DESIGNING
SALES TERRITORIES
FOR MAXIMUM
SUCCESS

By ANDRIS A. ZOLTNERS,
PRABHAKANT SINHA, SALLY E. LORIMER

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Sales Leaders Often Overlook Sales Territory Design

Sales leaders assign responsibility for customers and prospects, along with the associated selling activities, to salespeople and teams when they design sales territories. When these territories are well designed, the workload and opportunity in every territory are well matched to the capacity of the salesperson or team assigned to cover that territory.

But sales leaders can overlook the power of sales territory design as a sales effectiveness tool, and they often misdiagnose symptoms of poor territory design, focusing instead on other sales effectiveness concerns. Here are six examples:

Example 1: Targeting Problem?

“Why can’t our sales force learn to target more effectively?” wonders a marketing manager. “The salespeople in Dallas have visited only 10 percent of the good leads that we passed on. No wonder our market share in Dallas is
so low! And in Atlanta, salespeople are spending too much time with low-potential prospects that aren’t even on the target list.”

Example 2: Hiring and Retention Problem?

“The Detroit territory is vacant again,” says a frustrated Midwest regional director. “This is the fifth vacancy in just two years. In their exit interviews, the people who left implied that they were not given enough opportunity to succeed.”

Example 3: Compensation Problem?

“I can’t make any money with this incentive compensation program,” complains an office products salesperson who has just completed his first year on the job. “I’m working twice as hard as veteran salespeople who are milking their well-established books of business, yet I earned just a small fraction of what they made this year.”

Example 4: Award Trip Criteria Problem?

“This is the same group of salespeople who went on the award trip last year,” observes a vice president of sales. “I wonder why several of the salespeople who I thought worked really hard this year didn’t make the cut.”

Example 5: Rank-Ordering Problem?

“Why do they insist on publishing these district market share rankings?” complains a pharmaceutical district sales manager in Denver. “My district
has so much potential spread out across a huge geography, and I don’t have enough salespeople to possibly cover it all. The rankings are unfair.”

Example 6: Quota-Setting Problem?

“I had a good year, and now I’m rewarded with a huge quota for next year,” complains a medical supply sales rep. “I’ll never achieve that quota. Why can’t my manager understand that the potential in my territory has been maxed out?”

A smart sales leader can at least partially remedy all of these situations through better territory design. In Example 1, targeting may improve if salespeople are redeployed from Atlanta (where low-potential prospects are being overcovered) to Dallas (where good leads are being neglected because the salespeople are too busy to follow up). In Example 2, the Detroit salesperson may stay on the job if her territory is enlarged so that she has more opportunity to generate sales. In the other examples, better territory design can lead to fairer recognition and rewards for the salespeople.

If sales leaders have not evaluated the territory design and adapted it to current business needs within the last year or two, it is likely that sales territory misalignments are keeping the sales force from achieving its maximum effectiveness. Poor territory design makes it impossible for the sales force to give all valuable customers the attention they deserve and, at the same time, underutilizes many talented salespeople. Poor territory design also makes it extremely difficult to identify and reward the true top performers and thus affects sales force morale and motivation. Poor territory design can also result in high travel costs.

**Good Sales Territory Design Encourages Sales Success**

*Well-Designed Sales Territories Enhance Customer Coverage*

Well-designed territories lead to increased sales because they allow salespeople to improve their customer and prospect coverage. A
salesperson in a territory with too much work or travel cannot possibly cover all the customers and prospects assigned to him. He probably spends his time traveling to and calling on accounts he’s comfortable with, ignoring other, more challenging, but potentially more profitable, accounts. As a result, the company misses out on important sales opportunities. Likewise, a salesperson in a territory with too little work will spend a disproportionate amount of time on nonproductive activities, such as calls on low-potential customers, despite the fact that the sales generated from those customers are likely to be much less than the potential sales from the accounts that are not covered in high-workload territories. When sales leaders redesign territories, they can assign undercovered profitable accounts from high-workload territories to salespeople who have time to call on them; this increases sales force effectiveness, which leads directly to higher sales and profits—without increasing sales force headcount.

Figure 6-1 charts the results of a sales territory design assessment that shows the extent to which customer coverage needs and sales force capacity can be mismatched. The cosmetics company sales force in the example performs merchandising duties at retail stores—stocking shelves, setting up displays, and taking inventory. The company’s intention was to design each territory’s store workload to approximately match the capacity of a full-time salesperson.

