INTANGENT

A FRAMEWORK FOR ORCHESTRATING REVENUE WITH

Quota Management

The science of revenue performance and optimization
By Caitlin Roberson with Bryan Perry

INTANGENT

Dear Reader,

How often do you want to read something online, and keep the tab open next to all the others in your browser?

The day passes. No matter. You'll read it tomorrow.

Then, the week ends. "I'll retain more information," you think, "if I read it Monday when I'm fresh."

All of a sudden, that tab's been open upwards of a month.

You could say the problem here is yours. Time management for the win.

You could also make a rock solid argument that the content languishing in your browser didn't do a good job accomplishing its purpose.

The exact same could be said about your approach to quota management, for reasons we'll elaborate on next.

Let's see if we can keep your attention while we do.

Introduction

Why This Whitepaper Matters

Today's leading executives are embracing Revenue Operations (Rev Ops) in aggressive pursuit of revenue efficiency. It's the fastest-growing title on LinkedIn. And not one but two analyst firms agree that, when done correctly, Rev Ops increases company revenue up to 3X annually.

3x = ATTRACT WIN ENGAGE
Revenue

In our experience working with hundreds of these industry leaders, Sales Performance Management (SPM) is the glue that holds Rev Ops together.

ATTRACT   WIN   ENGAGE

Done right, SPM orchestrates, motivates and incentivizes the entire revenue organization. That's why every successful SPM strategy involves these three components

3x REVENUE

ORCHESTRATE	MOTIVATE	INCENT
Forecasting	Gamification	Individual Estimators
Territory Management	Leaderboards	Accruals & Commission Expense Accounting
Quota Management	Field Transparency & SPIFFs	Compensation Modeling & Benchmarking
Sales Planning	Sales Planning	Dispute Management
SalesBudgeting & Capacity Planning	Predictive Insights	Comms: Statement, Plan Distribution & Changes
		Crediting

But many organizations overlook Orchestration—a data-based, insights driven approach to five different disciplines:

1. Territory management
2. Quota management
3. Capacity planning
4. Sales planning
5. Sales forecasting.

Their oversight is the reason why quota attainment has fallen every year in the last decade. It's also the reason that this whitepaper dives into the first leg of Rev Ops: Orchestration.

When leaders successfully orchestrate SPM, they enable Rev Ops at minimal expense—and inspire Marketing, Sales, and Customer Success to work together like they're supposed to. That's how companies triple their annual revenue.

Intrigued? Keep reading.

Meet Company Could Be You

Once upon a time, there was a highly successful business. Let's call it Company Could Be You. Company Could Be You had grown way faster than expected for several consecutive years, and planned for bigger and better things in the year to come. So, it hired a bunch more salespeople.

But the company over-predicted its sales capacity by about 10 heads, and quota attainment was below 25% across the team. Overall attainment ended up about 30% of the total target.

"It was incredibly painful," recalls their VP of Revenue Operations. "Not to mention embarrassing."

After a large wave of layoffs, management was hell-bent to make sure the same thing never happened again.

Table of (Our Brief & Catchy) Contents

> **Did you know that organizations squander the equivalent of 10% lost sales opportunity when they poorly manage quotas?**
> *— Gartner*

The Basics

What is Quota Management?

Quotas are targets that territory owners need to reach in a specific, time-bound period. Targets can represent dollar figures or a certain number of products that need to be sold, and time periods are generally set in months, quarters, or a year. When employees reach different performance milestones toward their quota goal, they earn compensation.

A Note for Revenue Executives

We recommend you skip over The Basics and The Why, directly to The Why Not

Quota management signifies the process to set realistic quotas—in other words, targets that teams can achieve with a bit of hard work. The basic rule of thumb is: when quota carriers attain quota, their employers should also meet revenue goals.

As you can probably tell, managing territories and quotas are super-interrelated. We'll explore that idea next.

Are Quota and Territory Management Related? Yes!

Quota and territory management go together like brown on rice by creating...

1 **Healthy boundaries.**
Territories focus quota attainment efforts on a certain region, product, customer type, or industry.

2 **An inverse relationship.**
It's possible for territories to make even the exact same quota targets unequal, if the territories represent different revenue potential.

