Sales and Distribution Management
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Lecture - 33
Sales Quota

[FL]. Now, today we begin with our next lecture in our course on Sales and Distribution Management and this is lecture number 33 which is on Sales Quota, we have already begun our discussion on sales quota in the previous lecture which was lecture 32; we shall continue with the same topic in this lecture on in our course on sales and distribution management.

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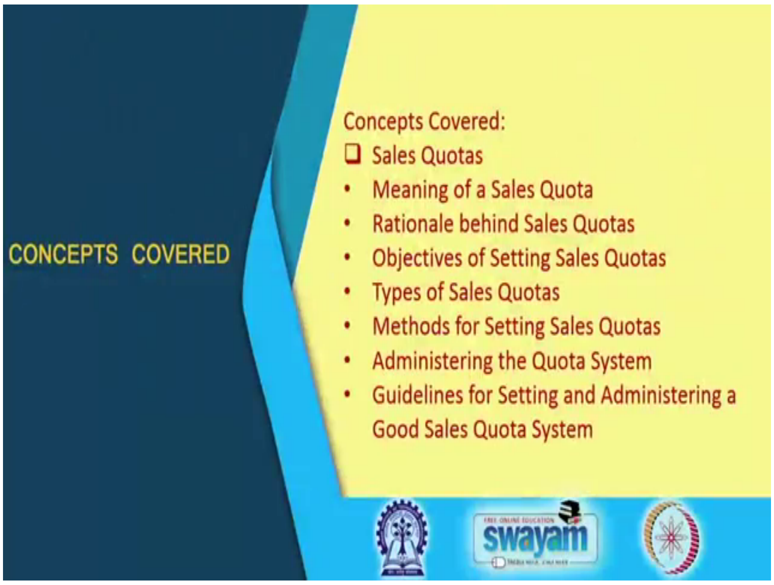

Now, the various concepts covered in sales quota are the meaning of sales quota, the rationale behind sales quotas, the objective of setting sales quotas and the types of sales quotas. Now, we have discussed this in the previous lecture now we shall move on with our discussion on the methods for setting sales quotas how do you administer the quota system and what are the guidelines were setting in administering a good sales quota system. So, let us begin with our discussion on sales quota.

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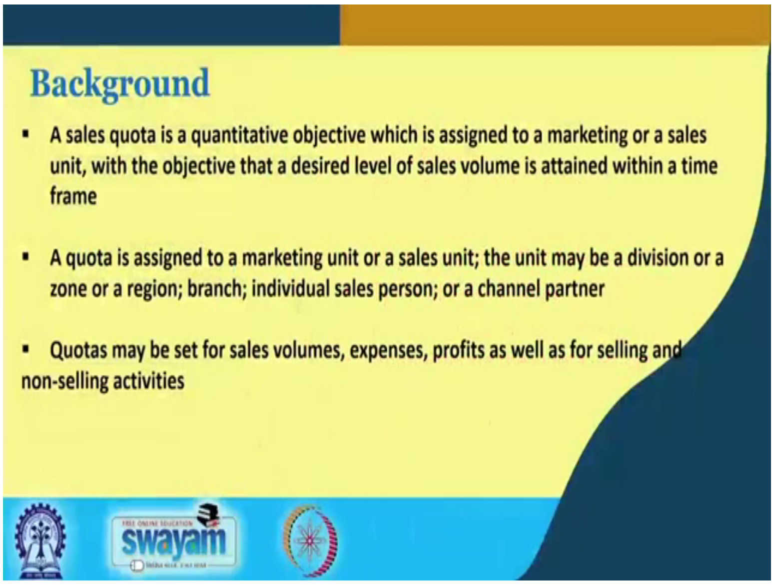

Now, coming to a brief recap you know, if you remember we said that a sales quota is a quantitative objective and it is assigned to a marketing or sales unit and with the objective that a desired level of sales volume can be attained within a time frame. And the quota is assigned to a marketing unit or to a sales unit and the unit here may be a person you know as an individual sales person or it could be a branch or a region or a zone. In the quota could also we set for a marketing unit or a sales unit like channel partner and these quotas may be set for sales volume or for expense or for profit as well as for selling and say non-selling activities.

So, the quota is a quantitative objective assigned to a marketing or a sales unit and this marketing or sales unit could be a division or a zone or a region or a branch or individual sales person and the quotas here can be set for sales volumes or for you know expenses and profits as well as for selling and non-selling activities. In the previous lecture we spoke about the various types of sales quotas where we said that we have the sales volume quota which could either be spelled out in currency or in terms of units or in terms of you know points.

And then we spoke of the you know expense quotas where we said that it was it relates to the gross profits and the net profits and the selling expenses and then we spoke about the activity quotas and a combination of each of these which can be used by organizations depending upon the kind of product, they are they are selling depending upon the kind of segment they are catering to and the kind of market conditions. So now, let us continue with you know the next topic of discussion under this under sales quotas which is how do you go about setting sales quotas or what are the methods for setting sales quotas.

