



Can Sales Compensation Survive the Fall-out from Flawed Goals?

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■ Your Presenter

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The agenda for this session includes reviewing new research and prevalent company practices

- The Role of Quotas in Sales Management and Compensation
- Common Quota Issues Observed in Sales Organizations
- How Goal-Setting Impacts Financial Performance
- Hewitt's 2009-10 Quota Practices Survey Overview
- Hewitt's 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 sales management disciplines as interconnected and based on the customer

Hewitt Sales Performance Model



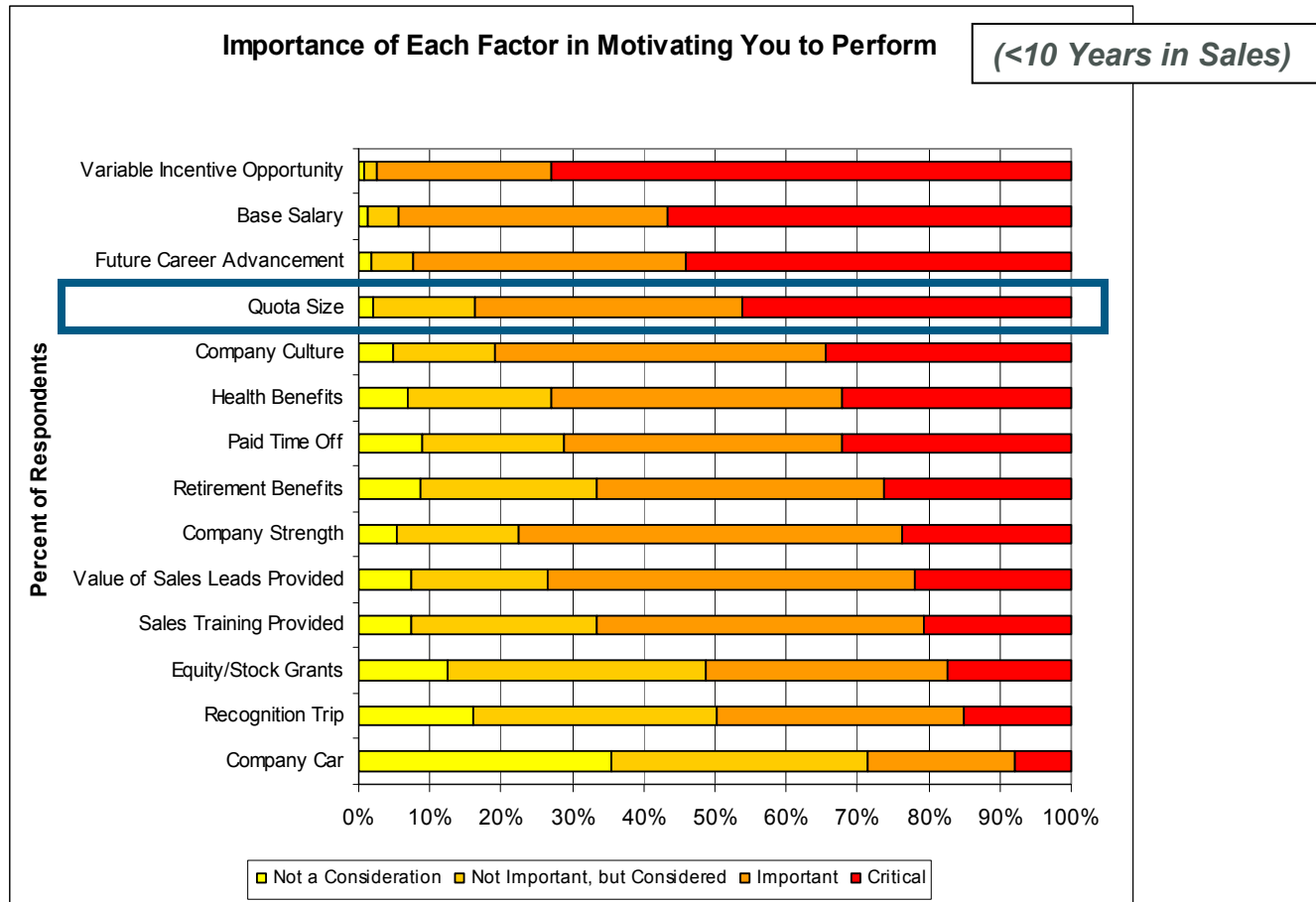
We help our clients improve sales performance by getting the most out of their investments in sales resources, creating a rewarding environment for sales people and company shareholders

Sales incentive plans work with quotas to reinforce strategy and drive growth

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:



Many companies overlook quotas as a critical element of Total Rewards for Sales



Common Quota-Related 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
- Change management from commissions to quotas
- Meaningless quotas with no impact on pay, promotion or recognition
- Mid-year changes create perception of gaming
- Inaccurate quotas driving up sales force cost

Quotas, if based on incomplete data, can create overpayment and complacency

Rep A

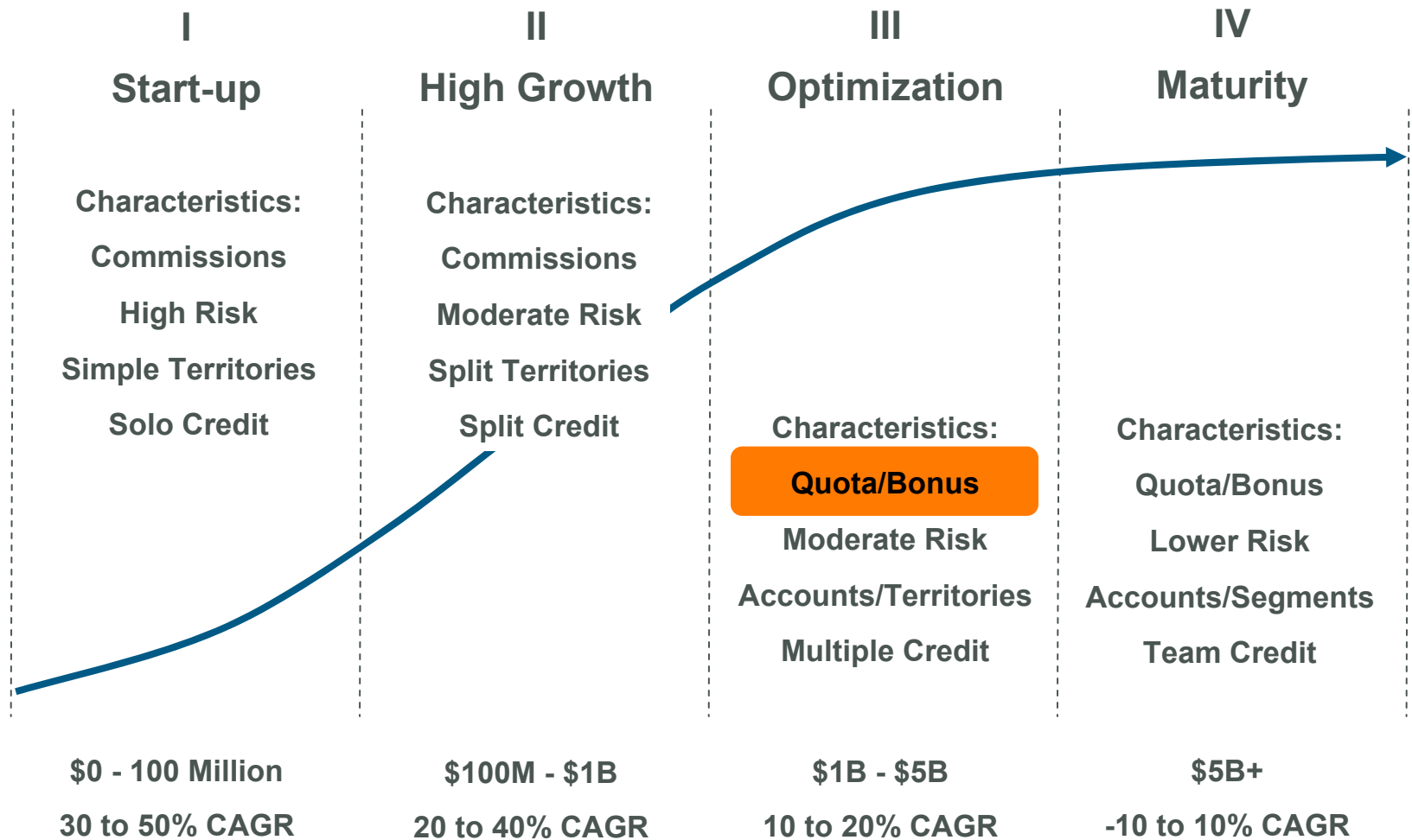
- \$2 million in annual gross profit
- 5% annual growth
- 80 customers in a 500 customer territory
- Territory has \$10 million in gross profit potential (20% share)
- Average discount 10%

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?

Quotas tend to emerge as a tool to manage productivity and cost as companies mature



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?

