

# *Catherine Competitive Corporation*

*(Charles Matrix Greylock)*

***Setting Sales Territories,  
Compensation and Quotas***

# Context

- Last Time: Pill Caddy
  - ▶ Sales Prospecting
- Today: CMG (Catherine Competitive)
  - ▶ Sales Management: Setting Compensation and Quota
- Thursday: Microsoft
  - ▶ Team Selling
- In a Week: Catherine Competitive A&B
  - ▶ Sales Management: Forecasting and Training

# Catherine Competitive Corporation

- What You Do
  - ▶ Analyze advanced computing apps
  - ▶ Put that information into monthly reports
  - ▶ Charge \$25,000/yr for a single subscription
- Who You Think Wants It
  - ▶ Large U.S. manufacturing firms
  - ▶ Large financial institutions
  - ▶ Computing hardware and software vendors



# Catherine Competitive Corporation

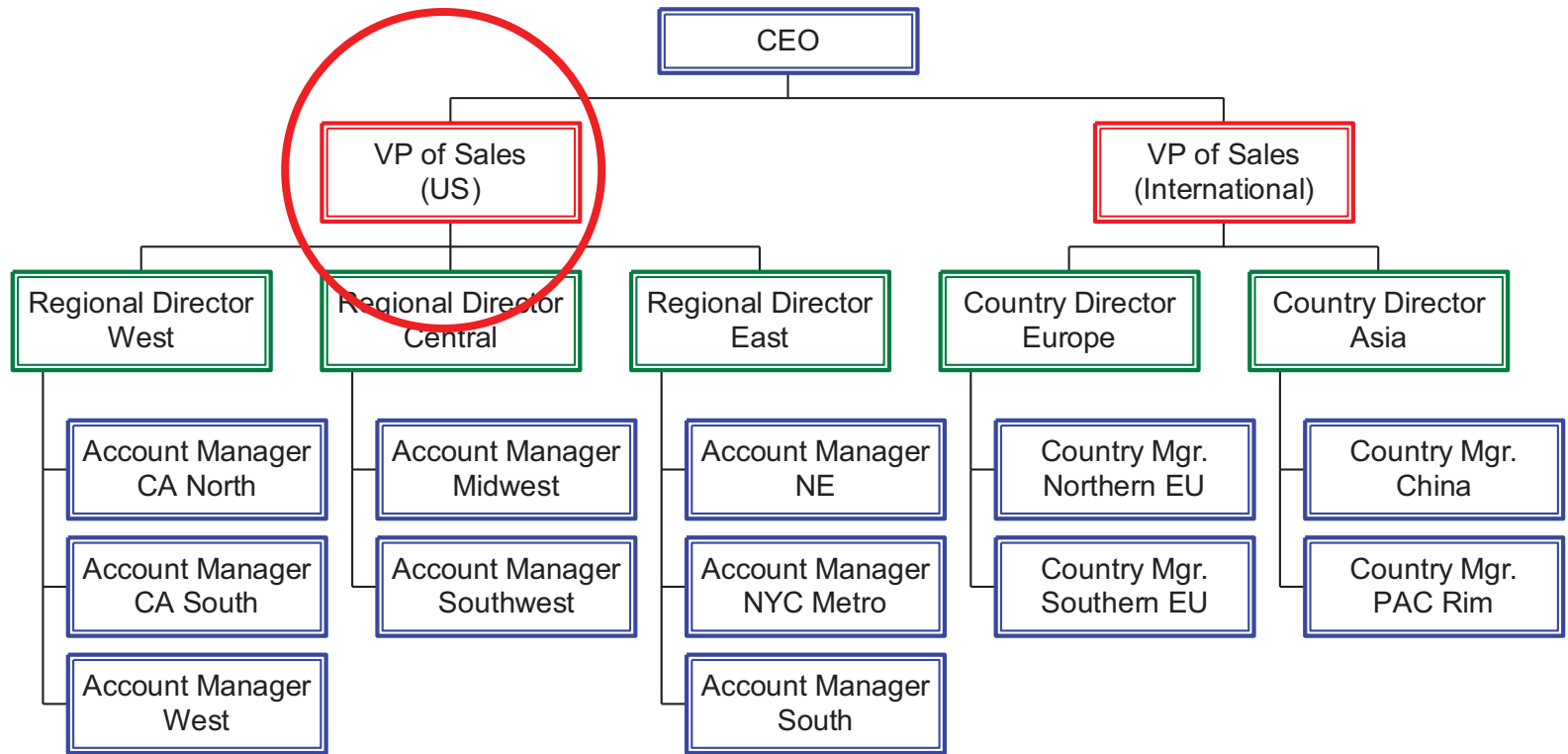
- Year One
  - ▶ \$3.5 Million Goal
  - ▶ 7 New Sales Reps
    - Base Salary: \$100 K
    - Bonus at Quota: \$100K
  
- Year Two Expectation
  - ▶ \$10 Million Goal
  - ▶ 14 Total Sales Reps



# You Are The Sales Manager

- Territories
  - ▶ Year 1 with 7 resources?
  - ▶ Year 2 with 14 resources?
  
- Compensation System
  - ▶ Year 1
    - \$100 Base, \$100 Bonus
  - ▶ Year 2?