3 **Planning and forecasting precision.**
Territories and quotas directly impact the accuracy of your sales planning and forecasting.

4 **Street cred.**
All of the above impact your and your team's tenure and reputation, in your company and among your peers.

When thinking about territory and quota, make sure you don't commit the fatal error of only involving Sales. Other folks on the revenue team—such as digital marketers or customer success specialists—play significant roles in accelerating revenue capture.

The Why (& Why Not)

Why Managing Quotas Matter

Why do quotas matter? Let's count the ways.

1 **Dollahs, dollahs.**
Quota tells a team how much value they need to produce from their territory, in order to get paid.

2 **Gooooooaaaal.**
How much do you love it when your team wins? Quotas help a company do just that by distributing responsibility for an organization's overall revenue target to individual team members.

> **To quantify your opportunity…. A survey of 12,000 sales people at 90 businesses revealed that only 40% used quota management best practices.**
>
> — *McKinsey*

3 **Grow, baby, grow.**
Done right, quotas drive company growth—whether you're expanding into new areas, launching new products, or adding headcount.

4 **Define R&Rs for success.**
Quotas establish the bar against which the success of buyer interactions will be measured.

5 **Motivation station.**
By creating ownership across your team, you prevent deals from falling through the cracks, and boost morale with achievable goals and high earning potential.

Revenue Drama-rama

Unfair quotas—or even the perception of inequality—can prompt resentment, drama, and even a mass employee exodus faster than you can say, The Queen's Gambit.

It's clear that revenue management can't plan for success without quotas.

When Quotas Go Wrong

Since we seem to be counting things, let's keep at it. Following are the undesirable outcomes you can expect when quotas aren't managed well.

1   **A self-fulfilling prophecy of revenue failure.**
Employees who don't believe in their number don't try as hard to attain their goal. Sales goals that are too high, unfair, or perceived as such can lower sales results.

2   **Disgruntlement and disengagement.**
Mismanagement creates a culture of resentment, which sends productivity and performance spiraling downward.

3   **Turnover costs.**
Unhappy employees generally look to work elsewhere, and turnover spikes onboarding costs. One in every four salespeople who leaves voluntarily, leaves because of unachievable quota, according to a SiriusDecisions survey. And it takes about three times someone's salary to find a new hire, and an average of a year for new hires to onboard completely.

> **One in every four salespeople who leaves voluntarily, leaves because of unachievable quota, according to SiriusDecisions.**

4   **Unethical behaviors.**
Unfair quotas, whether actually unfair or just perceived as such, can encourage overly aggressive and sometimes unethical behavior. For example, when Wells Fargo was paying commissions on activity, sales reps created a bunch of fake email accounts, ultimately costing the company over $200MM.

Needless to say, this is not the way you want to run a team, much less a company.

Causes of Quotas Mismanagement

If managing quotas is so important, then why is it so hard? Let's enumerate the causes of quotas gone wrong.

1 **Favoritism**
Bosses who play favorites, or teams that believe their quotas aren't fair, suffer from all kinds of poor morale and turnover. You know what they say about perception.

> **Companies that "peanut butter spread" quotas across similar roles see 14% less quota attainment than organizations that assign quotas based on territory-specific opportunity.**
>
> *– Xactly Insights*

2 **Don't be a "data" (rhymes with hater).**
Your company's historical data and/or third-party data are key to a well-structured plan, but as we all know, accurate data is way easier written than read. Even when unique data is accurate, end-to-end master data is often far off the mark. Think about what happens when Irma takes over Sameer's quota mid-year. Such inaccuracies can really impact analysis if not appropriately managed.

3 **Not planning for the win.**
How you craft a sales plan depends on whether you're selling into a greenfield situation or an established marketplace. Inefficient assignments squander revenue in the near term, and tarnish your team's trust and productivity over the long term.

> **Brace yourself: 83% of companies still heavily or moderately use spreadsheets for territory design.**
>
> *– Xactly*

Causes of Quotas Mismanagement

4 **Old tools in the toolbox.**
Legacy systems — ahem, Excel — easily disrupt best-in-class planning processes and squeaky clean data. You already know they're clunky and prone to error. Just think about how late new comp plans roll out every year, or how often your team contests payments.

