How to Determine Sales Quotas.

We pay salespeople to bring in, hopefully, profitable sales, and we pay them out of the profits from those sales.

Theoretically, if there are no profits from a sale, there should be no money due to the salesperson. This rarely happens. This is because we determine a salesperson's remuneration based on their gross sales instead of the profits, called the gross margin, from those sales. Consequently, many salespeople are overpaid. If you want more information on that topic, ask for a copy of my article titled, *"Are Your Salespeople Overpaid".* Or you can download a copy from my web site at: https://TheSalesWizard.ca.

In that article, I provide a couple of guidelines for how much a salesperson should be paid in the ideal world. In brief, I make an argument for the not paying a salesperson any more (and preferably less) than 20% of the gross margins (profits) of the sales that the salesperson closes. I also provide a more detailed method of determining remuneration percentages but for the sake of this article, let's stick with the *"Jeffrey Theory of Direct Sales Compensation"* as noted above.

Sales Quotas vs. Sales Forecasts vs. Sales Targets
A *sales quota* is the minimum dollar amount of sales that a salesperson must sell in order to cover their remuneration.

A *sales forecast* is the dollar amount the salesperson will tell you they intend to sell and is usually wildly optimistic.

Sales targets are generally set by the company to reflect the revenue the company requires to keep the lights on, grow the business, or simply survive. This is often an arbitrarily set number and bears no relationship to market conditions or salespeople's capabilities. Sales targets should be set relative to sales quotas (see the example below).

Setting a Sales Quota
Here is the basic formula and a couple of examples.

$$\text{SQ} = \frac{\text{MR}}{((\text{GM\%}) \text{ X } (20\%))}$$

Or:

$$\text{Sales Quota} = \frac{\text{Maximum Remuneration}}{(\text{Gross Margin \% times } 20\%)}$$

Let's try an example:
We want to pay (or our salesperson wants to be paid) $100,000 next year and we know that, on average, our company has a 30% gross margin on sales. Let's plug in those numbers age see what comes out the other end.

$$\frac{\$100{,}000}{(0.3) \text{ X } (20\%)} = \frac{\$100{,}000}{0.06} = \$1{,}666{,}667 \text{ Gross Sales}$$

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So, there it is, a sales quota of almost $1.7M if we are to pay the salesperson $100K.

So what happens if the salesperson doesn't sell $1.7M? Basically, you've overpaid someone for the sales that were made and I don't know too many people who like overpaying for something. Do you?

Here's another example:
Your salesperson comes to you, hat-in-hand, complaining that you're not paying enough and he needs/wants $150,000 next year. Assuming the same gross margin of 30 percent, we simply plug the numbers into our handy-dandy formula and out pops the sales quota of $2,500,000.

Keeping in mind that the salesperson was hoping for an increase income without any increase in sales, it's time to negotiate the new number of a $2.5M *sales quota*. This where the *sales forecast* comes in and the salesperson will assure you that they can meet that new number, no problem (salespeople are always optimistic).

Now you set *sales targets* so that both you and the salesperson know that they are on track to meet the *sales quota*. In this case, you'd want to see average monthly sales of $2,500,000/12 or around $208,000, each and every month.

Sales Targets vs. Sales Forecasts and the Sales Funnel
If a salesperson has a monthly *sales target* of $208,000 then their monthly *sales forecast* must be substantially higher because a salesperson rarely, if ever, closes every sale they start.

On average, a good closing ratio is 30%, sometimes more, but rarely. This means that they better have about $690,000 ($208K / 0.3) worth of sales opportunities in their *sales funnel* or they won't make their monthly *sales target*.

Sadly, when salespeople consistently miss their *sales targets*, they miss their *sales quota*, and you end up overpaying for the sales you did get.

Salary vs. Commissioned Salespeople
Having salespeople on commission only or salary plus commission doesn't solve the problem completely. It simply means that you probably didn't overpay for the sales you did get. The problem is that not getting those sales impacts your overall bottom line and can stunt the growth of your company or even impact your survival.

Staying Profitable
I'll make a similar closing statement on this article as I did on the one about "Are Your Salespeople Overpaid?" because it is equally relevant.

Your job as a manager is to run a profitable, efficient operation and the information in this article will help you do that. Good luck.

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