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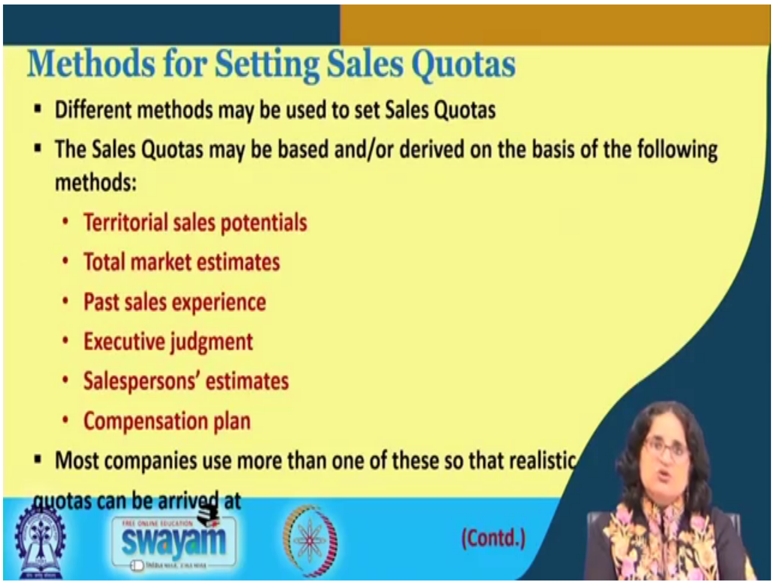

So, the different methods may be used to set sales quotas and these could be based or and or derived from on the basis of the following methods they could be based on the territorial sales potential or the total market estimates or the past sales experienced, executive judgment, sales persons estimates or the compensation plan.

Now most companies use more than one of these so, that realistic quotas can be set and so, there are different methods for setting sales quotas, we have the territorial sales potential method, the total market estimates method, the pass sales experience method, the executive judgment method, the sales persons estimates method, and the compensation plan method and I repeat in most cases companies used more than one of these, so that realistic quotas can be set for the different marketing and sales units be it the salesperson or the branch or the region or the zone or the national territory.

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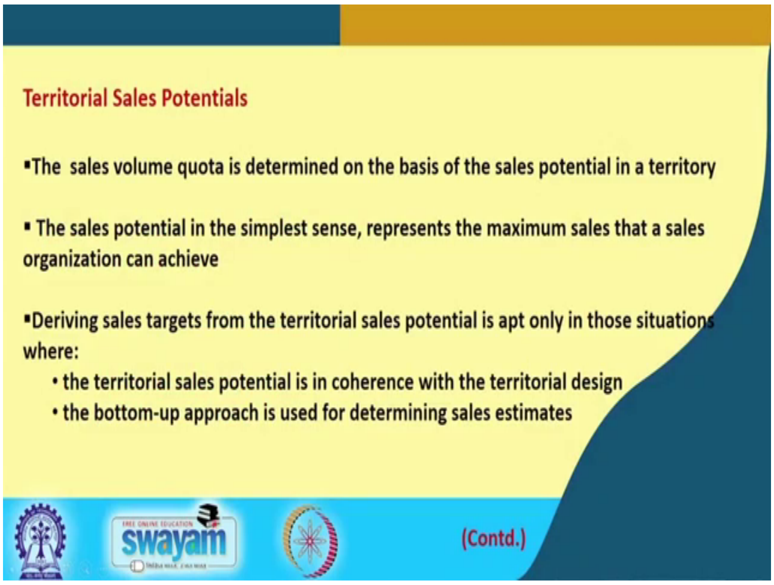

So, let us first begin with the first method which is the territorial sales potential method for deciding or determining quotas, now the sales volume quota here is determined on the basis of the sales potential in a particular sales territory and the sales potential here represents the maximum sales that the sales organization can achieve in a particular period. Now, deriving the sales our targets or the sales quota from the territorial sales potential is appropriate in those conditions where the territorial sales potential is in coherence or in conjunction with the territorial design and a bottom up approach has been used for determining the sales estimates.

We have spoken about the top down and the bottom up approach on sales forecasting and on sales planning in the previous lectures. So, in those cases where the territorial sales potential is in coherence with the territorial design and where a bottom up approach is used for determining sales estimates the sales managers can use territorial sales potentials as an appropriate method for determining the sales targets or the sales quotas.

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Now, the generally companies follow the following procedure, they estimate the industry sales forecast or the market potential for the next year using the sales forecasting methods, then the multiple factor index or the MFI for each territory is calculated. The MFI is based on the factors that influence the sales of a product and are assigned weights matching the degree of sales opportunities.

So, the multiple factor index or the MFI for each territory is calculated and this MFI is based on such factors which influence the sales of a product and these are assigned weights matching the degree of sales opportunities. Next this industry sales forecast in a territory for the next year is calculated and this is the territory territorial a market potential and is equal to the industry sales forecast for the next year multiplied by the MFI for each territory. Finally, thus it is territorial sales quota is determined, which is equal to the territory market potential multiplied by the estimated market share of a company in a particular territory.

So, companies first estimate the industry sales forecast or the market potential for the next year, they can use different kinds of sale forecasting methods for this, then the multiple factor index or the MFI for each territory is calculated. The MFI is based on the factors that influence the sales of a particular product and these are assigned weights matching the degree of sales opportunities. After this the industry sales forecast in a territory for the next year is determined and this is the territory market potential and it is equal to the industry sales forecast for the next year multiplied by the MFI for each territory and finally, the territory sales say territory sales quota is determined which is equal to the territory market potential multiplied by the expected market share often our company and it is products in a particular territory.