Spreadsheets also make dissecting meaningful information impossible. Over time, spreadsheets are literally unable to scale, as inconsistent data sources proliferate. That impacts your (in)ability to confirm data accuracy, consolidate data across regions, or view global performance by brand, product, location, vertical, team, or season.

Symptoms That Your Quotas Need a Revamp

How can you tell that your quota management needs to be brought into the modern age?

1 **You're using Excel.**
Data and insights are only good if you can do something productive with them. Because Excel is riddled with errors, actionable insights are pretty much impossible to gain.

2 **Your team consistently struggles to attain quota..**
If symptoms exist, you probably need a cure.

3 **Your team targets low-potential accounts.**
This may mean your team's quotas are too small.

4 **Team members don't believe quota is realistic.**
People are wired to complain, so this point is relevant only if complaining is extra high, particularly when team members question the quota creation process.

5 **Morale is super low.**
We're referring here to substantive morale anomalies that last.

6 **It's hard to hire new folks.**
If word on the street says your team's quotas aren't fair, people won't want to join the team.

7 **Employee turnover is high, especially of top performers.**
Excellent hires want to work somewhere excellent, where they can maximize pay for performance.

8 **Marketing and customer success don't have revenue commitments.**
Ever wonder why sales is the only revenue team with territories and quotas? Today's latest hottest best practices challenge this traditional status quo.

We've covered the whats, the whys, and the why nots. Now let's understand how we win!

Then & Now:
Architecting Your How

Kinds of Quotas

Before you can craft a blueprint for success, you need to understand what kinds of quotas are out there. The type of quota that you use largely depends on your goals. Following are the five most common kinds.

1 **Volume.**
Volume-based quotas incentivize professionals to sell as many units or as much revenue as possible.

2 **Profit.**
This kind of quota reflects the margin or gross profit of an individual sales contributor, team, or product or services cluster.

3 **Activity.**
Activity quotas compensate revenue professionals, often sales or business development representatives, to complete a certain number of activities — such as provided demos, scheduled meetings, completed calls, or even sent emails.

4 **Combination.**
A combined quota strategy might pair two or three quota types, such as profit and activity quotas. This generally happens when management wants to make quota feel more attainable.

5 **Forecast.**
With established territories, forecast quotas are based on historical performance of the revenue goal that region needs to hit in a set time period.

Now let's understand how to bring all of these pieces together.

The All-Important Item: Sequencing

Quota creation and management are part of a larger motion that must be completed before you can begin effective sales planning, so nailing your sequence is an important first decision.

You have to, have to, have to correctly sequence the components of your planning and management process.

Generally speaking, planning's components progress in one of two ways.

Greenfield
Established
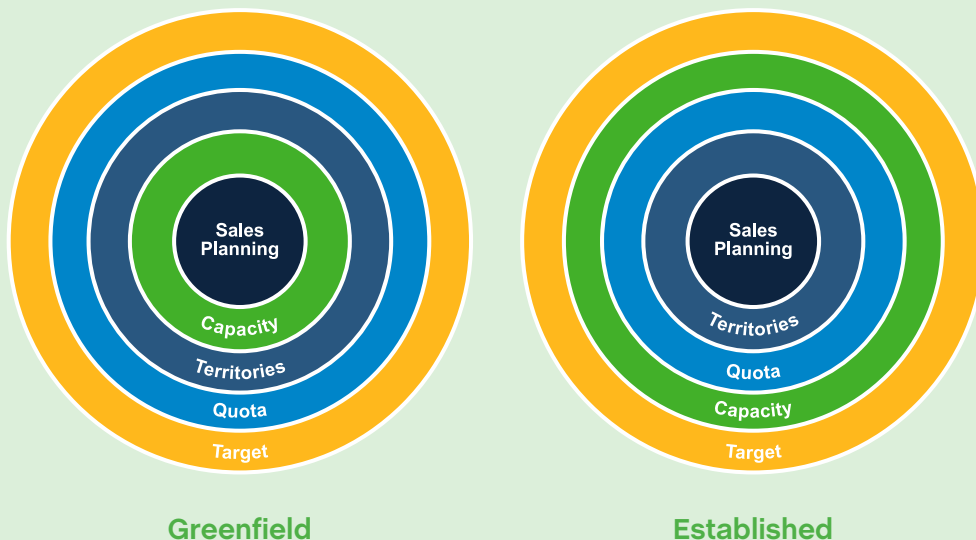
Scenario 1: If you're in an established marketplace.