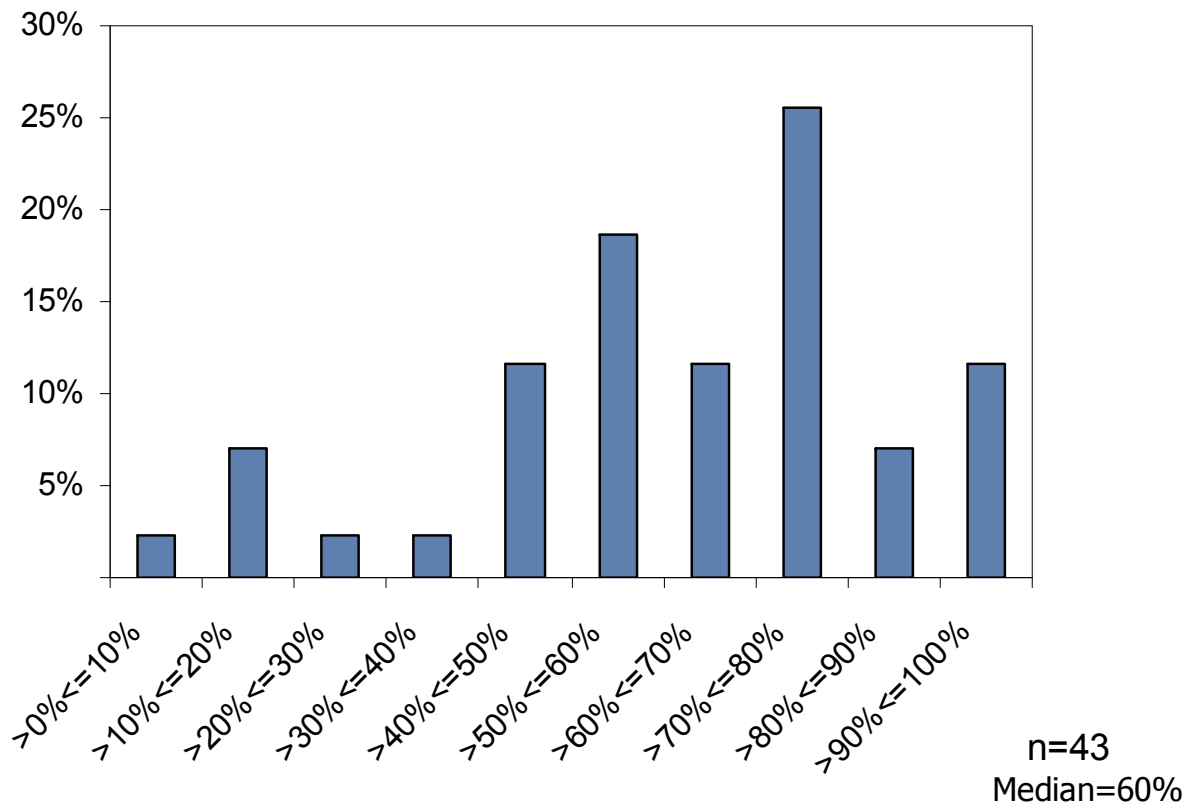
If you answered “yes” to three or more of these questions, quotas should be a strong consideration for your sales force and incentive plans

Over 50 companies participated in Hewitt's 2009-10 study of quota-setting practices

- 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
- Flexigroup
- 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

Hewitt's 2009-10 quota survey showed that the median company expected 60% to achieve

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

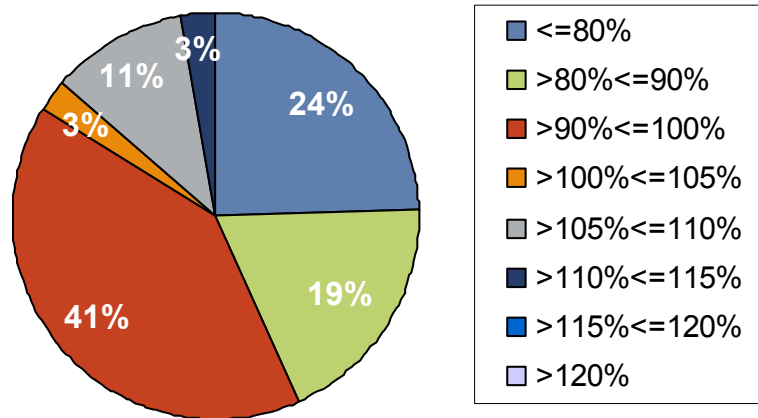


In reality, only 24% of sales people hit quota in 2009. How do we handle this?

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?

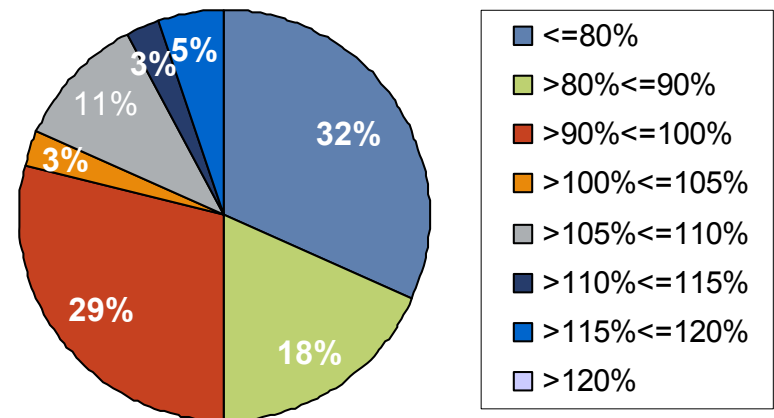
**Overall Sales Organization Performance
Against Goal in Last Completed Fiscal Year**