Figure 6-1. Sales territory design assessment: mismatches in sales force capacity and customer coverage needs for a cosmetics sales force
For the assessment, actual territory workloads were calculated by estimating how long merchandising tasks should take at the different types and sizes of stores in each territory. The territory workloads were indexed on the vertical axis, and the territories were sorted from highest to lowest workload and plotted as points along the curved line on the graph. An “ideal territory workload” range was determined (sales leaders felt that it was reasonable to expect almost all sales territory workloads to fall within 15 percent of the annual capacity of a salesperson). A comparison of the points along the curved line representing actual territory workloads with the horizontal band representing the ideal workload reveals the extent to which customer needs and sales force capacity were misaligned. Approximately 60 percent of the territories had either too much work or too little work for a full-time salesperson.

The extent of misalignment shown in Figure 6-1 is quite typical. Data for a convenience sample of over 4,800 territories from 18 sales territory redesigns that ZS Associates conducted in four industries in the United States and Canada showed that the majority of sales territories either had too much work for a salesperson to handle effectively (25 percent of territories) or had too little work to keep a salesperson fully busy (31 percent). Because of these mismatches, those businesses missed opportunities to add 2 to 7 percent to their revenues every year.

**Well-Designed Sales Territories Improve Morale and Enhance the Power of Reward Systems**

There is a high correlation between territory potential and territory sales. Across companies and industries, territory potential is often a better predictor of territory sales than any other factor, including the salesperson’s experience, ability, and effort. Territories with high market potential often have high sales regardless of sales force effort. In fact, in environments with significant carryover, it is not uncommon for a vacant sales territory with high sales potential to have higher sales than a fully staffed territory with low sales potential. Similarly, territories with low potential tend to have low sales, but high market share.

Frequently, sales leaders do not place enough emphasis on differences in territory potential when they evaluate, compensate, reward, and acknowledge salespeople. When leaders underestimate the importance of these differences and treat salespeople as if their territories were
identical, sales force morale suffers. Few salespeople will be content with what they consider to be inferior account assignments while their colleagues are making more money and getting more recognition with less effort because they have superior territories. Territories with low potential, intense competition, or too many small accounts, but a high quota, lead to low job satisfaction and low motivation for salespeople. For this reason, unfair sales territories often lead to salesperson turnover.

The link between territory design and sales force morale is especially strong when a large proportion of salespeople’s pay and rewards is tied to their level of sales. For example, most of the salespeople’s earnings at a medical device company came from incentives paid as a commission on sales. Morale was quite low because the sales force did not feel that the wide range of incentive pay across salespeople, shown in Figure 6-2, accurately reflected true performance differences. For example, the skills, capabilities, and motivation of the bottom 10 salespeople, who earned an average of just $28,500 in incentive pay, did not appear to be substantially different from those of the top 10, who earned an average of $116,000 in incentive pay—more than four times as much. Sales leaders assumed that something was wrong with the incentive plan. However, analysis revealed that poor territory design was the major cause of the variation in payout, and that the incentive plan could work quite well if territories were redesigned so that potential was distributed more equitably across the sales force.

The link between territory design and sales force morale is also strong when nonmonetary recognition—plaques, award trips, or invitations to join select groups such as the President’s Club—is tied to territory sales. And territory balance is a must for those companies that publicly publish a forced ranking of all salespeople on any sales metric.

**Well-Designed Sales Territories Keep Travel Time and Costs Under Control**

Sales territories that minimize sales force travel allow more face time with customers and have a positive impact on sales force morale, especially when sales leaders distribute travel requirements fairly. As the cost of gasoline and other travel expenses rises, travel-efficient territories are increasingly important for managing sales force costs. More and more companies are discovering that the time and cost required for a
salesperson to travel a great distance to reach one potentially large customer cannot be justified; they find that they get a greater return from calls on several midsize customers closer to home.

**Figure 6-2.** Range of incentive pay by salesperson at a medical device company

The realignment of a large industrial distribution sales force resulted in a 13.7 percent reduction in salesperson travel time. That reduction translated into an almost $1 million savings in travel expenses in the mid-1990s, when gasoline cost about $1 a gallon; the savings would be considerably greater today. In addition, reducing travel time enabled the sales force to increase its selling time by 2.7 percent. The company estimated that this increase in coverage resulted in over $15 million in additional sales and over $3 million in additional profits.

Differences in travel requirements sometimes create a need for different sales force structures in remote and urban areas. Companies that
use industry or product specialists in compact urban areas will often choose to place generalists in remote areas in order to minimize travel. Companies can also reduce sales force travel time and costs by using less expensive selling channels, such as telemarketing, direct mail, and Internet selling, to reach low-potential accounts in remote locations.

**Insights for Overcoming Implementation Challenges**

When companies take an “update as needed” and decentralized approach to territory design, the inevitable consequence is territories that do not effectively match sales force effort to customer needs, that compromise methods for evaluating and rewarding sales force performance, and that require excessive travel time and costs.

