The art of setting sales goals

Viewpoints on sales management and incentive compensation

In a perfect (or at least simple) world, “go forth and sell” might be a sufficient objective to lay before a sales force. But in our imperfect world, it’s anything but sufficient. Effective selling demands a well-thought out goal-setting process that clearly identifies and communicates how much the sales force should sell, both collectively and individually. Yet, many organizations continue to address goal-setting in a fairly casual, freewheeling manner, with adverse (albeit unintended) consequences for their performance and results.

Effective selling demands a well-thought-out goal-setting process.

Does your organization fall into that category? One or more of these symptoms may suggest some problems in current goal-setting methods:

- Major “road noise” (i.e., complaints/dissatisfaction) from the sales force
- An unexpected distribution in meeting sales quotas at the end of a performance period
- Significant numbers of sales territories meeting their quotas, while the national goal isn’t met.

Although there is no single right answer or approach to successful goal-setting, any one of the following methods can be appropriate for your organization. What’s important is to understand the merits and drawbacks of each, and mesh one to the specific needs of your culture and selling environment.

1. Business plan allocation

Under this common approach, a company sets an aggregate sales goal based on contribution or price-per-share assumptions and essentially sends that “cascading” down through the sales structure. When the goal cascades down without any increase, we call it a *realistic* allocation process. When it is increased on its downward path, we call it a *stretch* allocation process.

In either case, the point is to produce the largest possible proportion of "realistic" (read motivational) objectives at the territory level so the smallest possible number of territories have to make quota in order for the company to meet its national sales target. The overriding objective is to have each sales representative "own," and commit to achieving, a manageable piece of the broad organizational goal. Typically, the process involves:

Setting the national sales goal.
The national sales goal is usually determined under an overall strategic business unit plan or marketing plan. Some organizations use econometric models for this purpose, while others set their goals on a fairly subjective basis, changing them as needed.

Because the national sales manager (NSM) usually isn't directly involved in determining the number, he or she has to decide how realistic it is by assessing how much of the goal can be met from a finite number of large, well-covered accounts. If the national goal includes a modest increase in expected sales from these accounts, the NSM accepts it. If the increase appears too great, he or she may negotiate to reduce it to a more realistic level.

Allocating the national goal to regional sales units.
The most common approach here is to slice the national goal into individual percentage increases by product category, geographic region, customer segment or individual sales territory. Because increasing regional goals by an arbitrary amount at this stage can undermine the whole process, goals for regions or other sub-units should be kept realistic. The challenge is to balance the needs of the regions versus those of the company as a whole — ensuring that each region's goals are fair, yet collectively combine to bring in the national sales goal.

Adjusting individual territory goals.
The final level in the downward "cascade" is allocating regional goals to individual sales force managers or to territory reps themselves. The simplest method is to give each rep or territory a uniform percentage increase and make "equity" adjustments only in exceptional circumstances. This ensures that the company will meet its aggregate goal as long as enough territory representatives achieve their goals. The two other ways to allocate individual goals both involve some customization:

- One is to adjust goals based on workload, taking into account such factors as a rep's number of accounts, close ratio, average size sale and time per call.
- The other approach is to adjust goals based on a rep's personal knowledge of his or her accounts. For instance, a rep whose accounts have a high potential for increased sales and low penetration would get the biggest relative increase in goals since he or she has the most opportunity for the least selling effort. Conversely, a rep whose accounts have low potential and high penetration would get a lower relative increase in goals since he or she would have to make a maximum effort to attain modest incremental sales.

2. Market potential allocation
The second approach to setting an aggregate company sales goal also involves market potential — albeit total sales potential, not merely potential in a particular territory or market segment. This approach can be appropriate in the following two situations:

There is a known universe of buyers.
In some industries (e.g., fleet services), the total universe of potential buyers can be identified with relative accuracy and ease. In other industries, companies can bolster publicly available information with more accurate, timely primary research on buyer locations and patterns to produce reliable estimates of market share, market penetration and market potential for existing and new product lines. They can then use such research to fine-tune goals to reflect specific market share data, thus ensuring that goals are realistic and attainable.

There is a virtually unlimited universe of buyers.
In some cases (e.g., introducing a new high-tech product), sales volume is limited only by a rep's selling skills and available time.

3. Workload allocation
Under this approach, the national sales objective is based on a fairly mechanical allocation of the business plan. But that is tailored at the unit and territory level to reflect physical limitations in product distribution or time available to sell and service. In essence, each rep's maximum goal becomes a function of his or her capacity to deliver the product personally. The key is to ensure that the marginal increment in sales indicated by the goal continues to justify the investment of scarce working capital for assets assigned to the selling resource.

The goal's the thing
While there's no great mystery to goal setting, there's also no magic formula. The "right" approach should track closely with your organization's philosophy, structure, needs and selling environment. The only wrong choice is no choice at all: leaving sales reps to intuit management's wishes for an appropriate level of sales.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

wtwco.com/social-media

WTW-XX-XX-XXX-XXXXXXXXX

wtwco.com