Ibid.

[5] Ibid.

[6] Ibid.

[7] CSO Insights, "Sales Compensation and Performance Management Survey for USD 1B+ Revenue Companies," 2015.

[8] Accenture Strategy Spend Optimization Analysis, 2016.

[9] Accenture Strategy, "Managers and machines, unite!" 2015.

[10] Accenture client experience.

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