Sales quotas are among the most important tools available for motivating and directing the sales force. Sales quotas communicate a firm’s goals and set the bar in terms of performance expectations for salespeople. The most important performance metric for the salesperson is very often quota attainment, and a significant portion of compensation is directly linked to it. Management’s challenge then is to establish quotas that exert a significant positive impact on sales force activities. This requires careful attention, from setting achievable national targets to incorporating sales manager input and winning sales force buy-in, and a quota allocation method that effectively weighs territory potential and buying group influence. Sales quotas should be allocated across territories and accounts in proportion to where the opportunity exists and where the business is likely to come from. The key to doing so lies in understanding how to estimate sales potential across customers and geographies.

The challenges to setting effective sales quotas

Achieving the appropriate amount of “stretch” in each salesperson’s quota helps ensure that he or she is challenged at the right level. If quotas are set too low salespeople may not produce as much as they could. If quotas are set too high, salespeople may feel demoralized, losing their drive and motivation. Additionally, the majority of incentive compensation plans place a high degree of emphasis on quota attainment in an effort to reward and motivate top performers, paying out much larger sums for results above quota. Reps that consistently exceed their quotas are perceived as top performers, winning contests and earning appearances “on-stage.”

Unfortunately, many medical products companies have biases in their sales quotas that reduce the effectiveness of their
sales force and increase costs. When reps are well above quota they may coast and even hold back sales. As a result of most incentive plan designs, these reps are often paid accelerated commissions well above their target compensation to recognize their performance. When well below quota, reps often lose their drive, hold sales for the next period, or leave the organization altogether. This not only leads to reduced morale and increased turnover, but also results in greater incentive compensation costs due to a wider distribution of performance.

Many sales forces have problems with fairness in their quotas because they do not appropriately recognize territory differences. In fact, a very common practice is to allocate either an equal percentage growth or an equal dollar growth goal to every territory. This method would be fair if every sales territory had the identical sales history and growth potential, but in reality they do not. Even in the most well-balanced sales force alignments, the largest territory may have up to 50% more territory workload and sales potential than the smallest territory, and in many sales forces the largest territory has two to three times as much opportunity as the smallest. Equal growth methods typically lead to a “previous year sales bias,” in which territories that perform well in one year are more likely to miss quota the following year. Also, territories with highly unfavorable GPO status have significant barriers to growth which are not recognized in equal growth methods.

Many companies do recognize that quotas should ideally be set with recognition of a territory’s opportunity or growth potential, but resort to equal growth methods because they lack confidence in the available data for estimating opportunity. Differences in the favorability of group purchasing contracts and regional differences in reimbursement practices complicate the issue even further. Similarly, they lack confidence that a different process would produce better results. These challenges, however, can be successfully overcome by using available data sources to develop a well-supported quota recommendation and implementing a process that lets well-informed sales managers refine and finalize quotas.

Achievable national targets

A sales force can have the best process for allocating a goal across territories, but it means little if the national target is unattainable. Capitulating to pressure from a corporate parent—or irrational exuberance with aggressive revenue growth targets—only sets the sales force up to fail. Developing a forecast that recognizes marketplace realities, launch timing risks and historical sales trends is critical to ensuring that the overall goal is attainable.

There are several red flags that indicate where forecasts might be overly optimistic. These include goals that require significant increases above historical trends, increasing growth or share assumptions not supported by new product introductions, and assumptions of early FDA approval and launch of significant new products. In our experience, organizations regularly plan new product introductions around optimistic timelines and thus set their sales forces up for failure.

Territory potential

Once an achievable national target is set, sales quotas should be allocated across sales territories and accounts in proportion to where the opportunity exists and where the business is likely to come from. The key lies in understanding how to estimate sales potential across customers and geographies, and using that information in the quota allocation process.

Territory potential for medical products companies is often difficult to assess. In the pharmaceutical industry, for example, third party data vendors collect and sell physician level prescription data which can be used to define the total market for any given class of drugs. This type of data does not typically exist at the account level for medical products markets, so companies often have to work harder to identify good measures of opportunity. For example, ICD9 procedure data can be used as a proxy for sales potential for those companies whose products tie closely to a given type or group of procedures. In order to translate the procedure data into sales potential, procedures need to be linked to potential sales units by incorporating assumptions for usage and average sales price. An illustration of how this can be done for hospitals is provided in Figure 1, based on a hypothetical device used in open heart surgeries.