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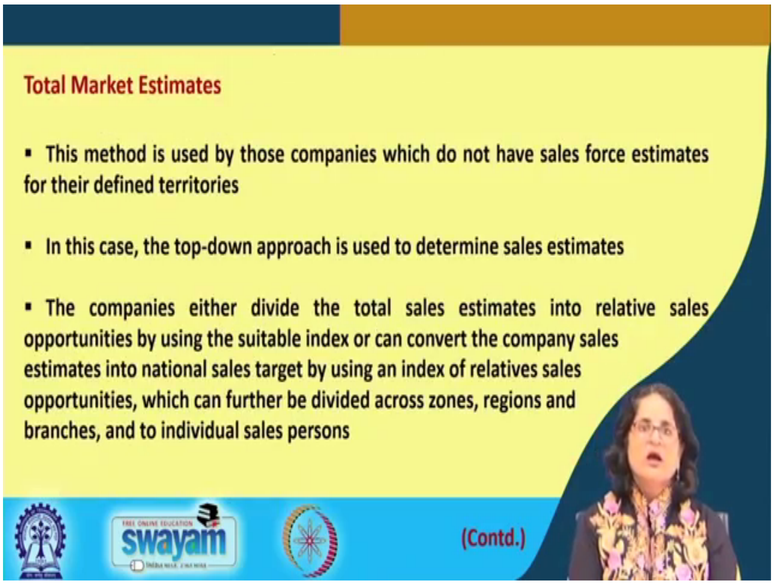

Now, the second method which will be used to set quotas is the total market estimates, now this method is used by companies which do not have sales force estimates for their defined a territories and in this case the top down approach is used we have a spoken about the top down approach in a previous lectures. The company can either divide the total sales estimates into relative sales opportunities by using a suitable index or it can convert the company sales estimates into a national sales target by using an index of relative sales opportunities, which can further be then classified across or categorized across zones, regions, branches and to individual sales people.

So, the total market estimates is used in situations where you know the sales force estimates for their defined territories are not available and the top down approach is used. So, the companies either divide the total sales estimates into relative of sales opportunities by using a suitable index or they can convert the company sales estimates into national sales target by using an index of relative sales opportunities across territories and zones which they can further then divide across zones regions and branches and to individual sales persons.

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So, how do companies go about doing this, they first estimate the industry sales forecast or the market potential for the next year using the sales forecasting method. Then the come this estimated then the company's estimated market share, for the next year is calculated after this the company's sales forecast, for the next year is determined this equals industry sales forecast or the market potential multiplied by the company's estimated market share for next year.

Following this, the percentage share out of the total company sales in the previous year for each territory is calculated. So, this helps arrive at the territory sales quota that is equals companies next year sales forecast multiplied by the percentage share out of the total company sales in the previous year for each territory. So, the companies they start with estimating the industry sales forecast for the next year and then the company's estimated market share for the next year is calculated.

After this the company's sales forecast for the next year is determined which this equals industry sales or market potential multiplied by the company's estimated market share for the next year. After this is the percentage share out of the total company sales in the previous year for each territory is calculated and this will help us reach a figure which is the territory sales quotas and this equals the company's next year sales forecast multiplied by the percentage share out of the total company sales in the previous year for each territory.

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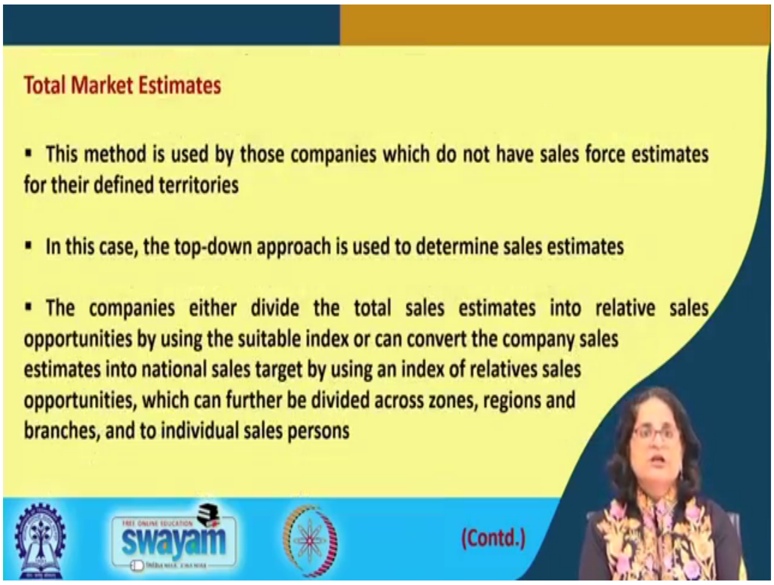

So, in this way companies set the sales quotas based on the based on the total market estimates.

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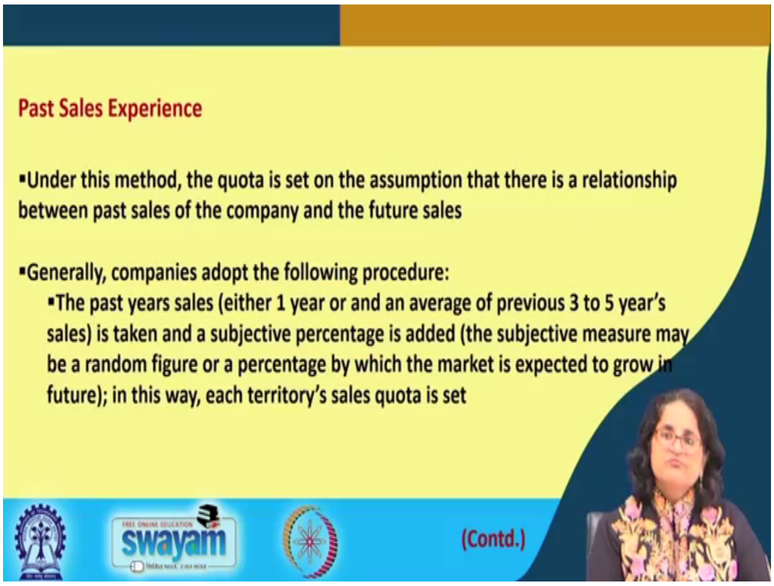

The third method which companies can use to decide on the sales quotas is the past sales experience. In this method the quota is set on the assumption that there is a relationship between the past sales of the company and the future sales of the company. So, what companies do is, they take the data for the past year or past years. So, the past year sales either 1 or an average of previous 3 to 5 year sales is taken and a subjective percentage is added. The subjective percentage is a very arbitrary figure it may be a random figure or a percentage by which the market is expected to grow in future and in this way each territories sales quota is set.

