Setting Quotas, Targets, Forecasts and Goals

OR…

Challenging the Troops

Brian Jeffrey

Getting accurate forecasts from your salespeople is like pulling teeth. Here’s a painless method that works. Simple, effective, and easy to implement. Everything you need to make the job easier, for both you and your salespeople.

Enjoy the read.

Brian Jeffrey
President
Quintarra Consulting Inc

Quintarra Consulting Inc
1451 Donald Munro Dr | Carp, ON K0A 1L0 Canada
613-839-7355 | Quintarra.com

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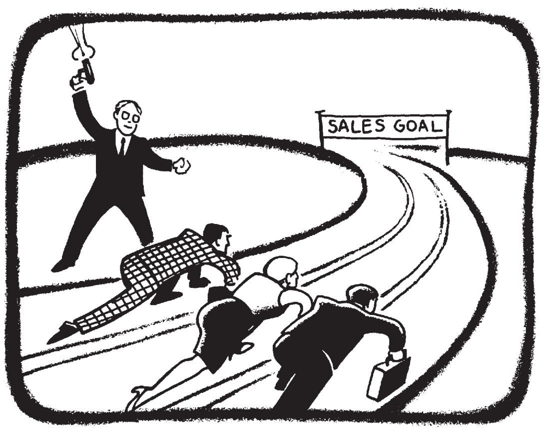
by Brian Jeffrey



As a sales manager, one of your annual tasks is to sit down with your salespeople and set mutually acceptable sales targets and quotas along with levels of sales activity. Then, for the rest of the year, you have to ensure they're hitting their targets by monitoring their activities and results. And then, if they aren't "making quota," it's your job to find out why and help. That's a major part of what sales management is all about.

SALES QUOTAS AND TARGETS

A sales quota is the gross amount of business that either a salesperson says he can do or the company says must be done. It's usually a *target* if the salesperson sets it and a *quota* if the company sets it. In either case, too many people generate the number using the SWAG method (scientific wild-ass guess). When you consider that hiring, product purchase, advertising, expansion and other decisions are made based on the estimated future earnings, it's important they be set realistically.

I've seen too many companies hand down the numbers and then make operating decisions as though the numbers will come to pass, no matter what. This usually results in cash flow crunches followed by recriminations and scorn being heaped on the sales department for not making the numbers.

Creating Quotas

Sales quotas can be inflicted, extrapolated, dreamed-up or developed. Regardless of how they evolve, without agreement or buy-in from the salespeople, the exercise of quota setting becomes academic at best and a farce at worst.

Imposed/Inflicted Quotas

Quotas imposed from above and inflicted on those below are a closed issue. As a sales manager, you can do nothing more than motivate the troops, monitor progress and manage the process. Imposed quotas become a test of your team building, coaching, and creative thinking abilities. You have to keep rallying the team, coaching them for continual results while creatively dreaming up ways to make things happen.

Extrapolated Quotas

Extrapolated quotas are often the result of no real planning. In good times, the company simply states that this year's quota will be 10 percent (or whatever) higher than last year's. In bad times, the company expects the salespeople to do at least as well as last year. No matter how bad the market situation is, it's a rare company that takes a look at the economic conditions and establishes a quota less than last year's.

Dreamed-up Quotas

A dreamed-up quota is usually a figment of the salesperson's imagination. It comes about because the salesperson knows she won't be held accountable for achieving it. The idea is that the salesperson tells her sales manager whatever he wants to hear. It doesn't matter if the numbers are unattainable.

Developed Quotas

A developed quota has the best chance of success because it's developed as a joint effort between the salesperson and the sales manager. A properly developed quota has a high possibility of acceptance on the part of the salesperson. If achieving the quota is tied to the salesperson's personal or business goals, the chances of success become even higher.

When developing sales targets and quotas, it's important that they be mutually established. If your salespeople aren't involved in setting the sales goals, they won't feel any responsibility for reaching them. No amount of brow-beating will get a salesperson to take ownership of a sales goal that he or she didn't have a key role in setting.

Mutual goal setting removes the salesperson's major excuse for not reaching the target. If you impose it on him, he will claim it was unrealistic. If he is part of the goal-setting process, he will accept responsibility for achieving the goal. And it becomes a matter of pride for the true sales professional to reach the goal.