For other types of medical products, data such as drug prescriptions, population demographics or institutional information (total admissions, staffed beds, number of ORs, ICUs, etc.) can be used as proxies. It is good practice to conduct statistical analysis on alternate measures of potential in order to

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Figure 1. Calculating product potential based on ICD9 procedure data for an individual hospital
identify which measures really are good predictors of sales in a territory. The best predictors can then be combined into an index of potential that can be used for allocating quotas.

It is worth noting that appropriate data does not always exist. Many companies have tried to adapt by using a bottom-up forecasting process. Implemented well, this process leverages detailed customer knowledge and provides an achievable target. However, companies are often hesitant to couple this process directly to quotas due to the inherent conflict of interest on the part of participants whose compensation and performance assessments are linked to quota attainment.

**Buying group influence**

The influence of group purchasing on sales opportunity varies for medical products companies depending on the market and the company’s competitive position. Sales opportunity in a given territory can be significantly impacted by the favorability of account contract status or the reimbursement environment. It is generally the case that local reps have little direct influence on buying group decisions. Therefore most companies recognize the need to eliminate, as much as possible, bias in quotas based on these factors.

One simple yet effective way of accounting for buying group influence is to adjust the estimates of potential for impacted accounts based on the favorability and strength of the contract. For less favorable contracts, where significant barriers to business growth exist, potential can be reduced. Conversely, potential can be increased for those accounts having favorable status. The required degree of adjustment to potential is dependent upon how important contract status may be for a given product group, and can be determined through historical modeling and management review. An important enabler to this process is a customer level database with accurate GPO account affiliation information. Historical data can be used to refine the parameters that work best and eliminate any bias.

**Quota allocation method**

There are a number of methods for allocating sales quotas, including the simple equal growth methods and more sophisticated methods such as regression analysis and time series trending. While more sophisticated methods may predict territory sales more effectively, these more complex algorithms are hard to explain to the sales force and thus may raise questions of fairness. A robust approach that balances predictive power with simplicity is the maintenance plus growth method (Figure 2). This process, each territory’s quota is determined based on two components: a fraction of sales history is used to determine the maintenance component and an estimate of untapped territory potential is used to estimate the growth component.

There are several advantages to the maintenance plus growth quota setting method. First, it improves fairness by giving greater stretch to those territories with the greatest untapped opportunity and it eliminates the previous year sales bias observed with equal growth methods. Implemented correctly, this technique also predicts final territory sales more precisely, resulting in tighter distributions of performance around goal.

Territories with great untapped potential are stretched more and territories with high previous year sales and higher market share are not penalized with unduly high goals.

**Review and finalize quotas with sales managers**

Regardless of how well the quota setting method works, in most cases sales managers have important local knowledge of territory potential that should be incorporated into the process. This may include information such as the movement of key physicians, opening...
or closing of accounts, etc. The final refinement of the quota plan is typically accomplished by distributing the recommended quotas to field managers along with the supporting data and rationale, and allowing them a zero sum allocation across their territories where appropriate.

Communicating how quotas are determined and gaining acceptance by the sales force is a top priority. If the sales force believes the process is not fair, then many of the key benefits are lost; in fact, one of the most important outcomes is that the sales force believes it is best for the business and is fair and unbiased. Keeping the quota setting process simple and implementing an effective communication program are essential to creating a favorable attitude—and effective motivation—within the sales force.

The value of improved quota setting

Improving the accuracy and fairness of quotas is one of the most important things a company can do to increase the morale of the sales force and maximize its sales effectiveness. Quotas that are consistently achievable and fair ensure that high performers are appropriately recognized and rewarded, and that everyone has the appropriate amount of stretch. This both increases sales effectiveness and actually reduces costs by minimizing the variance in quota attainment across the sales force and the excessive and unnecessary compensation payouts that may result.

An important element in implementing an improved quota setting process is identifying and using data to approximate territory potential and to incorporate the effects of group purchasing contracts and regional differences in reimbursement. While significant obstacles exist, our experience has shown that this can be done effectively. Many companies already purchase data such as ICD9 codes for identifying target accounts and for marketing purposes, but often fail to use it to hone their quota setting. Taking full advantage of the available data and implementing a disciplined and straightforward process for setting sales quotas can have significant benefits for medical products companies.

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