Companies can create and maintain well-designed territories by developing accurate measures of account workload and potential, auditing sales territory design at least every one or two years, and using well-thought-out, structured processes and efficient tools to change territories as necessary to support the needs of the business. In the sections that follow, we describe several components of a successful structured approach to sales territory redesign.

**Evaluate Territory Design Decisions Using Defined Business Objectives**

A structured territory redesign process begins with stated objectives that reinforce sales force strategy. Sales leaders can then evaluate proposed territory changes based on these unbiased business objectives, which might include:

**Match territory workload to salesperson capacity.** Having the right workload distribution across the sales force improves responsiveness to customers, ensures that salespeople are challenged but not overworked, and improves sales force morale.

**Distribute sales potential fairly to salespeople.** Equitable distribution of potential to salespeople improves sales results and morale. Depending on the compensation plan, the right distribution of sales potential can be critical to providing all salespeople with a fair opportunity to earn money.
Develop compact, travel-efficient territories. Territories that are geographically compact and efficient to reach make it easier for salespeople to be responsive to customer needs. Compact territories also reduce the need for overnight trips and keep travel costs down.

Unfortunately, these business objectives cannot always be achieved simultaneously. For example, it may be necessary to build territories with lighter workloads or lower potential in sparsely populated areas in order to make them geographically compact or to compensate for a large travel requirement. Often it is not possible to achieve equitable workload distribution and equitable sales potential distribution simultaneously. While workload and potential are closely correlated, territories with a greater proportion of large accounts will have a higher potential-to-workload ratio, whereas those with a greater proportion of small accounts will have a lower potential-to-workload ratio. The importance of each objective depends upon the mission of the sales force, the compensation plan, and the nature of the sales force’s relationship with customers.

A Comparison of Territory Redesign Objectives

<table>
<thead>
<tr>
<th>Territory Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>Part-Time Merchandising</td>
<td>The primary business objective for a part-time merchandising organization in the consumer products industry was to build compact territories with manageable workloads. This would enable salespeople to perform their required duties at stores (stocking shelves, setting up displays, and taking inventories) without exceeding the weekly hour limit for part-time personnel.</td>
</tr>
<tr>
<td>High-Commission Chemicals Sales Force</td>
<td>The primary business objective for a highly commissioned chemical sales force was to distribute sales potential fairly. An equitable distribution of potential across sales territories provided the salespeople with fair</td>
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</table>
earnings opportunities. In addition, minimizing disruption between customers and salespeople was very important for this sales force because the sales process was complex and customer knowledge was a significant source of competitive advantage.

Companies frequently make the mistake of designing sales territories around the needs and desires of individual salespeople. While this strategy may keep a few salespeople happy in the short term, it can result in gerrymandered sales territories that do not make good business sense and that are likely to outlast the tenure of the people they were designed for. Sales territories are best designed from a customer and company perspective first; then the salespeople can be wisely matched with jobs that are consistent with long-term business needs.

**Manage Disruption of Account-Salesperson Relationships**

Sometimes companies are reluctant to redesign sales territories because they don’t want to disrupt the continuity of salespeople’s relationships with customers. Particularly in industries where the salespeople’s customer knowledge is a source of competitive advantage, an ineffective transition from one salesperson to another could result in inadequate servicing of the customer and ultimately loss of business.

The good news is that a well-thought-out, comprehensive transition plan can make it less likely that the company will lose sales because of the territory redesign. For example, an industrial distribution company implemented a major redesign that resulted in many accounts being assigned to a different salesperson. To measure the sales impact of this disruption, the company tracked monthly sales prior to and following the redesign, comparing sales performance in accounts that had been reassigned to sales performance in accounts that had maintained a relationship with the same salesperson throughout. The sales impact of the disruption varied across three volume-based account segments, as shown in Figure 6-3. With small- and medium-volume accounts, salespeople generally did not have strong relationships with customers prior
to the redesign, so the change in relationship had little or no impact on sales. At larger accounts, however, sales force relationships before the redesign were much stronger, and the change did have an impact. Large-volume accounts that had been reassigned purchased 20 percent less than those that kept the same salesperson throughout.

For its extra-large-volume accounts, the company took the relationship transition very seriously. The former salesperson introduced each affected customer to the new salesperson, the company encouraged teamwork between the former and the new salespeople, and the two shared commissions for a brief period. Because of the special attention the company gave to reassigned accounts in this segment, there was no falloff in sales. Had a similar transition program been implemented in the large-volume account segment, it’s likely that the 20 percent sales loss would not have occurred.

