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It's Time for HR to Become More Involved in Setting Sales Quotas. Here's How.

Setting the right sales quotas is essential to motivating your sales force, but too many companies struggle with this vital task. Here are some techniques to overcome this hurdle.

Any conversation about sales performance and compensation will quickly lead to the topic of quotas. After all, quotas align the goals of individual sales people with the company's business plan, so they have a significant impact on the effectiveness of a sales organization.

Sales leaders often push for reasonable quotas to motivate their sales teams, but finance may push back and argue for aggressive quotas to keep sales compensation in check. Many HR leaders tend to shy away from the divisive debate by not having or making known a firm point of view. Yet, sales quotas are a key input into topics that are well within HR's scope of expertise, including employee engagement, performance management, and compensation. Therefore, we believe it's time for HR to become more involved in sales quota management.

HR professionals need to know how their company's quotas shape the sales employee value proposition and contribute to competitive earnings and cost-of-sale measures. By taking action, HR leaders will help better position the company against the headwinds of high turnover and a tightening talent pool.

The objective view on quota effectiveness relies on two core measures of business performance: employee turnover and cost of sales. In this article, we'll explore each as it pertains to sales quota management, and recommend steps for getting HR more involved.

Sales Employee Turnover

There is a perception that salespeople who struggle to perform will leave the organization, either voluntarily or involuntarily. However, the counter argument is that low performers will recognize their limited opportunity at other firms and decide to stay. Indeed, a Harvard Business Review study found that low-performing salespeople were less likely to quit than were average performers. This study found an inverted-U-shaped distribution, with those performing in the middle band being more likely to leave than high- and low-performing reps. Radford data from more than 75 SaaS companies show that firms in the upper quartile of voluntary salesperson turnover were 80% more likely to have a greater share of reps *below* quota than *above*. Whether quota is the chicken or the egg, most companies can't maintain strong sales growth with high rep turnover.

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Labor statistics from the United States and observations from other developed countries predict that the supply for talented salespeople will remain tight for years to come, requiring companies to regularly evaluate and refine their sales employee value proposition and develop strategies to avoid high levels of attrition.

Compensation Cost of Sale

Poor quota management can increase sales compensation expense at a rate faster than revenue. Consider the illustrative example outlined in Figure 1, where a sales team has an average target compensation of $200,000 evenly split between base salary and incentives. In this example, we assume the average annual quota for the team is $1.5 million. If the incentive plan pays from the first dollar of sales (no threshold) without a regressive rate (1:1 up to 100% quota), and provides a 3x accelerator on sales above quota, a resulting scenario for three types of performers could look like this:

Figure 1

Illustrative Example of the Impact of Quota Achievement on Compensation

Performer	Quota Achievement	Incentive Earnings	Total Earnings	Sales	Earnings/Sales
Target	100%	$100,000	$200,000	$1,500,000	13%
Low	45%	$45,000	$145,000	$675,000	21%
High	200%	$400,000	$500,000	$3,000,000	17%

Note: Example assumes a base salary of $100,000

In this scenario, finance may focus on the high performer's earnings, with the belief that the accelerator and total cash earnings appear excessive and the quota too low. Sales leadership may focus on the high performer as well, but as an example for the sales team to emulate.

What about the low performer? The cost of sales, using total earnings as a percent of sales, is four percentage points higher than that of the high performer, and eight points higher than the target case. It would also take more than four of the low performers (with benefits and other costs) to replace the sales of the single high performer, costing more than $144,000 more. In other words, the low performer represents the least desirable outcome, and an army of low performers is a very expensive way to go to market.

Data from the Radford Global Sales Survey shows an increasing percentage of salespeople failing to meet quota, and that's during a period when company-level quota achievement has improved. More troubling is the share of reps below 50% of quota: Our data shows this rate increased seven percentage points since 2015, for a total of 20% of the sales reps in our survey. The trend is also concerning because of the increasing share of mid-level performers who fail to hit quota, but still contribute to overall sales revenue in a cost-effective way. This group, as discussed previously, has a propensity to disengage and leave the organization in greater numbers than low performers.

Five Steps for HR Getting More Involved

Given the relevancy of sales quotas to overall performance management, we believe HR professionals should take action and follow these recommended steps:

1. **Measure the cost impact.** Consider measuring the impact of your company's compensation cost of sale based on quota achievement trends and how different levels of performance influence the overall cost ratio. Managers often assume that under-performing reps will self-select out of the company, but research indicates this isn't likely, and some compensation schemes can make the cost of keeping poor performers unsustainable. There's an opportunity cost too. Low performers occupy space that higher performers could fill. In addition to measuring the cost impact, ensure your company has a systematic process with which to address consistently low performers.

2. **Evaluate the degree to which quota achievement tends to cause turnover and disengagement.** Don't trust exit interviews as your sole source of information. If your company has experienced a shift in quota achievement such that average performers increasingly struggle to hit quota, followed by an uptick in voluntary turnover, you should investigate the relationship. Analyze quota achievement data to identify relatively high or low standard deviations in the distribution. A high deviation creates a larger gap between those that meet quota and those that don't. On the other hand, a low deviation doesn't sufficiently motivate reps to step up and exceed quota if there isn't a meaningful difference in pay and recognition for high performance.

3. **Evaluate the factors that contribute to high achievement.** There can be a difference between high performance and high quota achievement. High performers exhibit certain behaviors and attitudes that result in high quota achievement year after year, even with yearly quota increases. Sometimes high quota achievement comes as the result of regular quota and territory adjustments — a means by which a manager can keep their favorite reps highly paid. Other times, there's a seesaw pattern where a rep's period of high performance follows a trough, and so on. This last phenomenon suggests either some manipulation on the timing of closing deals or a measurement period that's too short for the underlying sales cycle.

   Mitigate the impact of quota achievement on pay. While quotas will continue to be a mainstay in sales compensation, and research indicates salespeople work harder if given a specific goal, we observe far too many cases where quotas aren't a reliable means by which to measure sales reps' performance. In some companies, achievement results appear arbitrary, with too many reps earning well below and/or well above competitive levels. Taking the following actions can reduce the proportion of pay tied to quota achievement; however, the decision to do so, and by how much, will vary depending on each company's business model.

   - Reduce the incentive portion of a sales person's pay mix
   - Reduce the pay rate differential (e.g., threshold rate, accelerators, etc.)
   - Reduce the percent of on-target variable that's tied to quota achievement by increasing the percent tied to non-quota-based measures (recommended as a last resort action to take)

4. **Re-engineer the methodology for quota allocation.** One of the reasons so many companies continue to struggle with their quotas stems from the fact that there are so many unique variables influencing quota-setting and outcomes and too little predictive data. Management of effective quotas is relatively

easy for reps with many small accounts and transactional selling behaviors that regress to the mean, and much less so for large, strategic accounts with unpredictable purchasing patterns. Regardless of the situation though, each company should have a process with clear steps and accountability for continuous improvement. Ad-hoc efforts will almost certainly result in undesirable quota outcomes.

As you consider the list of action items, think of steps 1-3 as investigative and helpful to understanding the magnitude of the issue. Steps 4 and 5 might be prudent once you have strong evidence that the company's quota management approach is contributing to high turnover and unsustainable cost.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our sales force effectiveness group, please write to consulting@radford.com.

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