Average=91%

n=37

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

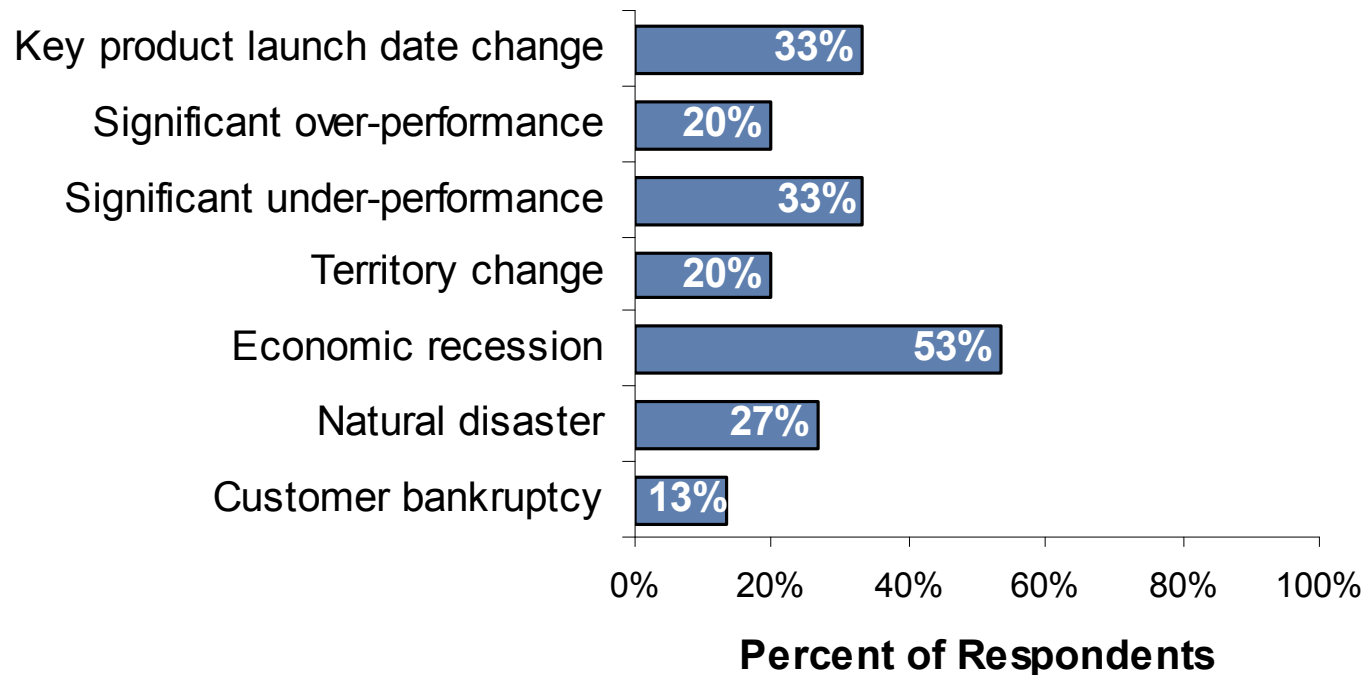


Average=83%

n=38

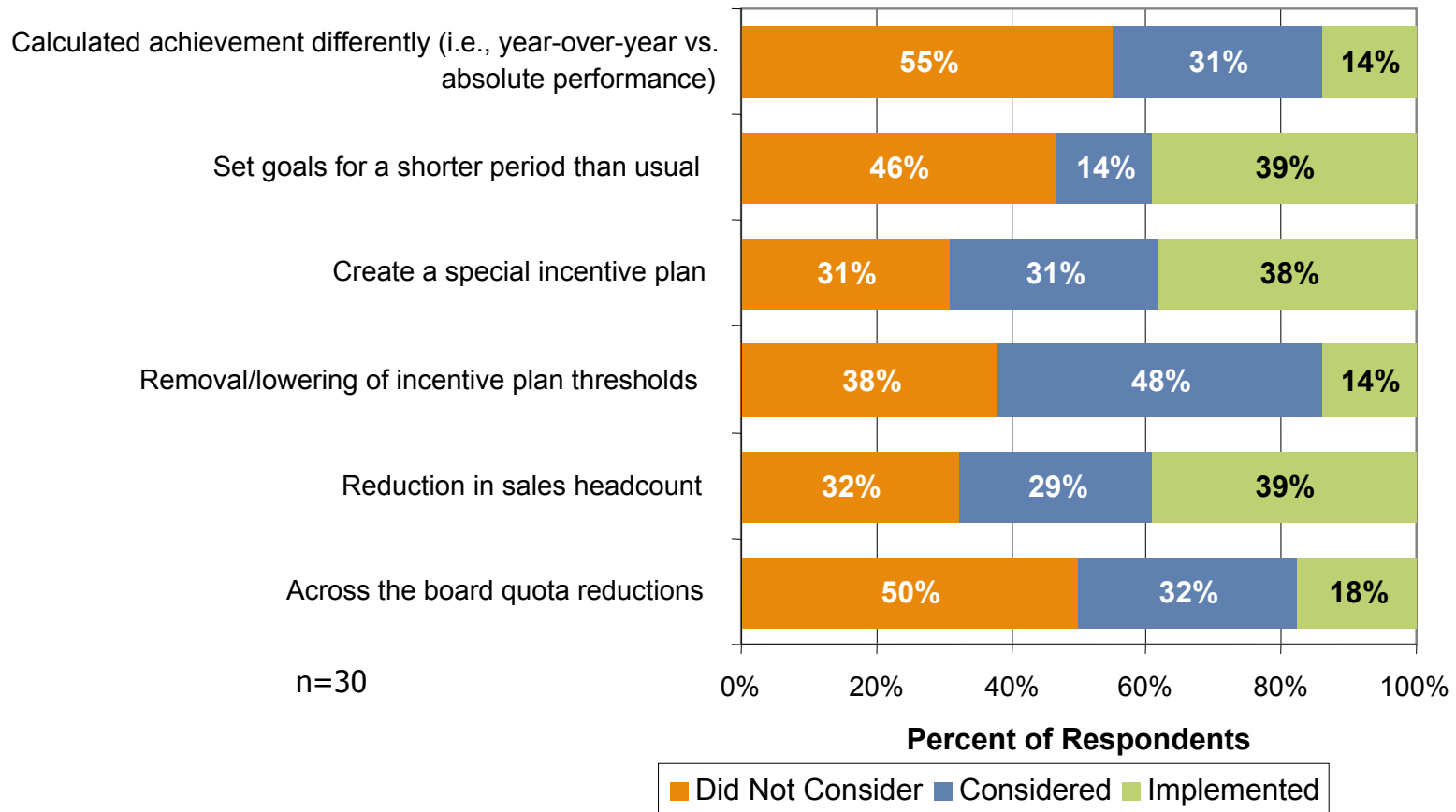
Companies report being more lenient on underperformers than logic would support

For What Reasons are Across the Board Quota Changes Made?



Companies were likely to reduce headcount, so it would seem the survivors benefit

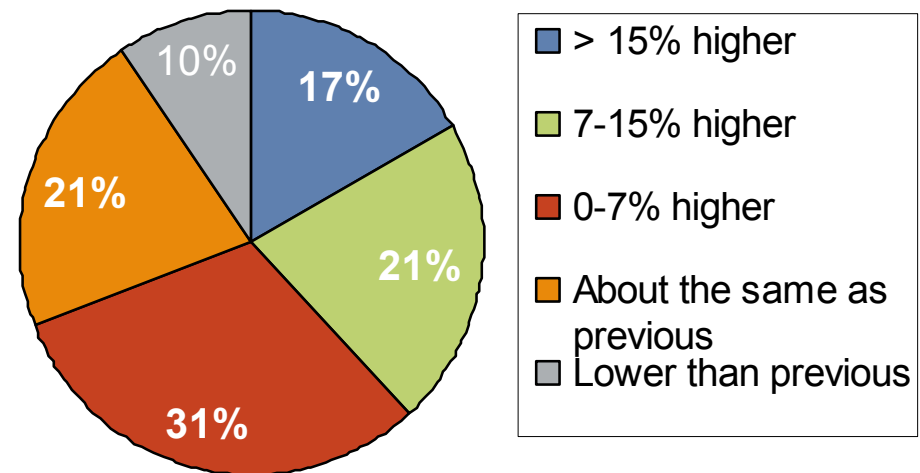
Which of the Following Actions Did You Consider in 2009 as a Result of the Economy?



Sales goals are going up, so productivity boosters will be needed in this economy

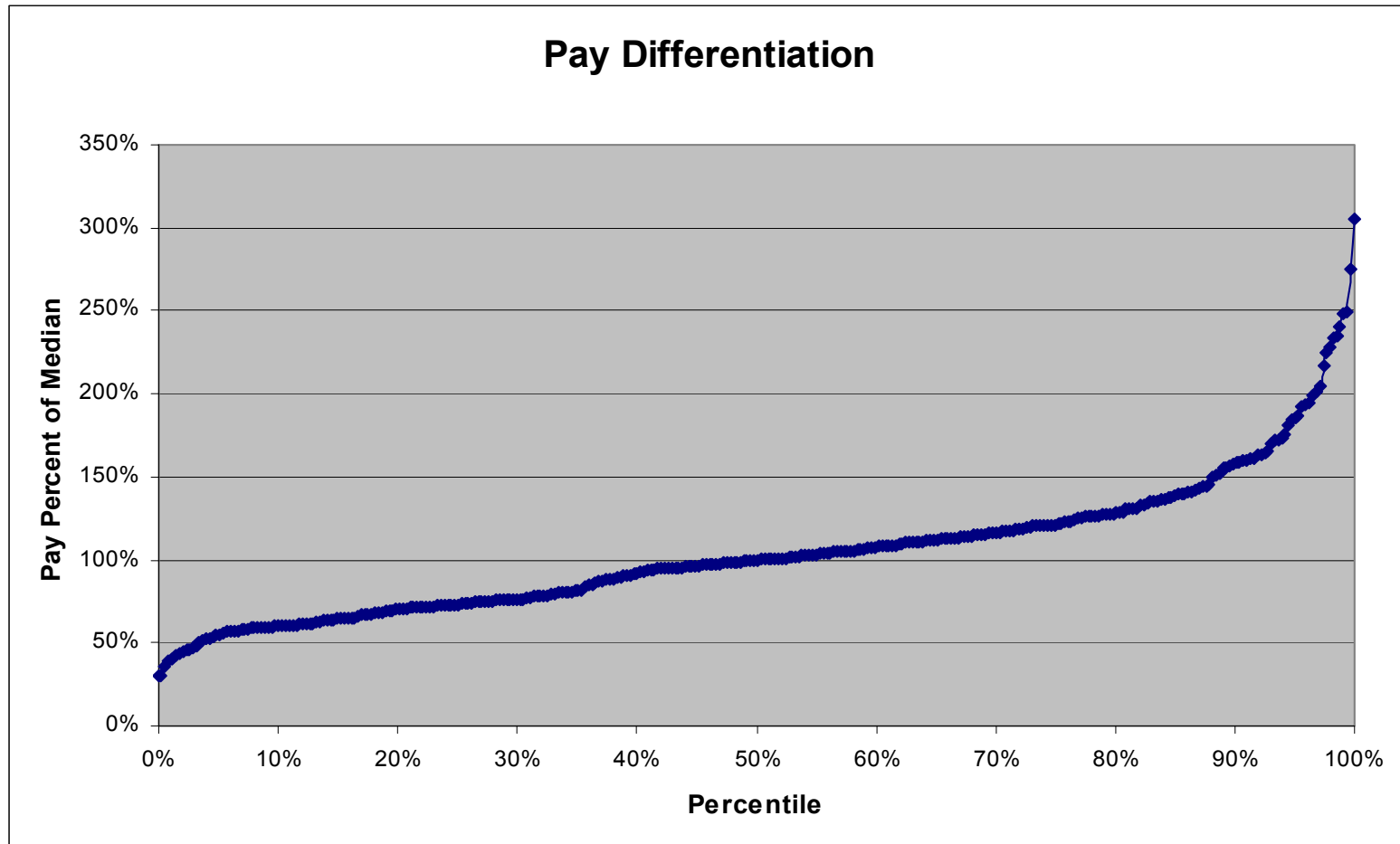
- R&D/Product Management need to launch innovative products
- Marketing needs to create more differentiators
- Sales Management needs to identify accounts with more potential
- Human Resources needs to supply superior Sales talent
- Finance needs to help determine how to equitably divide this growth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