Developing "Developed" Quotas

As a sales manager, you know what you have to achieve for the upcoming year if the company is to be successful (or survive!). This number becomes the base on which you have to develop individual quotas with your salespeople.

One approach is to tell the salesperson what the proposed quota is for the upcoming year and see if she feels she can achieve it. If she says yes, you're almost home-free. Now you just have to assist the salesperson to develop a plan to achieve the desired results. This method differs from an inflicted quota in that the salesperson is free to say no.

Another approach is to ask the salesperson to turn in her own quota (best guess) and wait to see if her guesstimate equals or exceeds your base number. If so, all that remains is to develop the plan to make it happen. If her quota is less than the number you need, you have a selling job to do. At this point, disclose the base number and see what can be done about closing the gap. In other words, negotiate around the difference between her number and yours, not the total quota number.

For example, if you need a salesperson to bring in $500,000 of business and she estimates she can close $450,000, ask the salesperson to review her accounts to see where she might be able to develop an additional $50,000 worth of business over the next 12 months. Or you might ask the person: "What needs to happen for you to make up the difference in the numbers?"

In the end, as a sales manager, you must realize that if the numbers you need are reasonable and the person can't or won't do the numbers that need to be done, you'll have to find someone who can.

How to Eat an Elephant

Quotas can look big and imposing — just like an elephant. And just like an elephant is easier to eat one mouthful at a time, quotas are best looked at in smaller chunks. While quotas can be a simple annual number like $1,000,000 in sales, it's better if the annual quota is at least broken down on a quarterly or monthly basis (Table 1).

Table 1. Annual quota broken down on a quarterly basis.

Quarter	Sales History %	Quota Distribution $
1st	40	200,000 or 66,667 per month
2nd	15	75,000 or 25,000 per month
3rd	20	100,000 or 33,333 per month
4th	25	125,000 or 41,667 per month

Companies that have good sales records can tell what their general selling pattern is. For example, they can tell what percentage of the year's sales comes in each month or quarter and this information can be used to divide up the quota over the year. This makes the quota more palatable to the salesperson and allows the sales manager to track the sales progress for each salesperson as well as the company as a whole.

Quota-Setting Factors

There are three factors to take into consideration during the quota-setting process:

1. The estimated overall market potential of a salesperson's territory. This may be measured in dollar potential, number of units, population, etc.
2. What percentage of that market potential you can reasonably expect to capture.
3. The ability and past performance of the salesperson handling that territory.

SALES FORECASTING

It's worth noting that sales quotas are different from sales forecasts. The quota tells you how much you hope to sell over a period of time (usually a year) and the forecast tells you where the sales will come from.

Sales forecasting is where you add the detail to your quota — exactly where does the salesperson expect the sales to come from or how does he or she expect to make the numbers.

In those situations where the salesperson is completely reactive, such as inbound telemarketers or inside salespeople, the least they can do is hope the telephone keeps ringing or people keep walking in the door. In other words, they hope opportunities keep presenting themselves. The best they can do is make sure they continue to hone their product knowledge and selling skills so they improve their closing ratio and take full advantage of every sales opportunity.

Proactive salespeople, such as outside salespeople or outbound telemarketers, should be able to identify a large proportion of their sales opportunities. If they can't forecast actual sales opportunities, they should be forecasting what actions they are taking to make their numbers. By actions, I mean the number of calls to make, proposals to generate, new accounts to find, etc.

Effective sales forecasting then becomes a matter of either identifying specific opportunities or specific activities that will allow the salesperson to meet (or exceed) his or her quota.

Bluebirds

Bluebirds are those opportunities that fly in the window without any apparent effort on the part of the salesperson. If a company keeps good sales records, the amount of potential bluebirds can be forecast based on past experience. In other words, a salesperson might estimate that 15 percent of his monthly forecast will occur as a result of "luck." Often, this "luck" has been the result of a good salesperson's continuing efforts to be everywhere, all the time, meeting as many prospects as possible. In other words, the bluebird was the result of good old-fashioned hard work.

The Critical Factor

The most critical factor in forecasting is the sales manager's ability to make it happen. This can be exceedingly difficult because you have to hit the target through other people. Once again, this is where your abilities to motivate, encourage, chide, coach, and discipline become key factors in your eventual success. It's important to continually monitor each salesperson's progress towards meeting his or her quota and to uncover individual problems before they become disasters.

The company can succeed only through the success of its employees.