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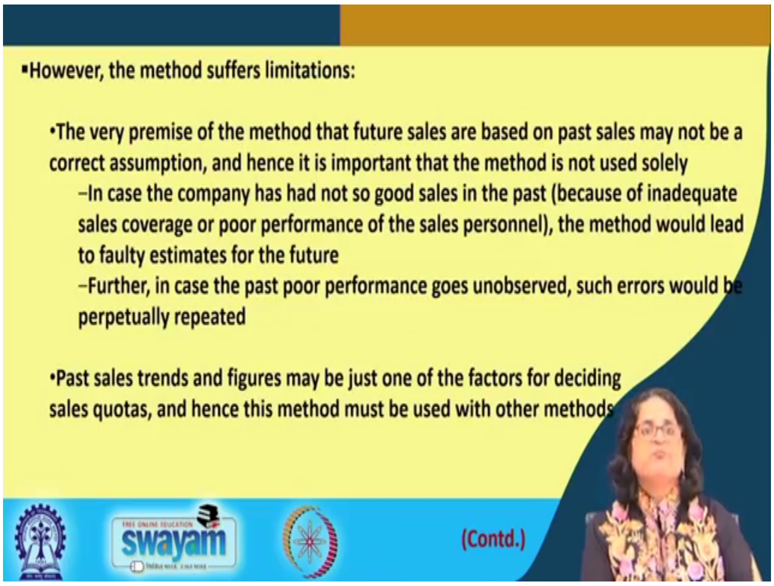

However, there is a problem with this method the very premise of the method that future sales are based on past sales may not be a correct assumption and hence it is important that this method is not used you know solely it is all it must be used with other methods. So, because you know in case the company has had not so good sales in the past, because of poor sales coverage or because of poor performance of the sales people, then the method would lead to faulty estimates for the future and will continue to give faulty figures you know in future for perpetuity.

So, this is the reason why this method is some is not appropriate to be used alone or in soul, also in case the past performance goes unobserved such errors would be perpetually repeated. So, that is the reason why this method is not you know recommended to be used with full you know validity and it must always be used in with other methods. Often it happens that be the company is not able to perform well or it does not generate sufficient sales because of poor performance of the sales force because they do not lack the knowledge skills and abilities or because they are not motivated enough to perform.

So, in such cases depending upon past sales figures may not be to predict the future may not be wise. Similarly it may so happen that company has not performed well in the past because of certain market conditions which were adverse to the company and now if you know in cases where the market condition has improved or things are better for the organization depending upon past figures may not again be right so that is how this method suffers from limitations. Past sales figures and past sale trends may be just one of the factors for deciding the sales quota and so, this method must be used with other methods.

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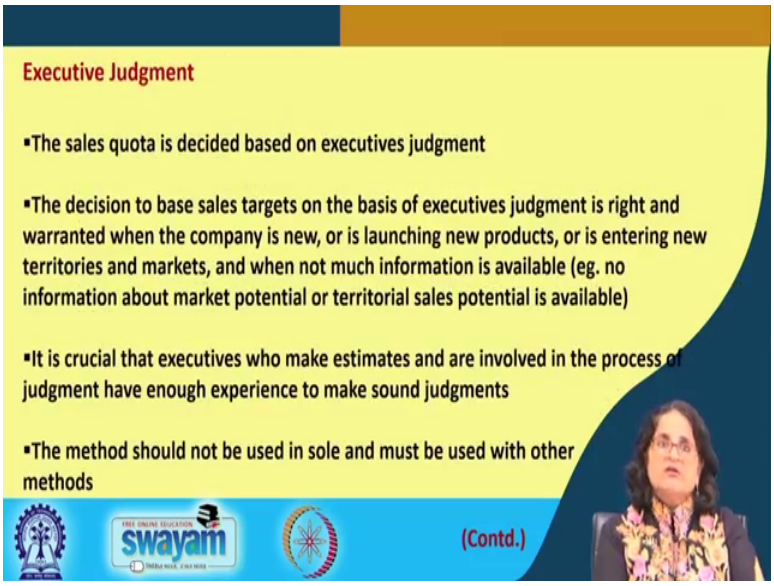

The executive judgment method is a method which bases the sales quota on executive judgment. The decision to base sales targets on the base of executive judgment is right and warranted only and only when the company is new or it is launching new products or it is entering into new territories and markets and when not much information is available for example, there is not much information available about the market potential or the territorial sales potential.

Now, it is very crucial that executives who make judge estimates you know and provide judgments are involved you know in the process and they have enough experience to make these sound judgments, very very important that people who are making these estimates have the necessary solid skills and abilities, they have the experience, they have served in similar territories, they have sold similar products and they have enough experience to make sound judgments. The method again should not be used in sole and should be used with other methods.