Overall Sales Goal for Current Fiscal Year Compared to Last Fiscal Year

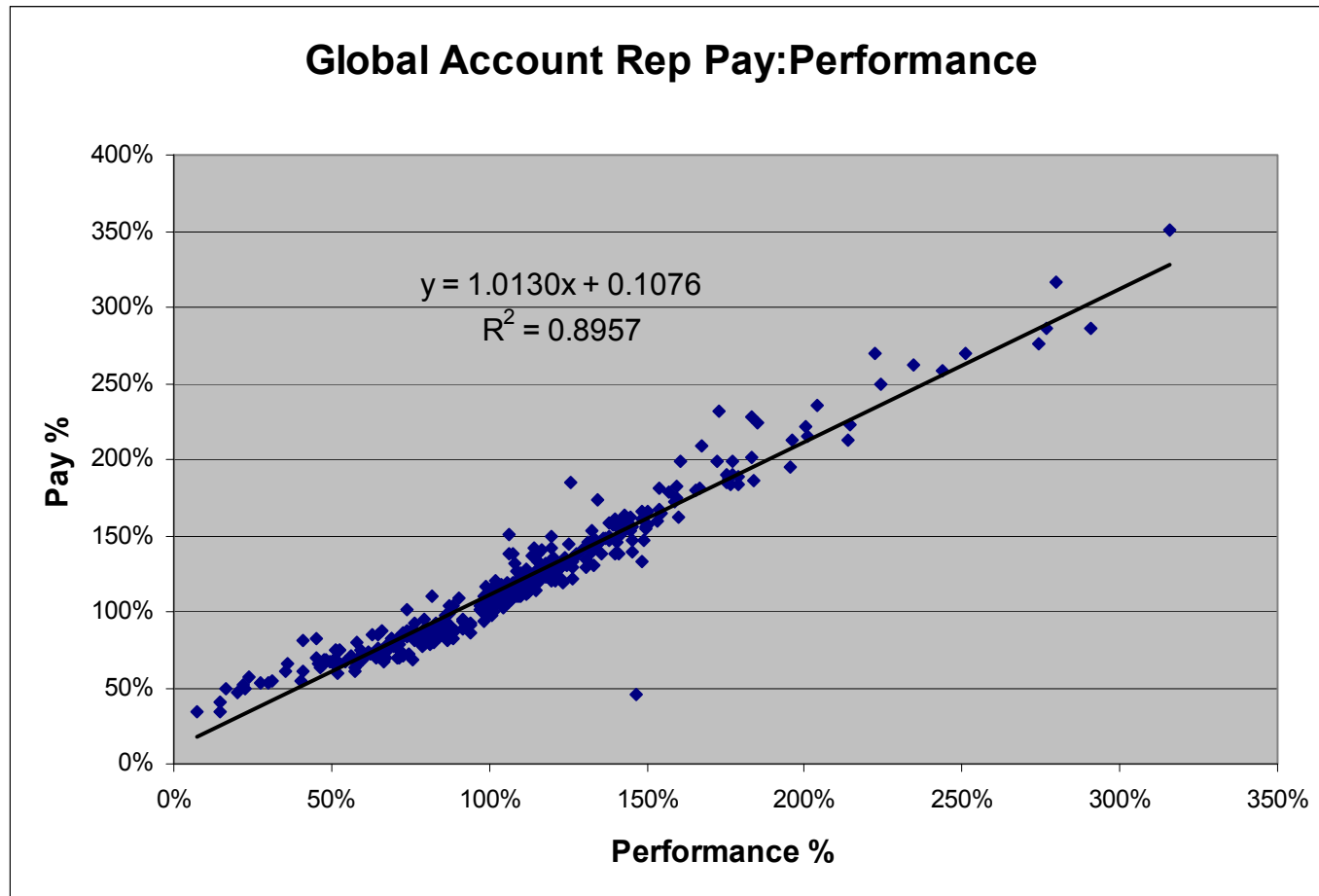


n=42

Sales people report that reasonable stretch goals are OK if there is differentiated reward

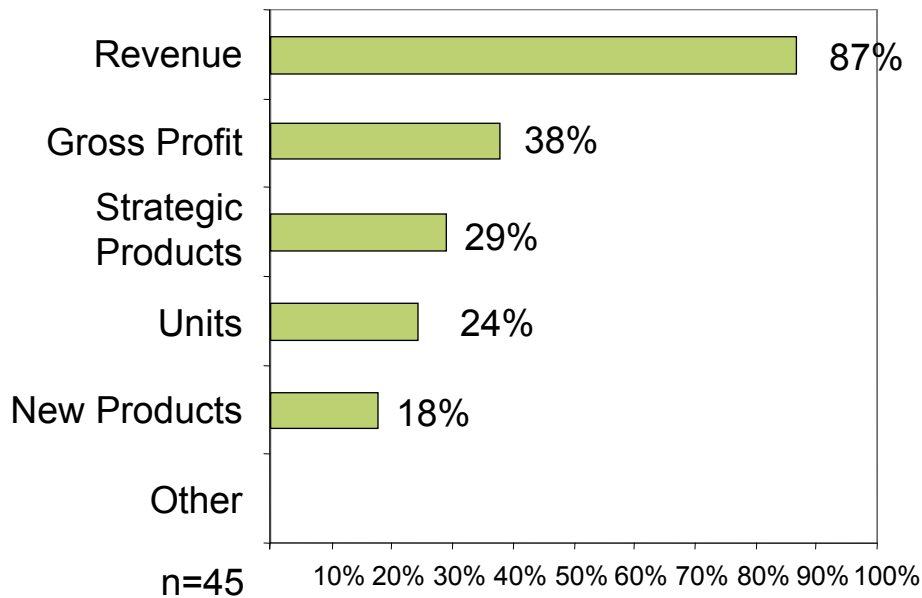


But diligent companies dig beyond the surface analytics to confirm goals are working well



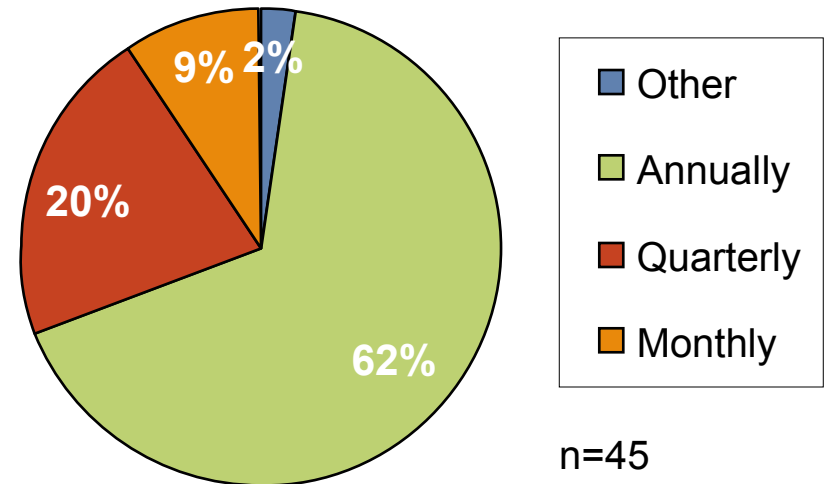
How are companies setting quotas?

Measures For Which Quotas Are Set



Percent of Respondents

Frequency of Quota Setting

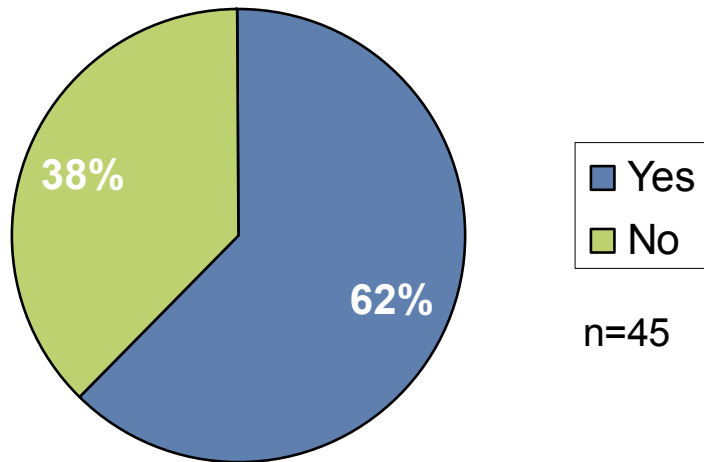


Other responses: Every 6 months

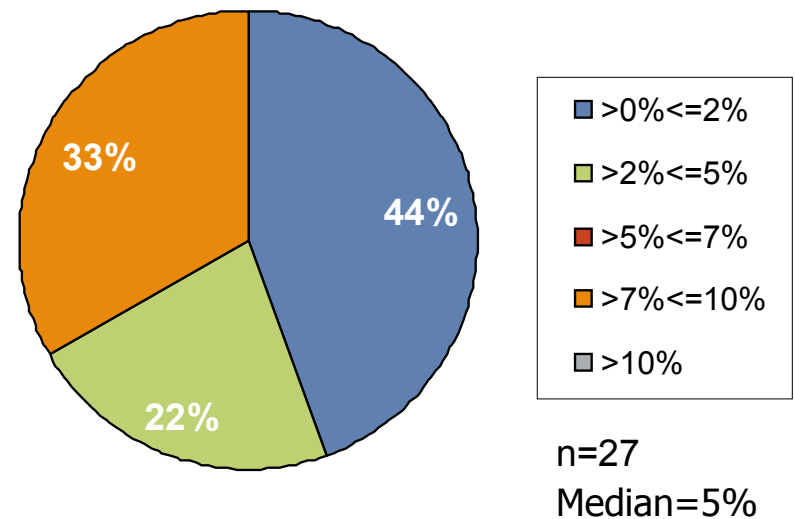
Other than a two-fold increase in the use of Gross Profit as a measure, companies are staying on “safe” ground, largely setting annual quotas for revenue

How are companies setting quotas?

Is Seasonality Applied to Quota Setting?



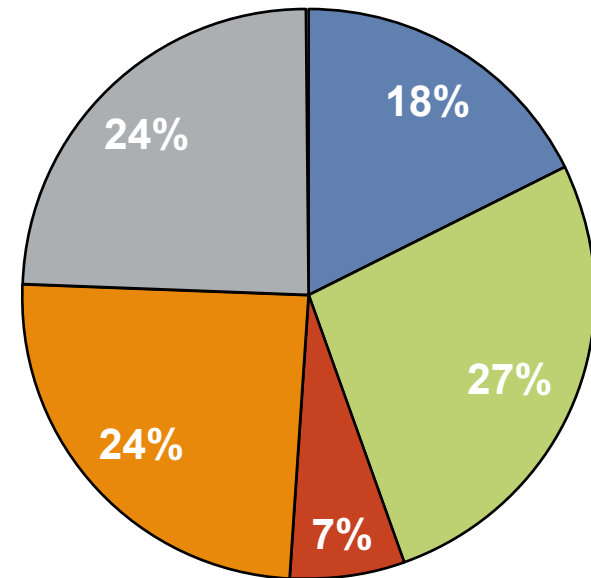
Buffer Applied to the Business Plan Relative to the Sum of the Individual Contributors' Quotas