In this kind of decision environment, your team is operating with mostly known quantities, and you'll likely need to follow these steps:

1 **Target.**
Begin with the end in mind, probably with the revenue number that's been given to you. What percentage increase does that revenue target represent?

2 **Capacity.**
From that percentage increase, determine additional headcount that you'll need to make the goal, using historical knowledge, data, and competitive benchmarks.

3 **Quota.**
You likely already know what constitutes a realistic quota, since you've honed the craft while endeavoring to establish your market. Valuable reference points, once again, include historical data and competitive insights.

4 **Territory.**
Divide territories to realistically support those quotas, again using what you know, as well as any comparative and historical data that you have, across headcount.time period.

Scenario 2: If you're attacking a greenfield.

When targeting greenfield, you aren't operating with many known quantities, so you'll likely need to follow these steps:

1 **Target.**
Quantify your overall target in terms of revenue.

2 **Quota.**
Divide that number into individual quotas. You may reference prior experience for this as well as with your peers. Industry and growth-stage benchmarks are also highly recommended.

3 **Territories.**
Without historical data or an established market, it's hard to know what size territories are necessary to set the team up for quota attainment. Again, benchmarks based on industry and company size are valuable.

4 **Capacity.**
Only after these steps are completed does it make sense to determine headcount.

Pro Tip: You 2-3X efficiencies and raise productivity 12% when you automate all operations sales management processes.
— *Xactly*

Great! Good job.

Building A Scalable Process

Integrating data to create quotas is just as important as having a contextually appropriate sales planning sequence. Would you rather results that are algorithmic... or manual? That's like asking if you'd rather get on a boat that floats or one that has holes in the bottom.

Which Boat Would You Rather Be On?

One in two chance of surviving   **Almost 100% chance of surviving**

Spreadsheets do not work for creating quotas. Let's say that again...

Spreadsheets do not work for creating quotas. And again...

Spreadsheets do not work for creating quotas.

Instead, follow these three steps to make your process algorithmic.

1 **Tech back the night.**
Produce quotas using your automated system.

2 **Download and pivot the information.**
It's common for management to create a top-down summary of predicted performance, or for the field to build a bottom-up model with the same data. Sometimes, teams produce both.

3 **Compare the outputs.**
Gradually work towards realistic quota targets using both, or all three, approaches.

Awesome, you now have your process!

Creating Your Future

Ways to Craft Winning Quotas

While the following best practices will characterize a holistic methodology and process, the exactitude (yes, it's a word) of your unique company's revenue science depends on its sequence—the one you determined in the last section.

Organizations using these best practices realized one-time revenue improvements of between 20% and 30%—and later annual increases of 5% to 10%.

— McKinsey

- **Work backwards to set activity goals.**
  Enhance decision making by leveraging AI to predict key metrics including ideal ramp times, quota targets and seasonality in sales.

- **Calculate top down and bottom up models.**
  Top down models may not give enough weight to a sales team's historic data and proven abilities, while too heavily prioritizing the board's sometimes unrealistic expectations.

- **Waterfall it.**
  Waterfall modeling sets your target goal at the highest level, then passes the model down each level of the dimension hierarchy. Each level can make confidential adjustments before passing the model along. This methodology works particularly well when planning is decentralized, incorporating input from regional and business line leaders.

Revenue Pro Tip

Run all three top-down, bottom-up, and waterfall methodologies. Then, compare and tweak outputs until your results are similar.

- **One is not done.**
  Create iterative snapshots of your plans, and model important "what-if" scenarios and monthly forecasts. Make sure you analyze side-by-side comparisons across your teams.

- **Learn with the machines.**
  Deep learning built into state-of-the-art tools can dramatically uplevel the accuracy of your quotas, and overall forecasts and plans. For example, sales intelligence will tell you if too many deals rolled over from last year, and your pipeline is too soft.