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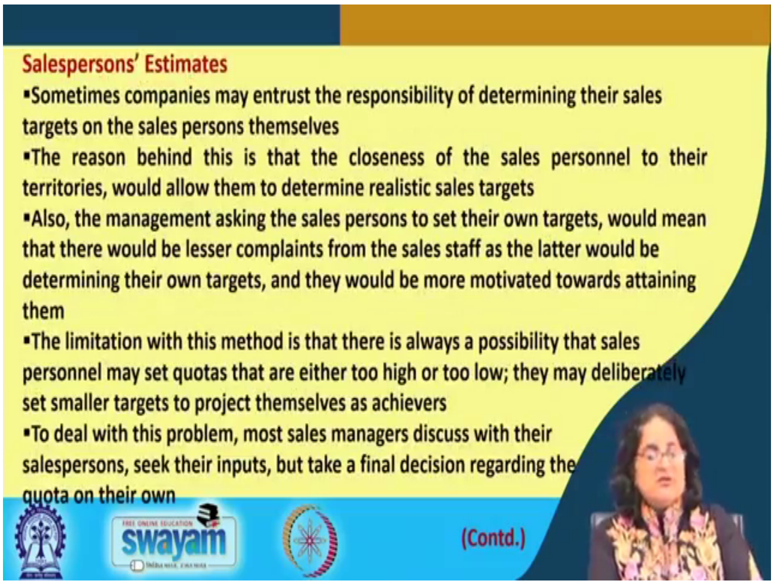

Then we have the sales persons estimates method, now sometimes companies may give the entire responsibility of determining the sales targets to the salespeople themselves. Now the reason behind this is that because the salespeople are you know close to the territories, they are working in the territories, they know the realities, they know the true picture, they are aware of the market conditions in those territories.

And so, they would be you know the they expected to set realistic targets also the management fields that by asking the salespeople to set their own targets you know there would be lesser complaints from the sales staff with respect to you know difficult targets having being set or unrealistic targets being having being set because you know it is the sales staff themselves who have been responsible in the target setting or in the goal setting.

Also because these people have been involved in the target setting on the goal setting, they would themselves be more motivated towards attaining these goals or these sales targets. However, the limitation with this method is that there is always a possibility that sales people may set quotas, which either too high or too low and they may deliberately you know set small targets which can be achieved easily and so that they can pronounced themselves as big achievers or they may set targets which are to you know high, they are too high and unrealistic or it may so happen just because they want to earn more commissions or it may so happen that they set targets which are unrealistic and very very you know hard to achieve. So, that they you know it they can project to that management team that they have been putting in efforts everybody all of them have been putting in efforts, but they are not able to achieve them.

They may also set targets which are very low and small so that they can you know easily attain them and then sit down and relax. So, it this is the limitation with this particular method and so to deal with this problem, most sales managers discuss with their sales people they take their inputs, that they take their suggestions, but the final decision with respect to the sales quota or the target is actually set is actually decided by the sales managers themselves.

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The next method is the sales person’s compensation plan method, now companies may also decide to base the sales targets on the basis of the compensation that the management fields that the sales persons must be offered.

Companies keep in mind issues of internal and external equity when they design their compensation packages and their incentive and reward schemes. Internal equity is when people performing similar jobs in the organization are rewarded equitably, external equity is when people working on similar jobs in all companies in a particular industry upbeat similarly. Now most companies practiced this principle of internal and external equity and they keep in mind the kind of incentives that they must give to their sales persons to keep them motivated at their workplace.

However too much of reward or too much of incentives would mean that the company would lose out on finances or on you know money which it could use later for other for other activities. So, companies decide on the kind of compensation or the or the limits to the kind of compensation that they can afford to give to their sales persons and accordingly keeping in mind principles of internal external equity they set such targets, which they feel if attained by the sales force can be rewarded as well as you know they can be a feeling of equitable reward as well as they would be you know a company would be in a position to save on money for other expenses to be taken care of.

So, in this case no past estimates or territorial estimates are used neither no judgments are made compensation is purely and purely used as a measure for determining targets.

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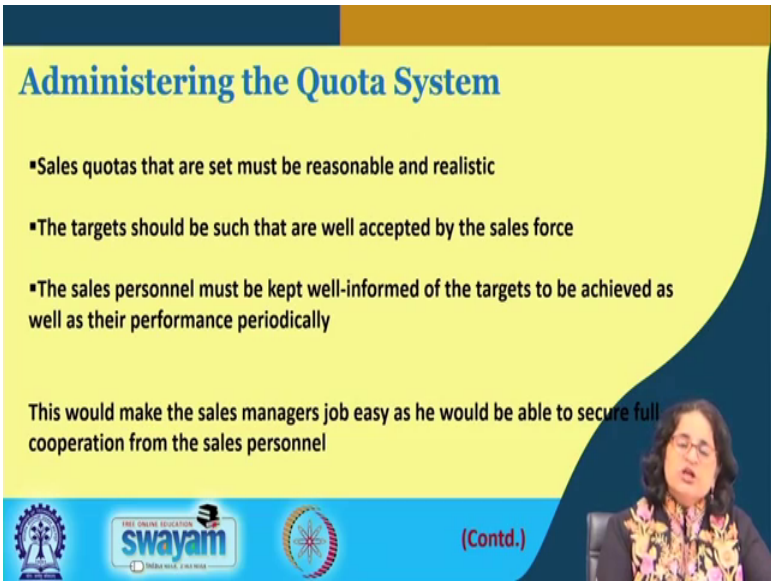

Now coming to administering the quota system sales quotas that a set must be reasonable they must be realistic the target should be such that they are well accepted by the salespeople. And, the sales personnel must be kept well informed of the targets to be achieved as well as you know they must be given feedback on their performance a periodically.

So, this would make the salesperson sales manager’s job easy as he would be able to secure full cooperation from the sales personnel. So, it is very very important that sales quotas are set there are difficult goals, but reasonable and realistic and the they are well accepted by the sales force and the sales force are not only made aware of the targets that they must attain, but they also given feedback on their performance periodically.