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**

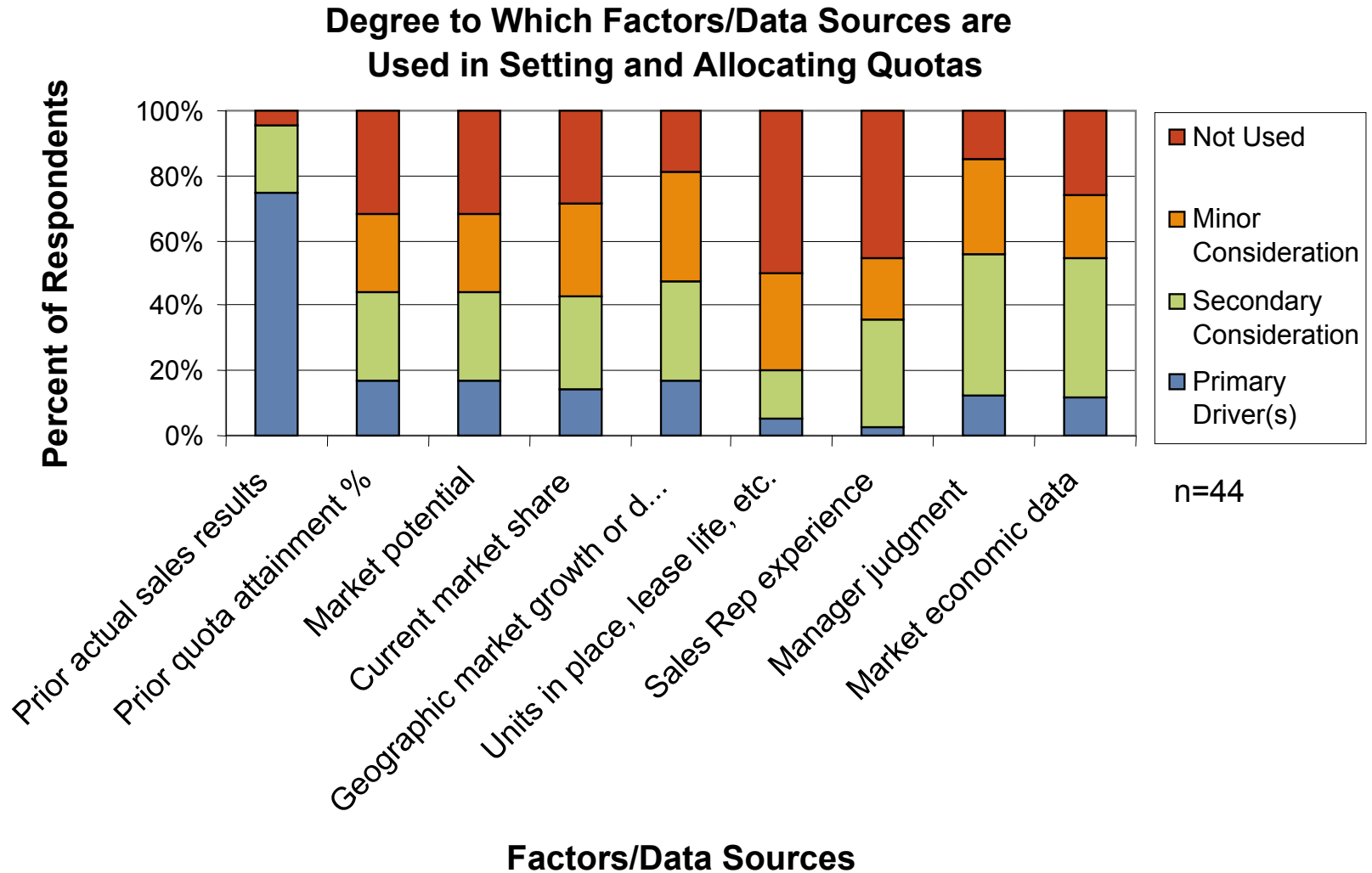
Quota Setting Methodology



n=45

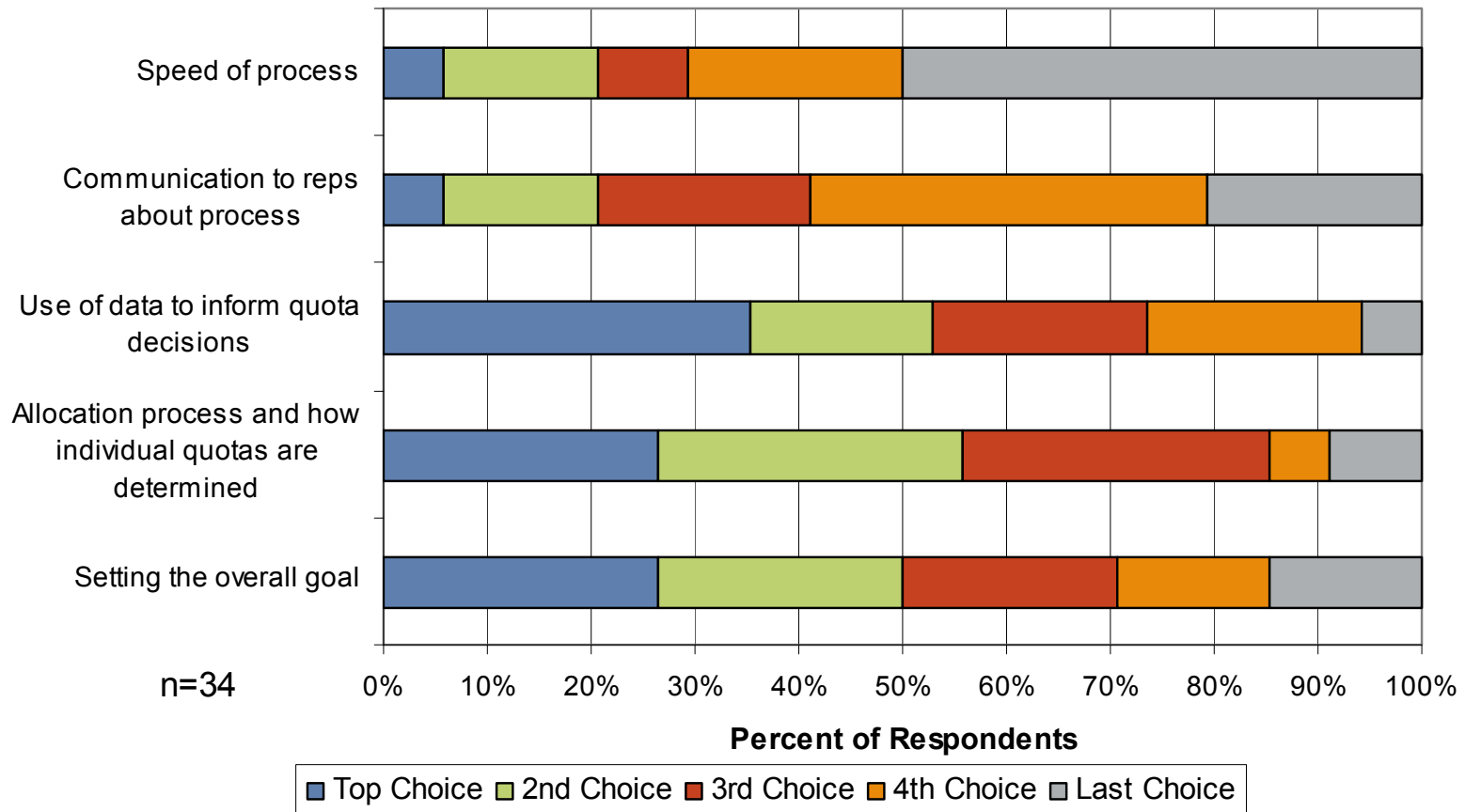
Approximately 45% of companies are using no bottom-up data to set and allocate quotas. This is an opportunity for improvement.

How are companies setting quotas?



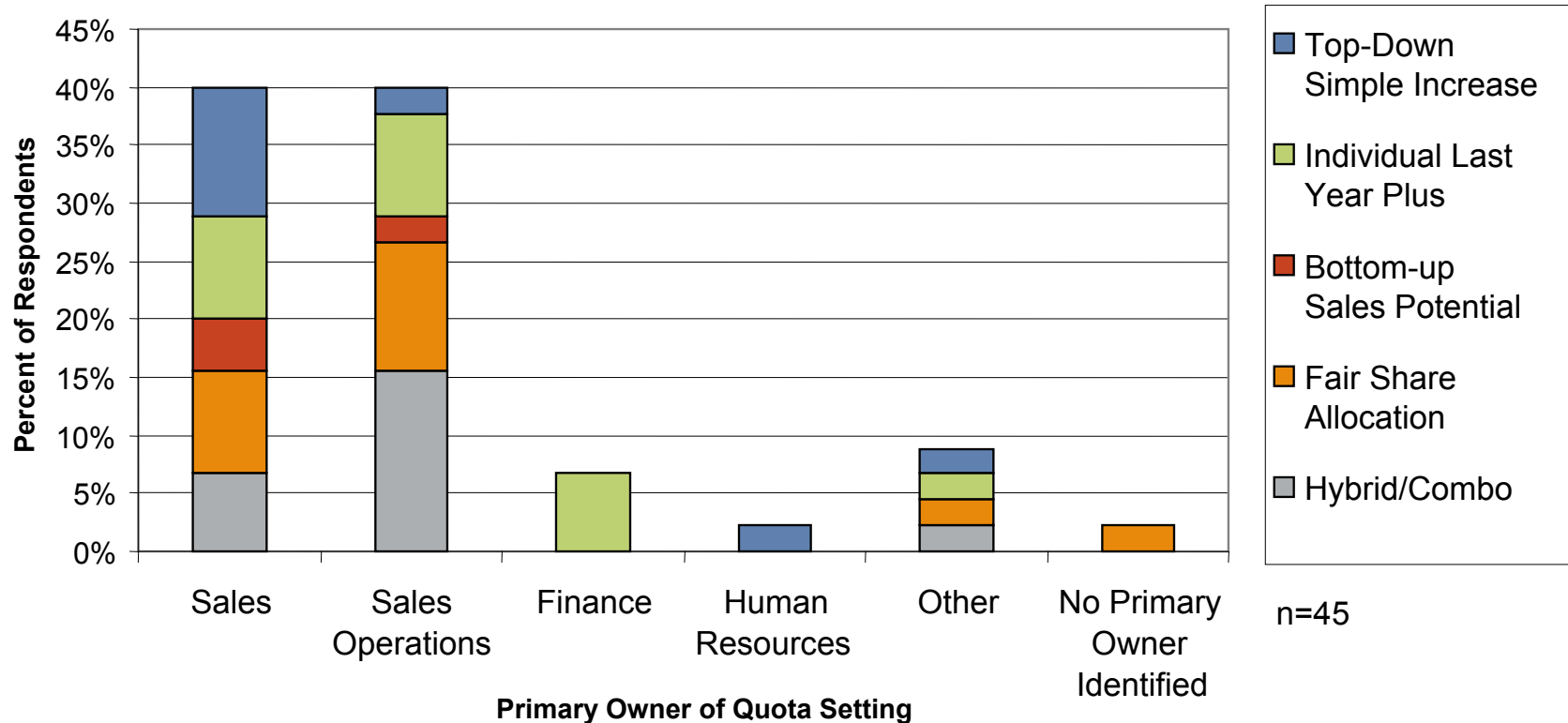
Again, the proper use of more and higher quality data is the top need to improve quotas