**That's what we call a best practice blueprint for better quotas!**

The Quota Management Maturity Curve

Breaking out of data jail happens in the following three phases.

Collaborative

Continuous

Automated & Data-Driven
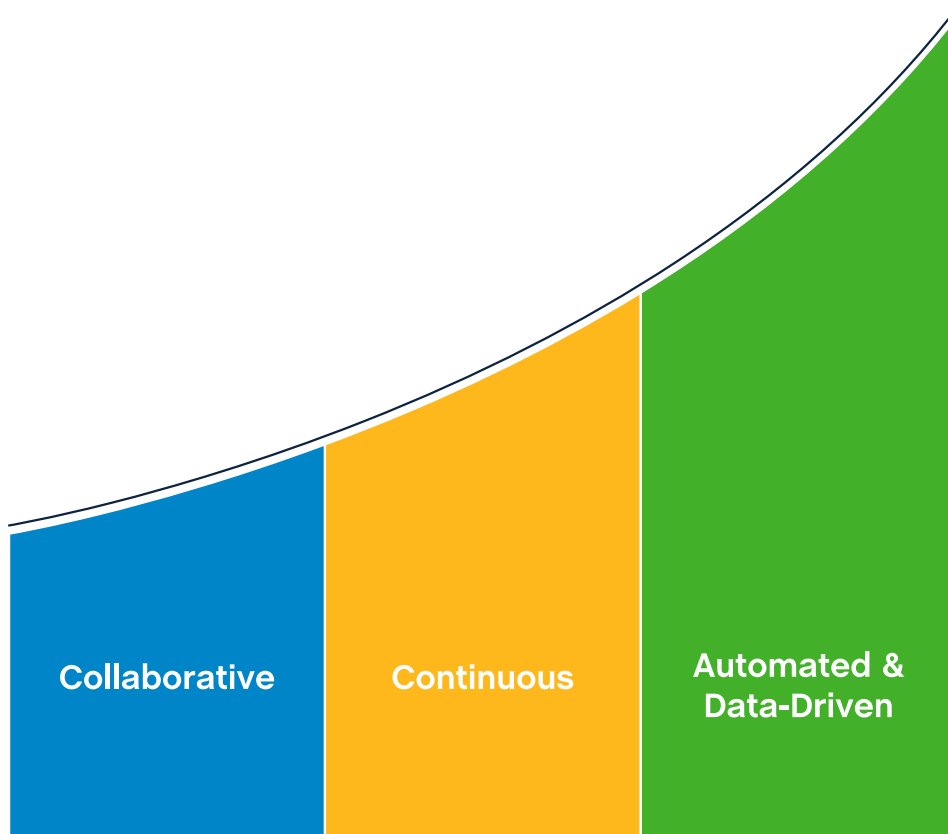
1 **Collaborative.**