Forecast Tracking Formats

Sales forecasts don't need to be long or complex. The simplest format is merely a number representing the estimated sales for the next month; i.e., Sales for July = $97,000.

A more usable variation on this format is to have the salesperson forecast for the next three months; i.e.,

Forecasting month:	June
Forecast sales for July:	$97,000
Forecast sales for August:	$85,000
Forecast sales for September:	$105,000

Depending on the type of business you're in, a salesperson should be able to identify 75 to 90 percent of the specific sales opportunities making up his or her next month's forecast, 50 to 75 percent of the second month's forecast sales and 25 to 50 percent of the third month's forecast sales.

Fig. 1 is a forecasting worksheet I developed in conjunction with one of my clients. It's designed to keep a running record of the salesperson's forecast. By putting in the actual amount sold each month, the salesperson can compare his actual performance against his forecast performance and fine-tune his forecasting skills.

Even if a salesperson is consistently optimistic in his or her forecasts, by analyzing the completed form, the sales manager can develop a multiplier, or K-factor, that can be used to get closer to the actual amount. For example, if a salesperson consistently over-forecasts by 20 percent, you can simply multiply the forecast numbers by a K-factor of 0.8 (80 percent) to get a better approximation of expected performance.

Sales Forecast Worksheet Name ________________________ Year _________

Forecasts for Months of

Forecasting Month	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
DEC															
JAN	T- A-														
FEB		T- A-													
MAR			T- A-												
APR				T- A-											
MAY					T- A-										
JUN						T- A-									
JUL							T- A-								
AUG								T- A-							
SEP									T- A-						
OCT										T- A-					
NOV											T- A-				
DEC												T- A-			

T = Target A = Actual

Figure 1. Sample of a Sales Forecast Worksheet.

Now that you've seen the form, let's see how it might work using a mythical salesperson, Sally Sellers, and the quota numbers from Table 1 on page 4 (Fig. 2, 3, 4, and 5).

Sales Forecast Worksheet Name Sally Seller Year 2010

Forecasts for Months of

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
DEC															
JAN	T-67 A-														
FEB		T-67 A-													
MAR			T-67 A-												
APR				T-25 A-											
MAY					T-25 A-										
JUN						T-25 A-									
JUL							T-33 A-								
AUG								T-33 A-							
SEP									T-33 A-						
OCT										T-42 A-					
NOV											T-42 A-				
DEC												T-42 A-			

T = Target A = Actual Numbers are in $000

Figure 3. Sally's annual sales target, broken out by month, using the quota numbers from Table 1.

Sales Forecast Worksheet Name Sally Seller Year 2010

Forecasts for Months of

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
DEC	75	80	60												
JAN	T-67 A-														
FEB		T-67 A-													
MAR			T-67 A-												
APR				T-25 A-											
MAY					T-25 A-										
JUN						T-25 A-									
JUL							T-33 A-								
AUG								T-33 A-							
SEP									T-33 A-						
OCT										T-42 A-					
NOV											T-42 A-				
DEC												T-42 A-			

T = Target A = Actual Numbers are in $000

Figure 3. In December, just before the start of the sales year, Sally gives you her initial forecast for the first three months.

Sales Forecast Worksheet Name Sally Seller Year 2010

Forecasts for Months of

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
DEC	75	80	60												
JAN	T-67 A-70	70	75	40											
FEB		T-67 A-60	70	35	40										
MAR			T-67 A-83	30	27	20									
APR				T-25 A-24	28	30	35								
MAY					T-25 A-21	27	35	35							
JUN						T-25 A-22	25	40	40						
JUL							T-33 A-								
AUG								T-33 A-							
SEP									T-33 A-						
OCT										T-42 A-					
NOV											T-42 A-				
DEC												T-42 A-			

T = Target A = Actual Numbers are in $000

Figure 4. You're at the six-month point, half way through the sales year, and it is apparent from the numbers that Sally is a typical optimistic salesperson whose monthly forecast almost always exceeds her actual performance. Look at the July forecast ($25,000) versus the target ($33,000). We already know that Sally usually over-forecasts so the fact that her forecast is less than the target should raise a red flag. It's time to plan a meeting to see how she'll manage the shortfall.