**Pay Attention to the Sales Compensation in Making the Transition**

Sales force incentive compensation plans can create major obstacles when companies redesign their sales territories. Incentive compensation plans influence sales force behavior, and unfortunately this behavior is not always consistent with what is best for the organization as a whole. For example, incentive plans based on sales volume encourage salespeople to

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<th>Small- and Medium-Volume Accounts</th>
<th>Large-Volume Accounts</th>
<th>Extra-Large-Volume Accounts</th>
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</thead>
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<tr>
<td>Annual purchasing volume ($000)</td>
<td>$2–50</td>
<td>$50–100</td>
<td>$100+</td>
</tr>
<tr>
<td>Purchasing affected by change in salesperson relationship?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Did strong salesperson relationships exist before realignment?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Was relationship transition program implemented?</td>
<td>No</td>
<td>Somewhat</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Figure 6-3.** Disruption impact from an industrial distribution sales force realignment—results summary
want more accounts than they can cover effectively, since having more accounts means having more opportunities to build sales. Incentive plans based on market share encourage salespeople to want fewer accounts than they can manage so that they can penetrate their accounts more deeply and drive out the competition. A salesperson whose territory is targeted for change may fight the change, stating: “I have done a good job for you. I built this territory. It is unfair that my ‘reward’ is to have my territory disrupted.” Managers who get complaints from their best performers may relent in their effort to redesign territories.

Salespeople’s resistance to changes in sales territories increases as the proportion of pay based on incentives (as opposed to salary) increases—the higher the incentive component of compensation, the more likely it is that a change in territory boundaries will affect a salesperson’s income. The table in Figure 6-4 compares the percentage of territories that were properly sized before and after a territory redesign. The study was based on data from approximately 2,800 territories at eight companies, of which five paid mostly salary and three paid mostly incentives. The percentage of properly sized territories improved significantly after the redesign for both the salary and the incentives companies. However, a higher percentage of salary territories were the right size both before and after the territory design change. Fear of the possible impact on salespeople’s earnings prevented the management of the companies with incentive territories from achieving better territory design.

If your company expects to change territories frequently—for example, if you are planning substantial sales force growth—you should consider a change-friendly incentive plan. For example, a quota-bonus plan that pays incentives for achieving a territory-specific quota allows greater flexibility in changing territories than does a plan that pays a commission on total territory sales. With the commission plan, territory earnings opportunity is affected with every account reassignment; opportunity decreases for the salesperson who gives up an account and increases for the salesperson who gains the account. With the quota-bonus plan, however, you can make quota adjustments when accounts are reassigned to ensure that the territory earnings opportunity remains constant for each salesperson affected by the change. You can also address concerns over the possible reduction of a salesperson’s income resulting from territory changes by phasing in compensation changes
over time. For example, each salesperson could be guaranteed at least 80 percent of last year’s earnings in the first year following a territory change, with the percentage diminishing over time.

Alternatively, for a period of time, salespeople could continue to earn some fraction of the incentive payout on their accounts that are reassigned to another salesperson. This approach can work well at companies with longer selling cycles, where it is important for the old salesperson and the new salesperson to work together to ensure a smooth transition for accounts with potential sales in the pipeline. A phased-in compensation plan may cost more money in the short term. However, the incremental sales created by more equitable sales territories can more than fund this temporary cost.

Use Structured Processes and Efficient Tools

Companies should view sales territory redesign as a significant change management effort. A successful redesign is one that is handled carefully and intentionally using a well-thought-out process. The best processes start with a centrally developed territory design proposal based on objective business criteria and consistent logic for determining staffing needs. The proposal acts as a benchmark, providing quantifiable criteria (such as territory workload, potential equity, and travel time) against which all territory design changes can be judged. By allowing field sales managers to make local adjustments to the centrally developed proposal, sales leaders ensure that the redesign takes local conditions into account. Incorporating local input also makes it easier for the entire sales organization to accept territory changes.
Fortunately, with today’s technology, sales managers no longer have to spend days poring over maps and account-level reports to redesign sales territories. Computer-assisted analysis, when coupled with structured processes, makes it possible for sales managers to create good territories quickly without frustration and without losing significant time in the field. Software such as MAPS by ZS Associates (available for use on personal computers or via the Internet) allows sales managers to create their own “what-if” territory design scenarios using computerized maps and worksheets. Territory optimization software is also available that uses mathematical algorithms to evaluate millions of potential territory designs to find one that best meets a company’s objectives for profitable territories, equitable workload and sales potential, and reasonable territory size and need for travel, as well as minimal disruption.

Assess Territory Design Every One to Two Years

Companies in which territory design has been neglected for long periods of time are usually seriously out of sync with current market needs and are leaving millions of dollars on the table. Many valuable customers are not getting the attention they deserve, and many talented salespeople are not being fully utilized. Smart sales leaders assess territory design on a regular basis to ensure that it keeps pace with ongoing market and product-line changes and that territory workload and opportunity are well matched to the talents and capacity of salespeople.