Gone are the days of Sales siloes. Revenue optimization requires leadership to get everybody in the room: Pre-Sales, Inside Sales, your marketing counterpart responsible for demand generation and digital marketing, the owner of the product roadmap, and whoever leads the team responsible for upsell and cross sell.
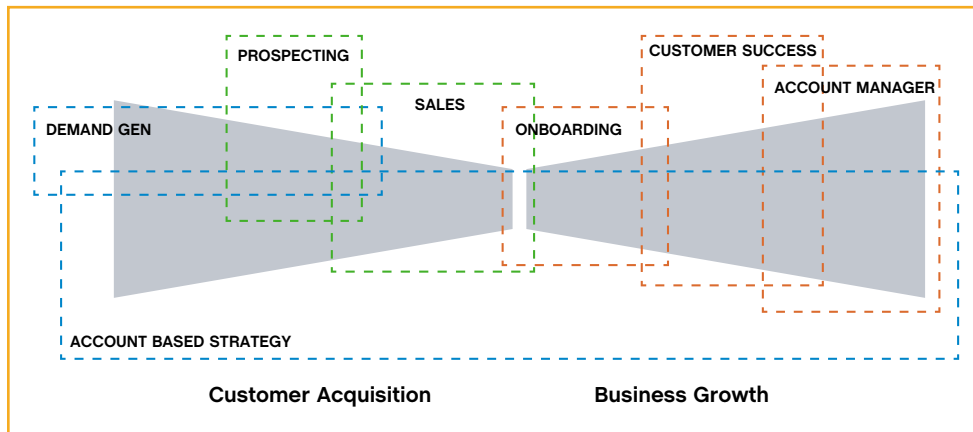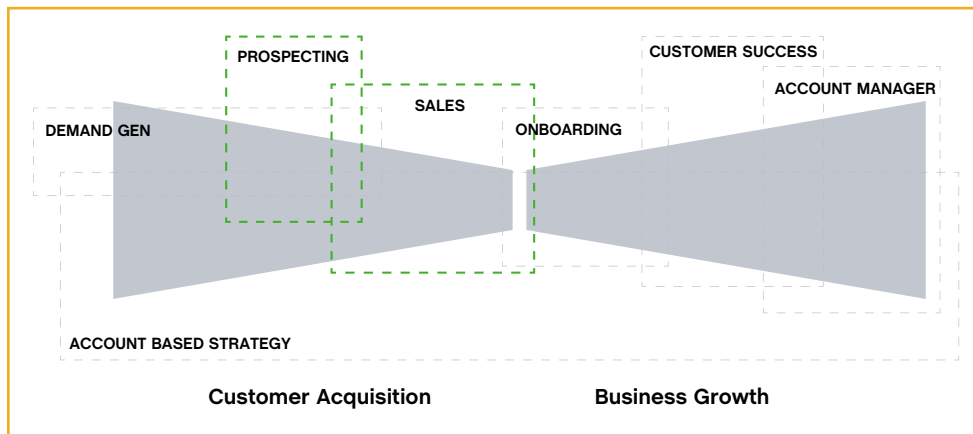

Which model would you rather apply to your revenue capture lifecycle?

It goes without saying that all contributors need one view of digestible data that lends actionable insights. This requires you to seamlessly integrate your existing tech stack—including but not limited to your Customer Relationship Management, Human Capital Management, Enterprise Resource Planning, Operational Sales Management, Advanced Quota Planning, and Incentive Compensation Management solutions with other enterprise systems.

2 **Continuous.**
In days past, you updated sales plans and quotas once a year—maybe quarterly if you were extra on point. But Forrester research shows the modern revenue team has to reschedule the schedule and meet continuously to analyze and adapt plans. That means at least bi-weekly.

Weekly or Biweekly

Plan · Run · Review · Revise
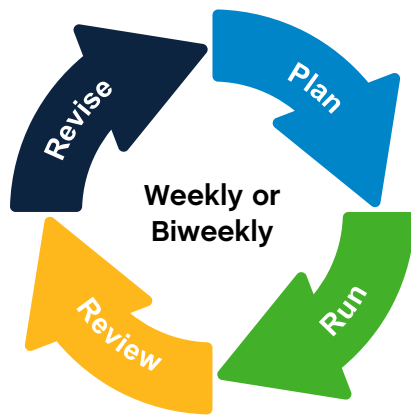
"Annual or even quarterly planning is now a thing of the past. It's important to have a continuous, data-driven approach to planning — to innovate and stay ahead of the competition."

– Mary Shea,
Principal Analyst - Forrester

3 **Automated and data-driven.**
Speaking of the need to course-correct easily and often, the pinnacle of this maturity curve involves having the tools to proactively monitor and continuously optimize sales plans with changes in business conditions to course-correct in real-time. Often, you can enhance decision making by leveraging artificial intelligence to predict key metrics including optimized territories, ideal ramp times, productivity targets, and seasonality in sales.

That's A Wrap
(& What's In It For You)

So, this resource definitely wasn't short, but we hope you've made it to this point—and not just because it means this whitepaper did its job. Rethinking how you plan, forecast, and design quotas is the new normal for today's leading sales leaders. And doing so can pay off.

According to McKinsey, organizations that institutionalize the best practices we've just discussed realized one-time revenue improvements of between 20% and 30%—and later annual increases of 5% to 10%.

Email info@intangent.com to continue the conversation.

Sources

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