Sales Forecast Worksheet Name Sally Seller Year 2010

Forecasts for Months of

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
DEC	75	80	60												
JAN	T-67 A-70	70	75	40											
FEB		T-67 A-60	70	35	40										
MAR			T-67 A-83	30	27	20									
APR				T-25 A-24	28	30	35								
MAY					T-25 A-21	27	35	35							
JUN						T-25 A-22	25	40	40						
JUL							T-33 A-20	35	35	20					
AUG								T-33 A-30	35	40	45				
SEP									T-33 A-28	45	45	30			
OCT										T-42 A-40	48	45	38		
NOV											T-42 A-45	45	60	75	
DEC												T-42 A-38	75	80	65

T = Target A = Actual Numbers are in $000

Figure 5. A year has gone by and you now have 12 month's worth of information on Sally's performance. Let's compare her forecasts against her actual performance. Her annual target was $500,000. Her forecasts totalled $533,000, while her actual sales totalled $461,000. So she was about 8% short of the target while her ability to accurately forecast was about 87%.

So what does this mean to Sally? With an 87% forecasting accuracy, Sally better be looking for a minimum of $575,000 worth of business ($500,000 ÷ .87) if she's going to hit a $500,000 target.

What does this mean to you? You can reduce Sally's forecast by 13% (100 - 87 = 13) to get a more realistic number. This is Sally's "K" factor or multiplier.

So, in any given month where Sally's modified forecasted number (her number multiplied by the K-factor) doesn't exceed her target, you have an opportunity to take corrective action by encouraging Sally to make those few extra calls to stay on track for a stellar year.

Opportunity Tracking Format

Instead of just forecast dollars, some sales managers want to know where the dollars are expected to come from. Such a tracking format may include:

- Company/client name
- Customer contact
- Product/service to be purchased
- Amount of the opportunity
- Expected close date

One of the first things I do when I go into a firm as a sales management consultant is to set up a sales opportunity tracking system. I start with a simple paper-based form (Fig. 6) and migrate to a computer-based system where possible. My philosophy is that if you aren't tracking your sales opportunities, you aren't in control of your sales. And if you're not in control of your sales, you're in trouble!

If a sales forecast or opportunity tracking system is kept on computer, the results can be quickly sorted several ways:

- by value of the opportunity to see what prospects should take priority, or
- by month to see where the lean times might be, or
- by product to see if inventory may be a problem, etc.

Sales Opportunity Report

Salesperson:		
Date:		Page:

Customer & Contact	Opportunity	Date	Brief Status/ Update	Stage	$ (000)	%	Review Date
Customer: Contact:	Opportunity: Initial Contact Date: Close Date:						
Customer: Contact:	Opportunity: Initial Contact Date: Close Date:						
Customer: Contact:	Opportunity: Initial Contact Date: Close Date:						
Customer: Contact:	Opportunity: Initial Contact Date: Close Date:						

Figure 6: Sales Opportunity Report form.

How long should the forecast lists be? It depends on the type of business. For small-dollar-value sales, the list should be a lot longer than if your sales are large-value ones. An even better gauge than the number of opportunities on the list is their total dollar value.

For example, if a salesperson's quota is $25,000 for a particular month and she has a history of closing 40 percent of her sales, then she better have at least $62,500 ($25,000 ÷ 40 x 100) worth of opportunities ready to close that month if she expects to make her $25,000 quota. If you were monitoring this person's opportunity list early in the month and you saw only $35,000 worth of opportunities due to close, you'd quickly realize you've got a potential problem. It would be wise to have a mid-month chat with the salesperson to see what actions are being taken to achieve the monthly quota.

There is a difference between tracking opportunities and managing opportunities. We explore those differences in my ebook on "How to Map & Manage Your Sales Process."

Getting Forecasts from the Field

Forecasts are a good way for salespeople to keep score. They should be keeping them up to date at all times and you should be reviewing them at least once a month and sometimes weekly.

Forecasts should be used as a tool, not a club. If the turning in of forecasts is perceived as having minimum value to your salespeople or is used to discipline them, then you can expect a lot of resistance. On the other hand, once your people see the value in using the forecast as a monitor and gauge of their success, you will have fewer difficulties getting the information.

Salespeople will always give you the argument, "What do you want me to do — sell or complete paperwork?" The answer is "both," and serious sales professionals know it. Amateurs, part-timers and lazy salespeople will try to avoid it. They won't accept the fact that paperwork comes with the territory. The best you can do is make sure you keep your forecasting requirements as simple as possible and generate reports very relevant to the salespeople.