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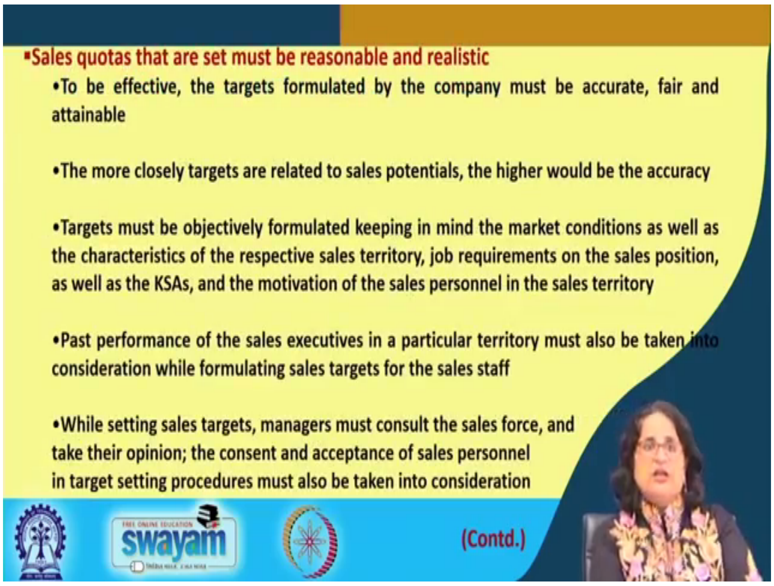

So, sales quotas that are set must be reasonable and realistic to be effective targets formulated by an organization must be accurate they may be fair and attainable. The more closely the targets are related to the sales potential the higher would be the accuracy. And the targets must be objectively said keeping in mind the conditions in the market as well as the characteristics of you know a respective sales territory, the job requirements on the sales job position, as well as the knowledge skills abilities of the sales force and the motivation of the sales force in a particular sales territory.

Past performance off sales executives in a particular territory may be taken into consideration while formulating their sales targets or the sales quota for the sales staff. And, while setting sales targets managers must concern consult the sales force and take their opinion, the consent and acceptance of the sales personnel in target setting procedures must be kept in mind, because this would help you know attain goals in a much easier way in a much you know better manner.

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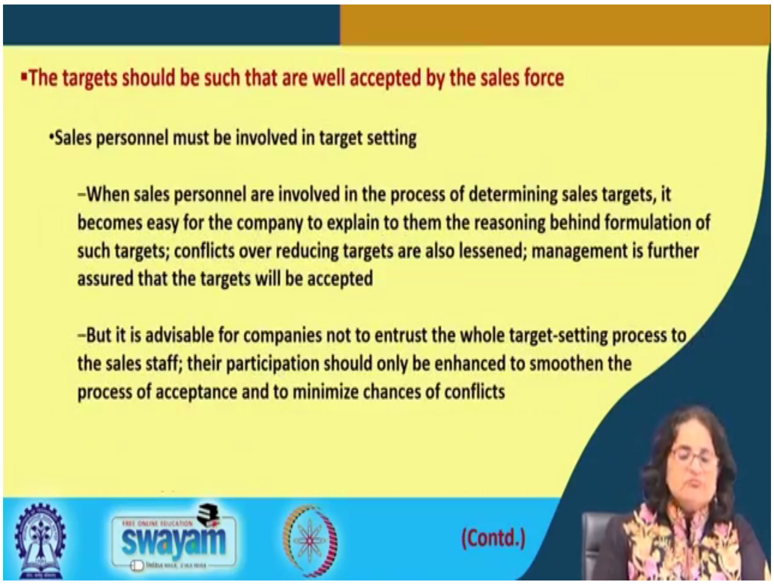

The target should be such that they are well accepted by the sales force, sales personnel must be involved in the target setting when they are involved in the process of determining sales targets it becomes easy for the company to explain to them the reason behind the formulation of such targets whether they are high or whether they are low. And, the conflicts over reducing targets are also lessened in case targets are set very high you know often it happens that because targets are set very high there is a resistance from the sales team and from the sales personnel.

So, such conflicts can be reduced if the salespeople are included in the process of goal setting, also even sales persons are involved in target setting, management can be assured that the targets would be accepted and attained because the sales staffs themselves have been a part of the goal setting. However, it is advisable for companies not to entrust the whole target setting process to the sales team, their participation should be you know solicited to smoothen the process of acceptance of the coal and to minimize chances of any kind of conflict that may happen later on.

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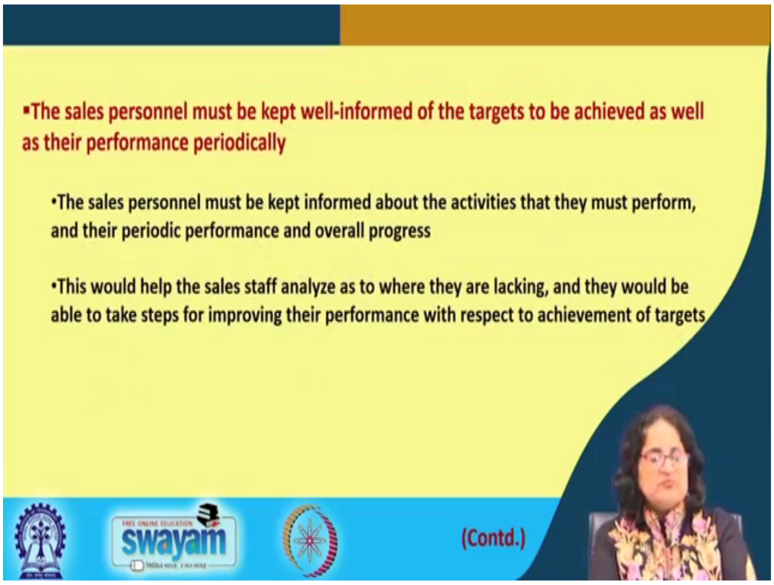

Salespeople must be well informed of the targets to be achieved as well as their performance periodically. They must be kept informed about the activities that they must they must perform and their periodic performance. This would help the sales staff realize as to whether they are you know performing well and all where they are lacking and they would and then the sales managers would be able to take you know it is appropriate measures for improving the performance of their staff with respect to achievement of the targets.