# Typical Sales Organization



# What must you do?

1. Decide how to cover the market
2. Build a team/channel
  - ▶ Hire
  - ▶ Train/Develop
  - ▶ Provide Incentive
3. Hit The Number
4. *Make Sure The Number is Hittable*



# Job 1: Don't Get Set Up to Fail

## Successful Sales Management takes...

1. Healthy market
2. Competitive offering
3. Enough territory/potential
4. Realistic goals
5. Enough time
6. Supportive executive leadership
7. The right sales management system



# Setting Up The “Right” Sales Management System

## 1. Territory Design

- ▶ Understand nature of opportunity
- ▶ Map coverage to the opportunity

## 2. Quota Assignment

- ▶ Negotiate your quota well
- ▶ Over-assign that quota out

## 3. Compensation

- ▶ Understand your financial/market goals
- ▶ Create simple, fair, balanced incentive system to achieve them





# Negotiate Your Quota Well

# Sales Budget

- The sales budget is the financial sales plan
- These are determined by the company's goals
  - ▶ Goals can be:
    - Revenues
    - Design wins
    - Profitability
- Company budget and goals determine the sales structure
  - ▶ How many salespeople
  - ▶ How many support staff
- You can only take so much quota with a given number of salespeople and staff

# Sales Budget

- The sales budget is tied to the fiscal year
- Quotas and objectives need to be tied to the same timeline
  - ▶ Annual Quota
  - ▶ Quarterly Quota
  - ▶ Product line Quota



# Quota (Over)assignment

Example:

- ▶ My quota:  
\$3.5M
- ▶ My sales people's total aggregate quota:  
\$4.2

# Sales Quota

- Sales quotas are typically measured two ways:
  - ▶ Revenues
  - ▶ Design Wins
- Quotas are quantitative and not subjective measures
- Quotas are derived from the Sales Budget
- Quotas may have defined controls
  - ▶ # of sales calls made
  - ▶ Amount of product to be sold by customer
  - ▶ # of presentations
  - ▶ New vs. existing products
  - ▶ Multi-Year sales?

# Sales Quota

- Sales quotas exceeded may have been set too low
- Sales quotas not met may have been set too high
- Need to evaluate periodically to determine if the quotas are right
- Typically, sales quotas are not changed in a given fiscal year

# Sales Compensation Options

- Straight salary plan
- Straight commission plan
- Combination base + bonus plan
  - ▶ Before quota objective
  - ▶ After quota objective
- Additional bonuses
  - ▶ Product spiffs
  - ▶ Timing spiffs
  - ▶ Marketing spiffs
  - ▶ Success spiffs (People who achieve results)
- Management overrides



# Straight Salary Plan

- Advantages:
  - ▶ Security for salespeople
  - ▶ Allows easier flexibility for sales territories
  - ▶ Easy to administer
- Disadvantages
  - ▶ No financial incentive to increase productivity
  - ▶ Fixed selling costs regardless of sales level
  - ▶ Productive people tend to leave

# Straight Commission Plan

- Advantages:
  - ▶ Income is tied to direct productivity
  - ▶ Poor performers tend to leave on their own
  - ▶ Company expenses are low and tied to results
- Disadvantages
  - ▶ Salespeople are not loyal = high turnover
  - ▶ Products are sold to customers who may not need them
  - ▶ Strong resistance to territory change

# Combination Plan

- Advantages:
  - ▶ Income is tied to productivity
  - ▶ Keeps costs in check for average performers
  - ▶ Keeps Superstars loyal
- Disadvantages
  - ▶ Need to manage results closely
  - ▶ Low performers may hang around too long
  - ▶ Strong resistance to territory change



# Product Compensation

- How do you handle existing vs. new products?
  - ▶ Stay within the annual goals
  - ▶ It always takes longer for new products to be accepted into the marketplace
  - ▶ Existing products are easier to sell
  - ▶ Tie the compensation to the release date and not before
  - ▶ Most often need higher incentives for newer products to gain traction
  - ▶ Be careful not to have revenue fall-off on new product introductions or planned obsolescence

# Ex: EMC Sales Compensation

- Basic Structure
  - ▶ 50% Fixed and 50% Variable
  - ▶ 90% of Variable is revenue-based commission
  - ▶ 10% of Variable is MBO-based
    - Specific product line sales, New logos
    - Competitive takeouts, Linearity
- On Target Earnings (OTE)
  - ▶ Sales Representative: \$235K per year
  - ▶ District Manager: \$325K per year
  - ▶ Area Manager: \$400K per year

# Controls

- Need to monitor expenses monthly.
  - ▶ Salespeople expenses
  - ▶ Revenue to target
  - ▶ Salespeople quota to target
  - ▶ Cost of sales
  - ▶ Operating expenses
- Adjustments and controls need to be made when required.
- Need to monitor competition from time to time.



# Summary

- It All Must Work Together
  - ▶ What Your Company Does
  - ▶ Who Wants To Buy It
  - ▶ How You Design Territories
  - ▶ How You Assign Quotas
  - ▶ How You Compensate Sales Reps
- Sales Managers Are The Ones Who Make Sure It Does!

# Backup Slides



# Every Team is A Mixed Bag

Your sales reps:

**A's** ... Stars ... remove their impediments

**B's** ... Workhorses ... proven producers

**C's** ... Dogs ... eliminate them





# So.... Never Stop Recruiting

***Hunters or Farmers or  
Hunter/Farmers?***

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