Performance Standards

The wise sales manager sets performance standards as well. How many calls do you expect your salespeople to make on an average day? If they're in telemarketing, how many calls per shift do you want them to complete? Hold your salespeople accountable for reaching the targets. Monitor their performance. Are they meeting the sales and performance goals you both agreed on? Are they doing things that will lead to more sales or are they getting bogged down in unproductive, non-selling activities? This is where a sales opportunity tracking system is invaluable in keeping salespeople focused.

GOALS

A discussion on quotas and forecasts wouldn't be complete without a comment on goals. Goals tend to be non-financial in nature and are important because they are the hidden motivators that drive salespeople to hit their sales targets and achieve their financial quotas.

It's often been said that a goal is a dream with a deadline. I feel this simplistic definition falls short of truly defining a goal.

Smart Goals

A better definition of a goal, although one that still falls somewhat short of the mark, is the concept of SMART goals. A SMART goal is one that is:

Specific
Measurable
Achievable
Relevant
Time-based

Specific means you're able to define in concrete terms what the final goal is (looks like, sounds like, etc.).

To make the goal *measurable*, you have to apply some numerical factors to it or some other solid way of knowing the goal has been achieved.

The goal must be *achievable*. If you set the final goal too high, you do nothing more than create personal frustration. If you set it too low, there's no challenge.

It's the goal's *relevance* to your personal life that keeps it important to you personally.

And, of course, without a *time-frame* you have only a dream, not a goal.

Example: By the end of the year, I want to be one of the top three salespeople *(specific)* having attained at least 60 percent of quota by six months and 120 percent of quota by year end *(measurable, achievable, and time-based).* By being in the top three, I expect to get a shot at the upcoming district manager position *(relevant).*

A *real* goal is a SMART goal with a secret ingredient.

The Secret Ingredient

We've all been there before. We've set goals (or dreams with deadlines) and yet things didn't work out as intended. Why? We can look to Olympic athletes for the answer. For the most part, participants in Olympic sports have a sense of dedication that's rare in professional salespeople. These amateurs are prepared to make an unreserved, personal commitment to achieving their goals.

This is the secret ingredient of turning SMART goals into *real* goals: *an unreserved personal commitment to make it happen*.

When individuals make such a commitment, they're prepared to go well past the extra mile it takes to make things happen. Without that personal commitment, a person has nothing more than a dream he or she hopes will come true.

You can't hand real goals to people; they have to pick them up themselves.

Real Goals vs. SMART Goals

As a sales manager, it's very difficult (but not impossible) to get people to set *real* goals — goals that they are prepared to make an unreserved personal commitment to. It becomes a matter of motivation, team spirit and constant encouragement. Your second choice is to help your people develop SMART goals.

Remember, real or SMART, the goal has to be theirs, not yours.

Importance of Non-Financial Goals

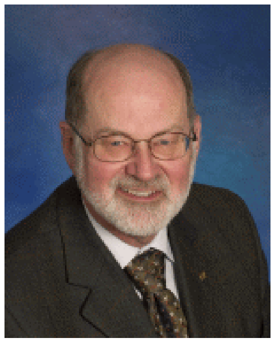
Non-financial goals such as a special vacation, new vehicle or boat, new home or cottage, etc., are very important because it usually takes money to acquire them and a salesperson gets his or her money by making sales of your product or service. If making more money for himself (and you!) is the pathway to what he ultimately wants, you have a very self-motivated individual. This is particularly true if the goal is something the person *wants* to have, not just something he would *like* to have.

Find out what your salespeople really want and you've found the golden key to their self-motivation.

FINAL THOUGHT

There's an old saying: "If you don't know where you're going, any road will take you there." Goals and targets tell us where we want to go. As a sales manager, you have a responsibility to get your salespeople (and your company) on the right road.

Good luck.



ABOUT THE AUTHOR

Brian Jeffrey is a sales management consultant and former sales trainer with over 40 year's experience. He's the author of *The Sales Wizard's Secrets of Sales Management, The 5-Minute Sales trainer,* 18 ebooks, and over 100 articles on selling and sales management.

Brian provides sales management consulting, coaching, and mentoring to business owners and sales managers. He has had many sales successes (as well as a few spectacular failures) and has learned what works, what doesn't, and why — information he readily shares with others.

Find out how Brian helps companies maximize their sales at **www.Quintarra.com.**

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