Where You Would Focus Quota Setting Improvements



Sales Operations, while not present in all companies, appeared to be a suitable owner

Quota Setting Methodology by Primary Owner



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

Hewitt's Recommendations for Managing Quota Impact

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 processes

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

Strategic Account Managers

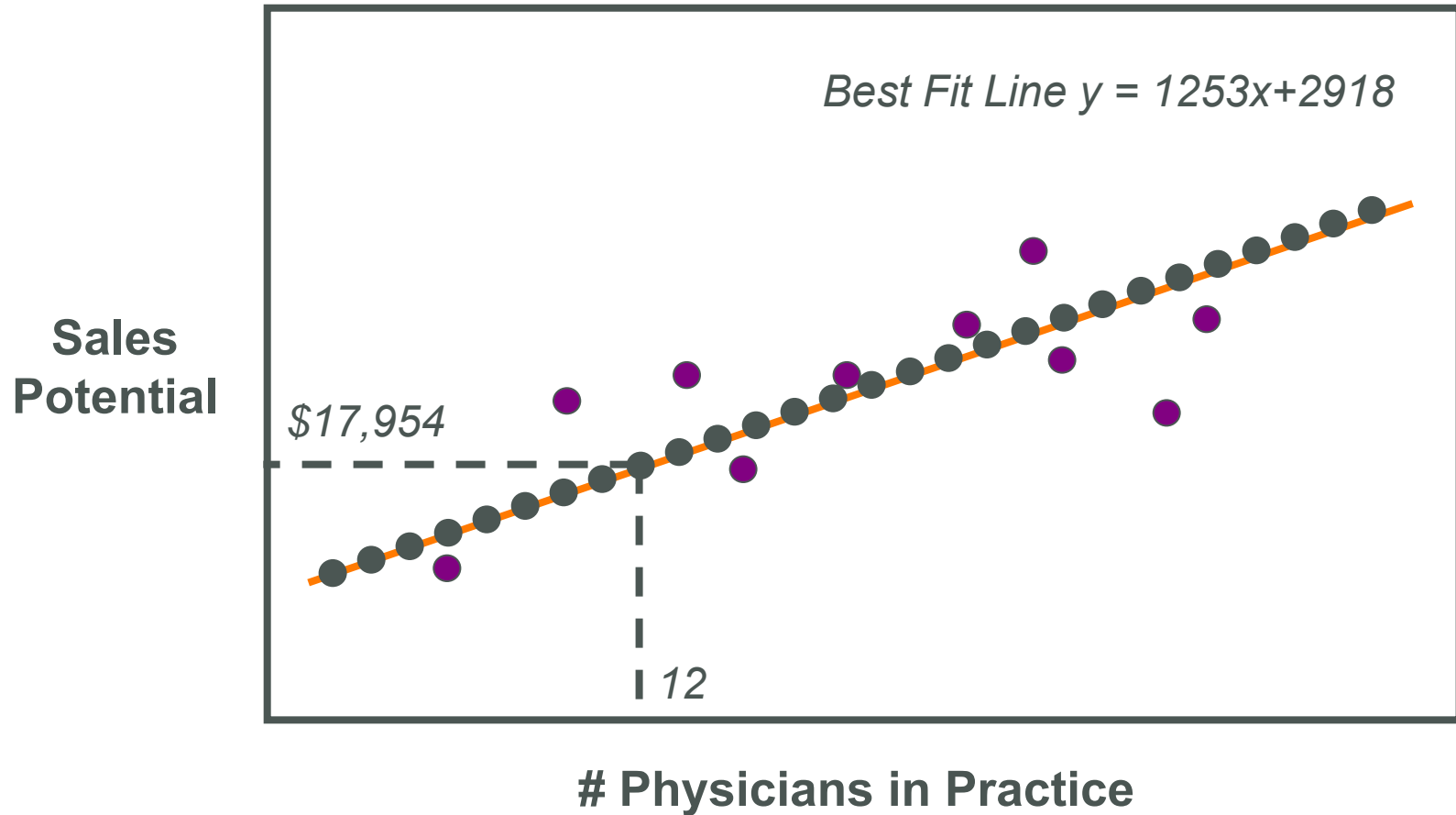
Product Specialists
Account Executives

CAMs

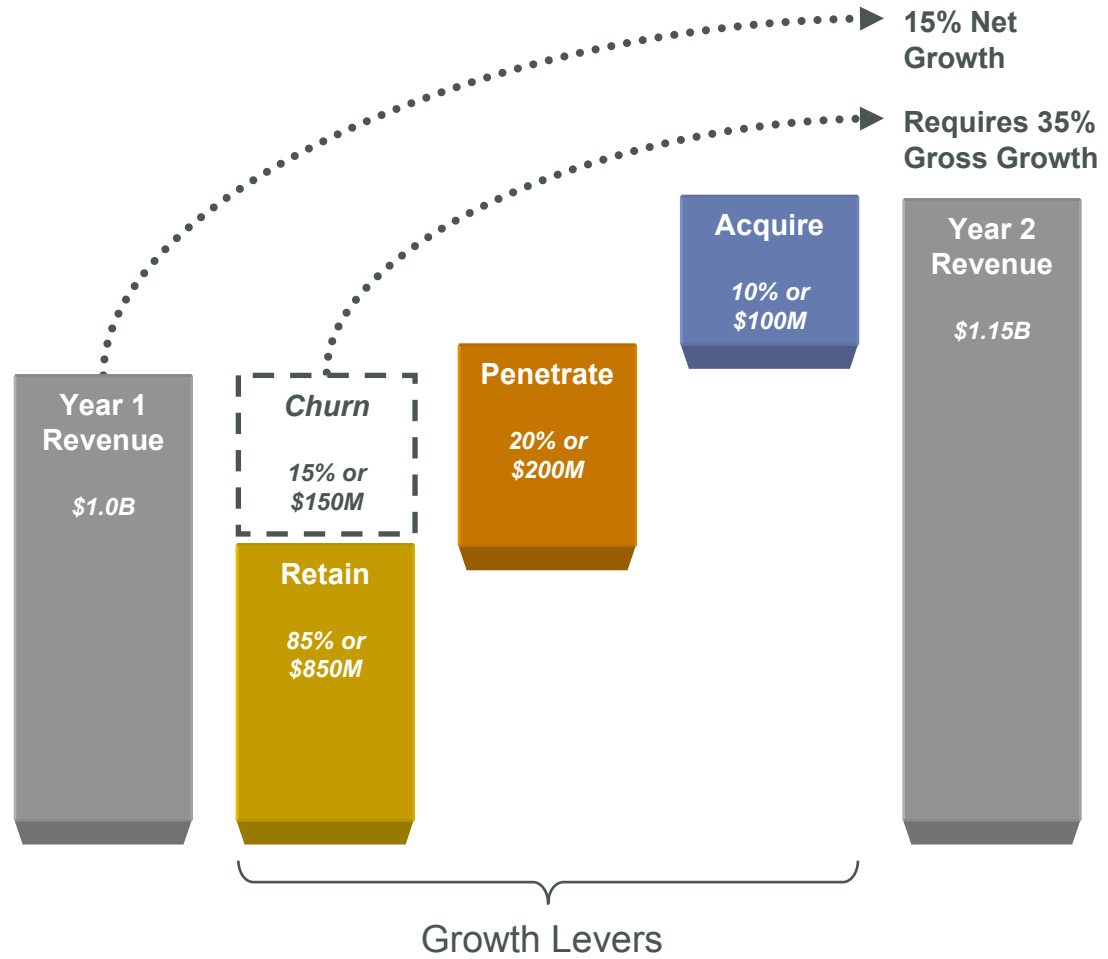
Inside Sales Reps

\$10 B

Estimating Sales Potential by account sets up a more meaningful discussion about goals



Growth goals can be significantly easier or harder based on different retention trends