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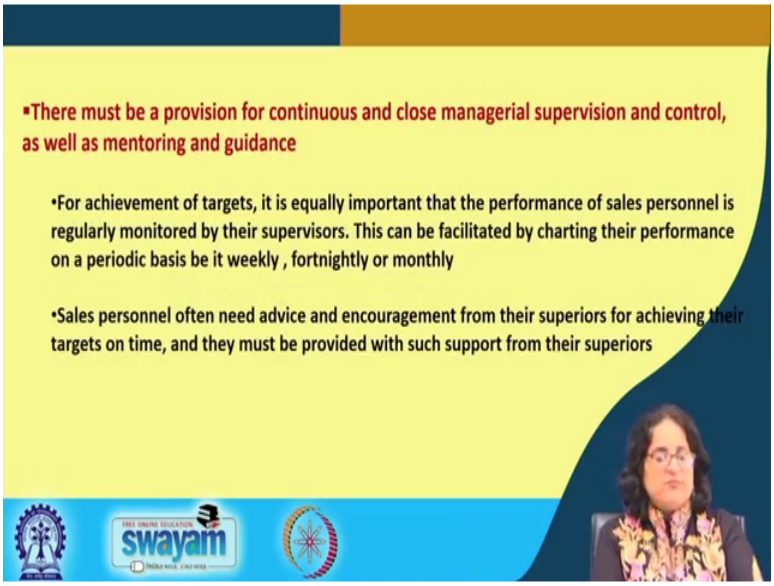

They must be a provision for continuous and closed managerial supervision and control as well as mentoring and guidance, for achievement of targets it is important that the performance of sales persons is regularly monitored by their supervisors or by their superiors. And this can be facilitated by charting their performance on a periodic basis whether it is weekly or fortnightly or monthly and often it happens that because of adverse market conditions salespeople are not able to attain targets or because targets are too high sales persons are not able to attain the targets.

So, in such cases salespeople often need advice and encouragement from their superiors and so it is very important that salespeople are provided with such you know with advice and encouragement from their superiors for achieving the targets on time. And they must be provided with all kind of help and support which they need so, that they can perform well in their respective territories.

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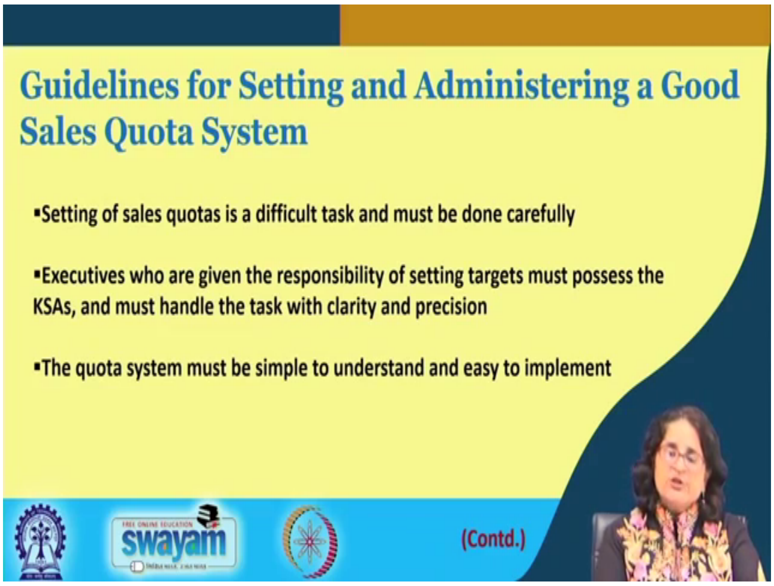

Now, coming to the guidelines for setting in administering a good sales quota system now, setting a sales quota is a difficult exercise it must be done very very carefully and executives who are given this responsibility of setting targets must possess the knowledge skills abilities they must have the desired they must have you know experience in this activity and they must handle the tasks with great clarity and precision. The quota system must be such which is simple to understand easy to implement easy to monitor.

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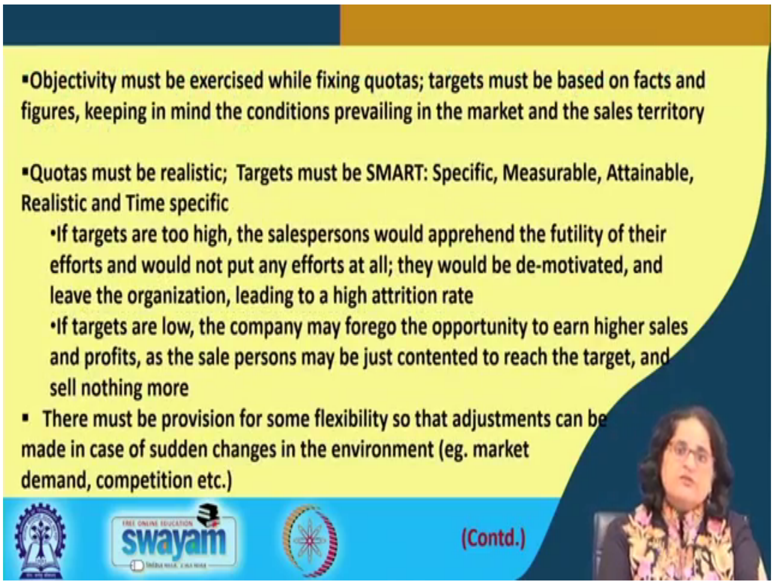

And objectivity must be exercised while fixing quotas, targets must be based on facts and figures and keeping in mind the characteristics of a sales territory and keeping in mind the market conditions prevailing in our sales territories. They must be realistic, the targets must be smart when we speak of smart it is a specific measurable, attainable, realistic and time specific. Now it is very important that targets are defined in terms of time because until unless there is a time you know limit you know a plan in the form of a quote I will never be attained. So, when we talk of planning when we talk of control both of which you know can be seen through a quota system what is required majorly is the time dimension.

So, quotas must be very time specific, we should which would speak about what has to be attained in what time period and these goals must be specific they must be measurable, they should be quantifiable, they must be realistic and attainable and very very time specific. If targets are too high the salesperson will apprehend the futility of the effort and would not put in efforts at all, they would be demotivated and leave the organization which would lead to high attrition rate. Again this gets related to Vroom's expectancy theory of motivation where if you know the targets are too high sales persons would feel that their efforts would not in any way lead to the desired performance.

So, target should not be too high and because if they are too high sales people will apprehend the futility of their efforts and they will not put in any efforts at all and they would sooner or later leave the organization and go which would be damaging to the organization you know in every you know and in even more damaging in case the person leaves and joins the competitors organization.

If targets are low, company may forego the opportunity to earn higher sales and profits as the salesperson maybe just contented to reach the target and sell no more. So, whatever the targets are they should be very realistic they should not be low, if they are low people would just attain them and then sit quietly and relax they would not be you know too motivated or too excited to work harder to sell more. On the other hand if they are high people would not be motive in motivated enough to perform as they would feel that their efforts would not lead to the performance and it is going to be a futile effort. So, better they do not put in any effort at all.

Also there must be a provision for some flexibility so that adjustments can be made in case of sudden changes with respect to demand or with respect to competitor, strategies etcetera.

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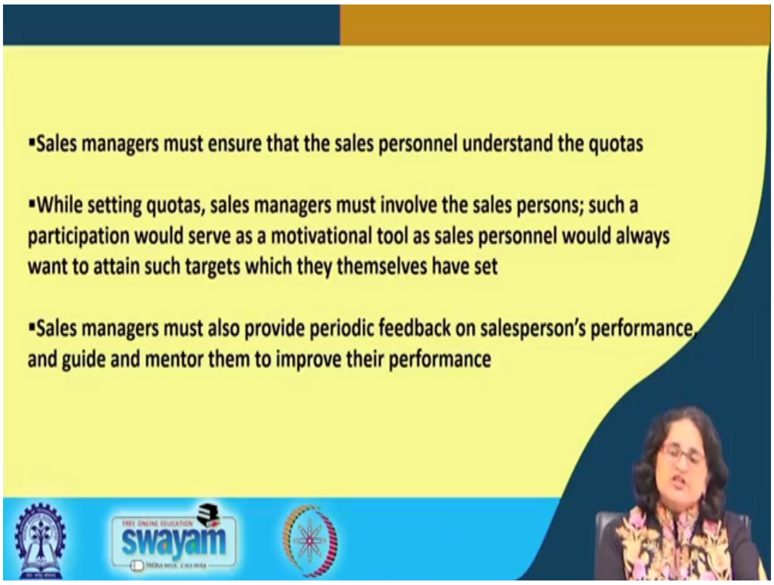

Sales managers must also ensure that the sales people understand the quota, while setting quotas they must involve the sales persons, such a participation would serve as a motivational tool as the salesperson would always want to attain such targets which they themselves have set. As I said a little while ago this would reduce chances of conflict and resistance on form the sales persons to the management because the sales persons themselves would realize that they are have been a part of this goal setting and so they have no right to actually voice against the quota set by the management.

Sales managers must also provide periodic feedback on the sales person's performance and they must ensure that they provide the right kind of help and support and mentor them to improve their performance.

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So, with this we come to an end of our discussion on the sales quotas, the references are Still, Cundiff, A Puri, Govoni and Puri Sales and Distribution Management Pearson India 2017, Panda and Sahadev 2011 and 2012 Oxford University Press and Havaldar and Cavale 2017 3rd edition Sales and Distribution Management McGraw Hill.

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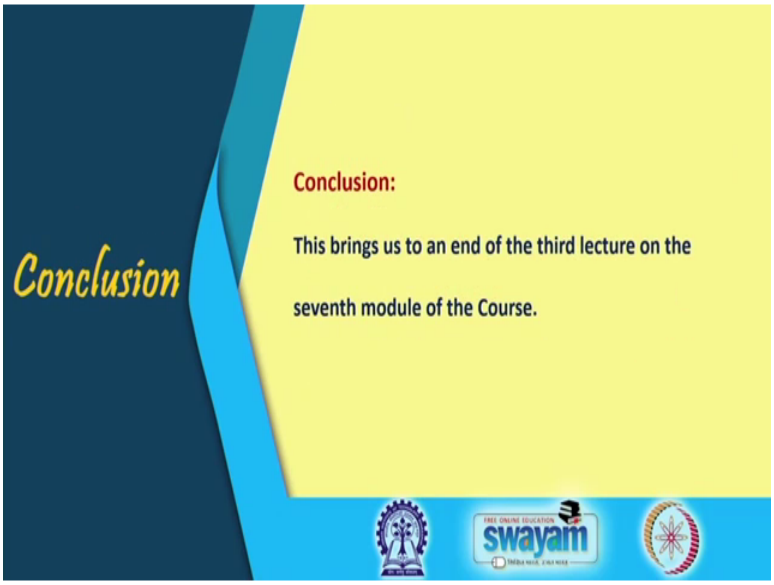

With this we come to the end of the third lecture on the 7th module of the course and we also conclude our discussion on the sales quotas I hope you found this lecture helpful.

Thank you.