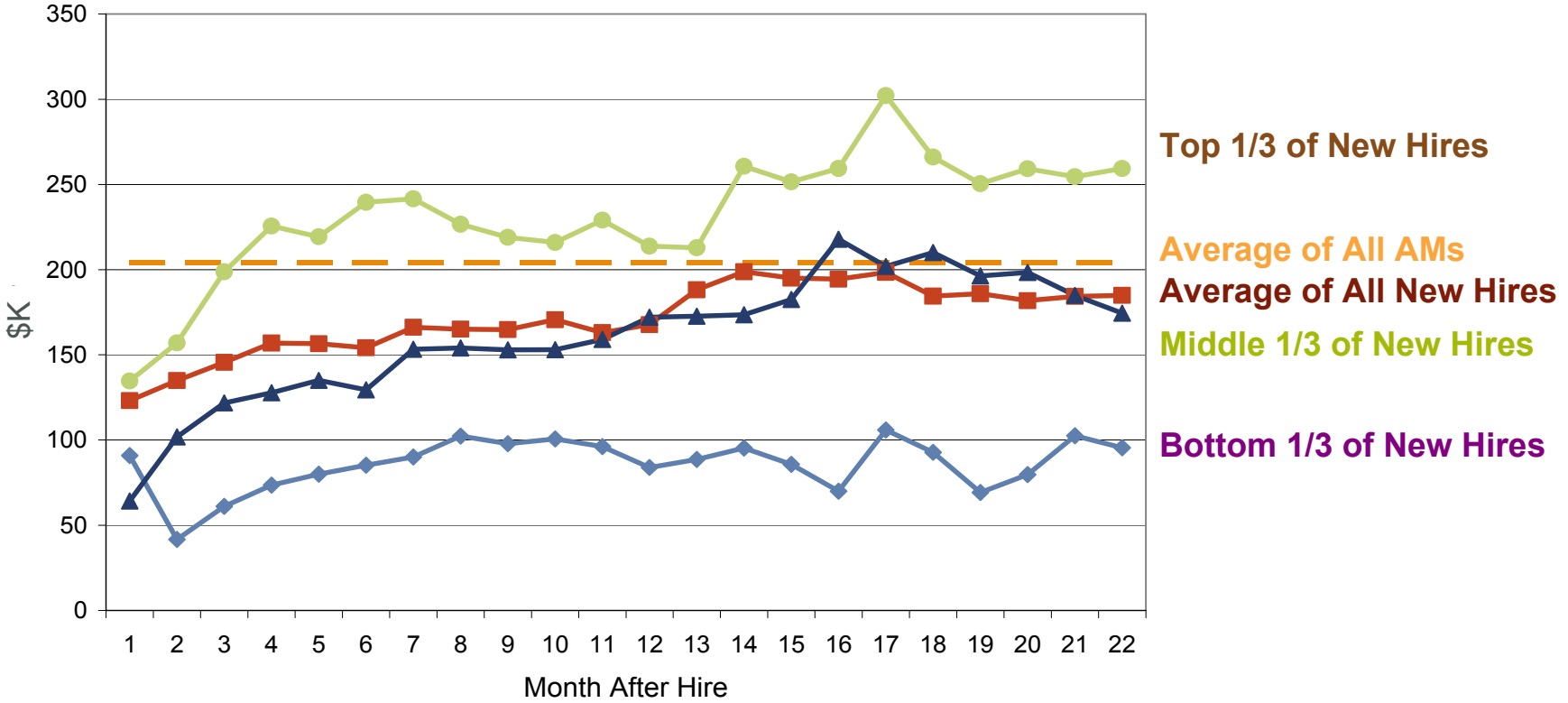
Sales is like any other work process... basic rules of time and motion still apply

Generate Lead	Qualify Lead	Design & Propose	Negotiate & Close	Fulfill & Deliver	Service & Retain
4 Hours	6 Hours	30 Hours	25 Hours	45 Hours	20 Hours
1000 Leads	700 Leads	400 Proposals	200 Wins	200 Deliveries	170 Retained
4000 Man-hours	4200 Man-hours	12000 Man-hours	5000 Man-hours	9000 Man-hours	3400 Man-hours

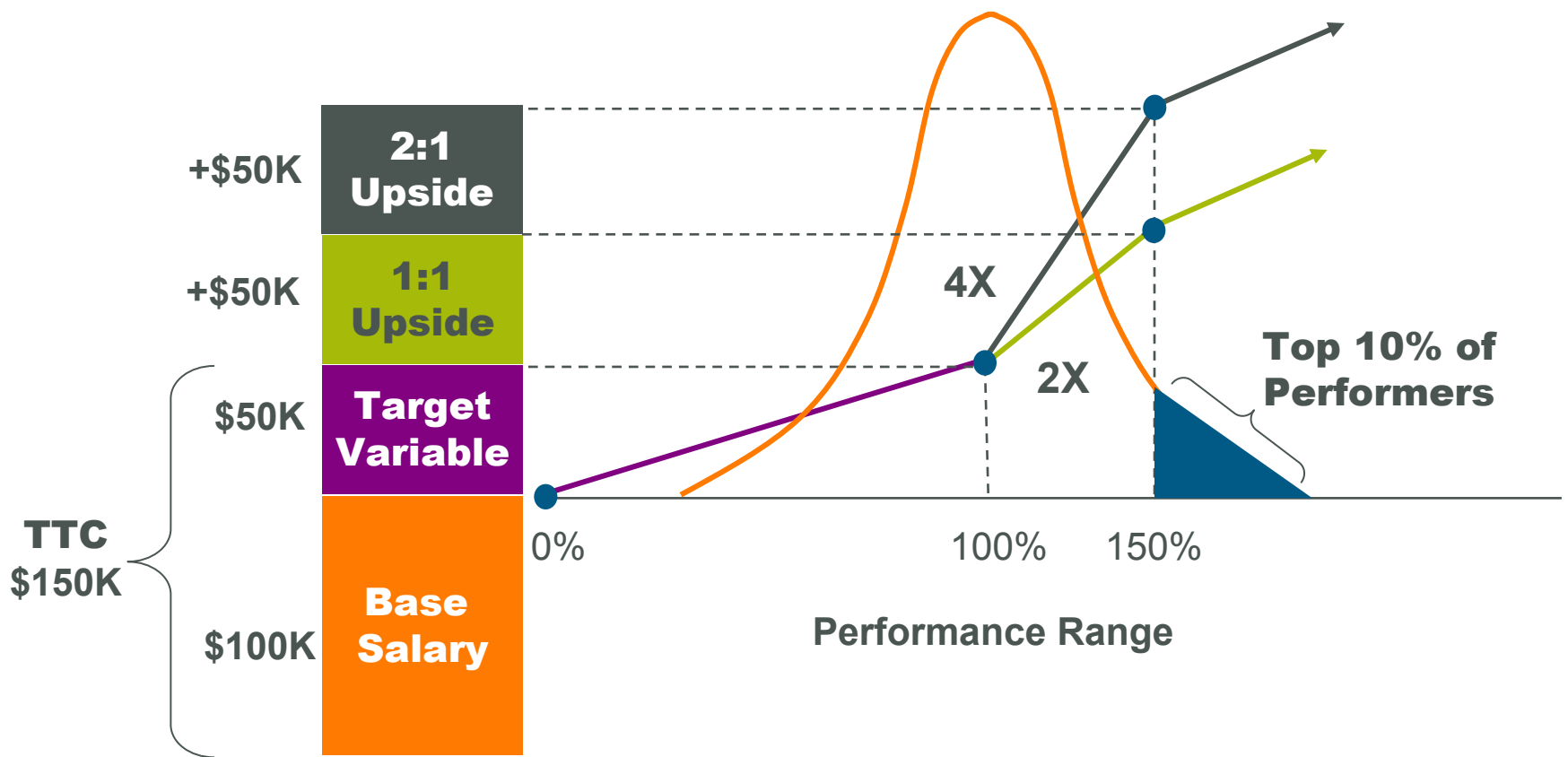
Knowing sales potential is half of the equation... a good manager will also seek an understanding of sales capacity and raise a red flag when process yield doesn't seem to match the business plan and quotas

Often, companies report that their highest turnover exists in a rep's first two years

Ramp-Up of BDM New Hires



Target Total Compensation, pay mix, upside, and quota performance should work together



Questions and Discussion

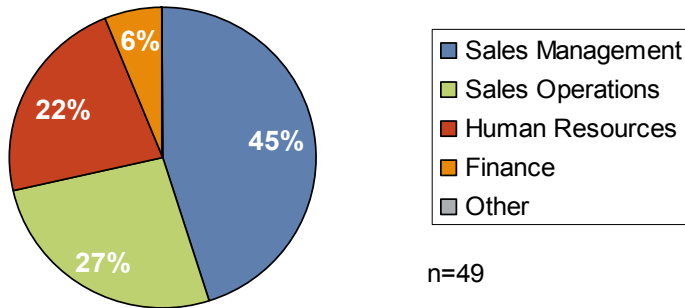


Appendix

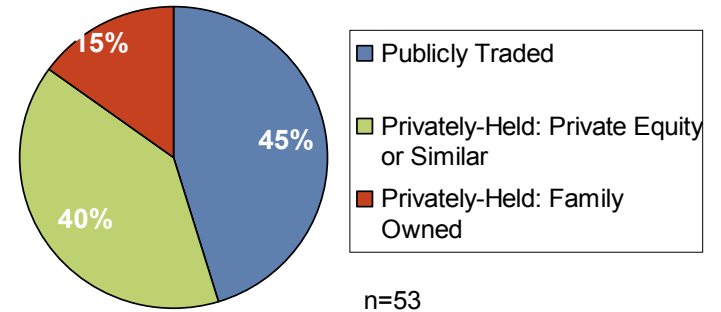
Supporting Slides

Survey Respondent Demographics

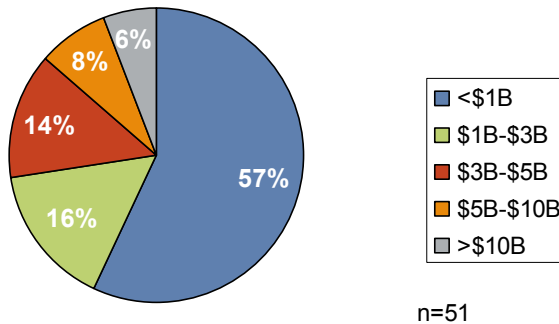
Respondent's Department/Function



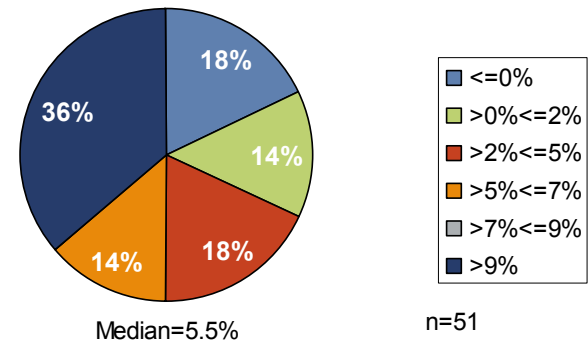
Ownership Structure



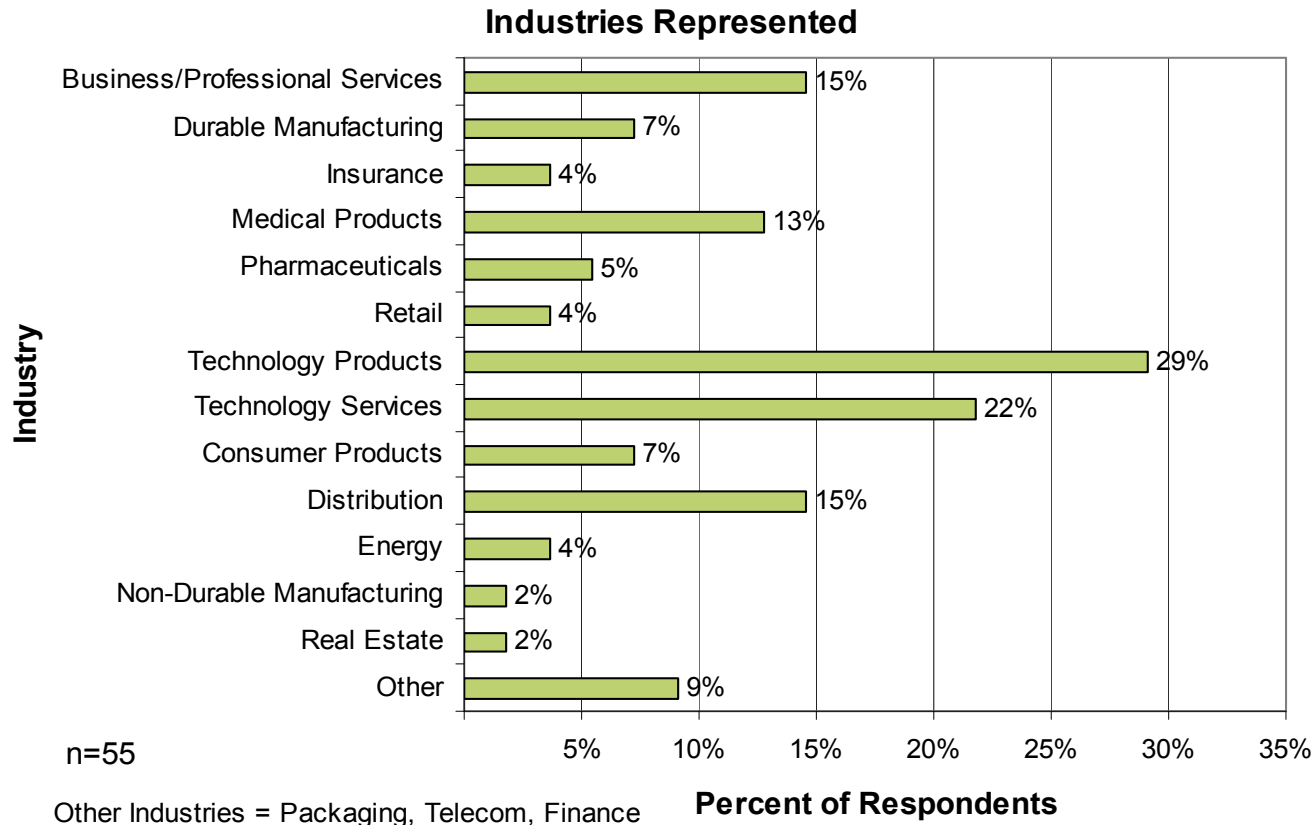
Total Revenue of Responding Companies



Growth Rate of Responding Companies



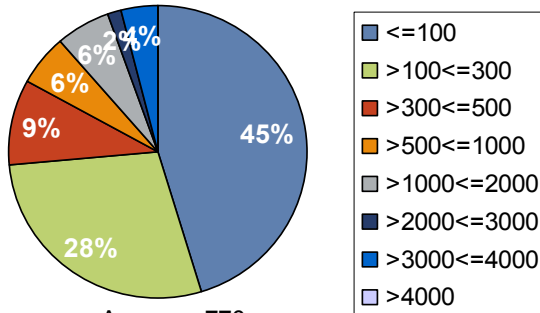
Survey Respondent Demographics



Note: Participants were asked to check all that apply.

Survey Respondent Demographics

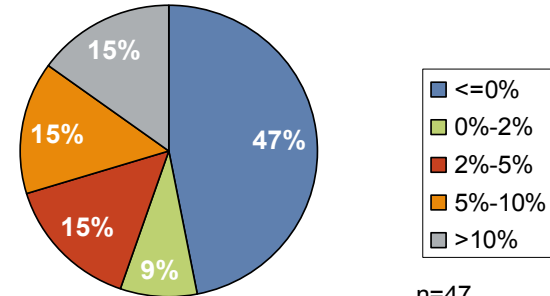
Number of Sales Employees at Responding Companies



Average=770

n=53

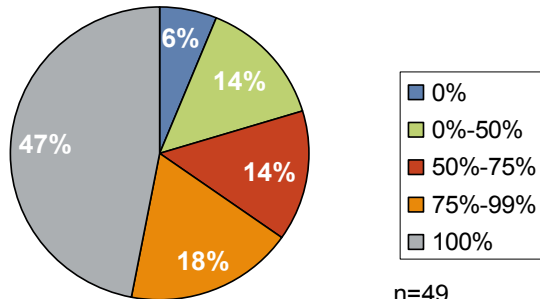
Change in Sales Headcount from 2008 to 2009



Average=6.8%

n=47

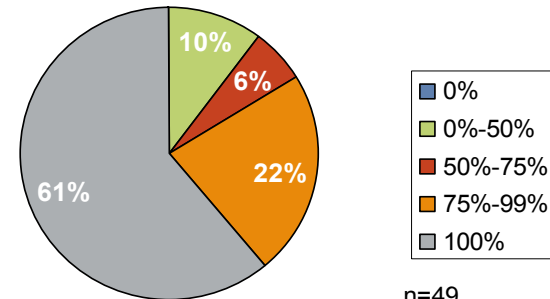
Percent of Sales Headcount That Carries a Quota



Average=76%

n=49

Percent of Sales Headcount Eligible for Incentives



Average=86%

n=49

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

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Talent

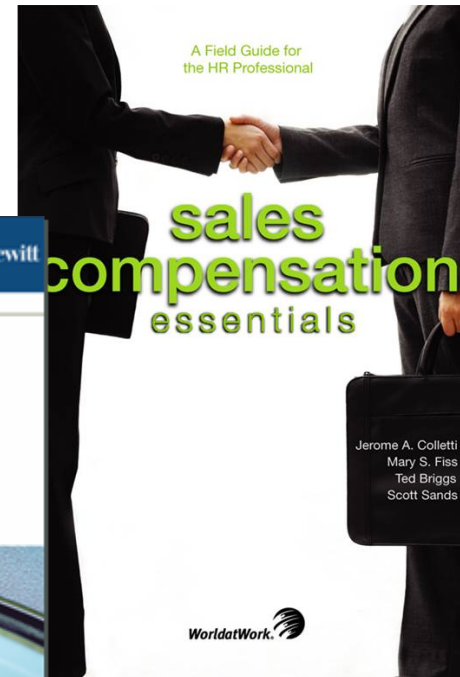
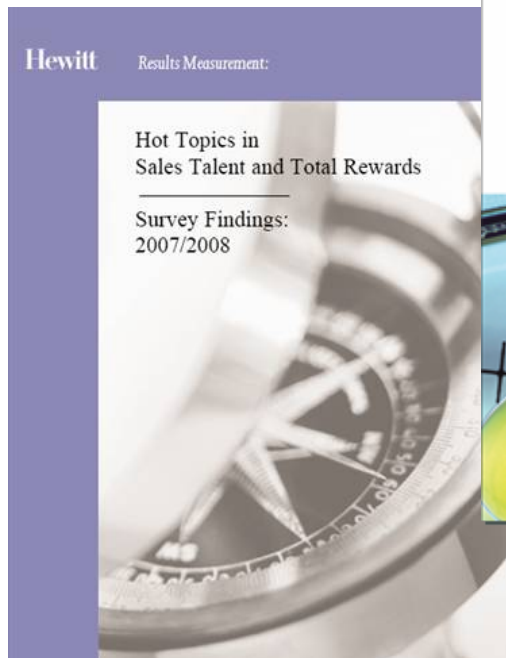
We help manage the potential of critical talent, executives, and next-generation leaders while minimizing the retention and compliance risk of a global workforce.

Financial

We help balance the potential and risks of benefit program investments and increase the speed and return on their most complex M&A transactions.

Hewitt has built strong points of view on sales compensation with research and publishing

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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