

DESIGNING YOUR **TERRITORY** AND **QUOTA PLANNING** FOR BUSINESS SUCCESS



Sales territory and quota planning has become imperative for businesses

Sales executives and managers are constantly pressured to establish fair and equitable sales territories while disseminating attainable quotas that meet senior management expectations. Most organizations today agree that, while these business processes are some of the most challenging when it comes to sales effectiveness, they are definitely key to achieving top results.

The sales territory and quota planning process remains a challenging annual task that, if not done properly, can be extremely costly. The risks that the sales organization could face include reduced revenue and lost opportunities. With poor planning of sales territories and quotas, sales people may lack the necessary focus and motivation to become high performers.

More and more organizations are recognizing that it's critical to create a well-defined set of corporate goals and objectives supported by strong sales planning. Identifying and communicating the corporate objectives in advance helps executives and managers plan and define the sales territory coverage model, the resources and roles needed to support the sales cycle, and the allocation of attainable sales quotas based on market opportunities.

According to a survey conducted by CSO Insights, "2014 Sales Compensation and Performance Management Study – Key Trends Analysis,"¹ 53.9% of the respondents indicated that their most important area of focus for fiscal year 2015 is to "align corporate goals and objectives with their sales strategy and goals."

Imagine a large enterprise organization with a portfolio comprised of hundreds, maybe thousands of products, with a large sales force of thousands or even tens of thousands selling into global accounts worldwide. You can see how the structure can rapidly become more and more complex. Without a well-defined set of corporate goals and objectives and supporting planning activities, determining the sales territory coverage and quota distribution model for the upcoming fiscal year can become next to impossible.

Organizations that take the time to first define their corporate goals and objectives are more likely to align their sales territories and quotas to these over-arching goals and objectives. Some examples might include:

- Increase revenue by x% through attaining XX new customer acquisitions
- Penetrate into two new verticals (i.e. retail and financial sectors) with four new customers in each
- Cross-sell Product Y to existing key accounts that purchase Product X
- Generate \$1.2M in revenue through new product launch of XX

Today, sales executives and managers most often use spreadsheets and manual processes to support planning. The challenge is the company often ends up with myriad disconnected spreadsheets that cannot be quickly updated to adapt to change and disruption. Errors and misalignment are inevitable when there is no easy way to make adjustments to the plan in response to ever-changing market conditions and a highly competitive landscape.

Applying innovative solutions to streamline the planning process allows organizations to gain efficiencies in the territory and quota planning process while adapting to change and disruption. Sales leaders can expediently identify early signs of change and proactively adjust to quickly correct their path to success.

As an example, if one of the corporate objectives is to "cross-sell Product Y to existing key accounts that purchased Product X" and the sales for Product Y are not tracking as well as planned, an adjustment to the plan is needed. The sales manager and finance team may consider a new approach to cross-selling Product Z instead, for instance, while making a change to the sales quotas at the same time.

Organizations are quickly recognizing that sales territory and quota planning solutions are becoming a business imperative to gain efficiencies, reduce errors, better align with corporate objectives, and simply increase revenue. With a solid sales plan in place, sales reps are more focused, motivated, and satisfied with their role, resulting in improved retention and engagement.

More and more organizations are recognizing that it's critical to create a well-defined set of corporate goals and objectives supported by strong sales planning.

¹ CSO Insights. "2014 Sales Compensation and Performance Management Study – Key Trends Analysis" by Jim Dickie and Barry Trailer, published 2014.
<http://www.csoinsights.com/publications/Shop/sales-compensation-performance-management>

How are organizations conducting sales planning today?

We recently commissioned a sales planning survey by SiriusDecisions, which petitioned over 400 sales executives worldwide.² When asked, “How do you conduct your sales planning today?” – the vast majority responded, “with the use of spreadsheets and manual processes.”

Another survey, conducted by Ventana Research in 2014, “Sales on the Cutting Edge Benchmark”³ revealed that 67% of the respondents use spreadsheets to manage and track sales in areas such as sales territories and quotas.

Typically, the sales planning process begins at the top of the organization where the executive team determines the amount of revenue growth they need to achieve for the fiscal year. The numbers are then communicated downward to the sales managers. This fundamental planning process is often completed in isolation, using homegrown spreadsheets, and communicated primarily via email, with few discussions or planning sessions conducted with all the stakeholders.

The sales managers are then faced with the challenge of figuring out how their regional teams are going to hit their numbers. Most commonly, the sales representatives are assigned their territory and told their quota target. Again, this occurs with little discussion or collaboration. The sales people quickly become dissatisfied and complain that their territory is saturated and their quotas were unfairly increased by 10% over last year without any consideration of the current competitive landscape, market conditions, or economic realities.

As a result, sales people may leave the organization altogether and the cost to recruit, hire and onboard new sales people drastically cuts into the bottom line. The SiriusDecisions survey supports the significant associated costs, revealing that replacing a sales rep takes one to three months, with a cost of over \$40,000 per sales person.

If the organization has two or three sales reps leaving each quarter, the costs are significant and cannot be ignored.

Another important factor for senior leaders to be aware of is that not all disengaged sales reps choose to leave. If dissatisfied sales reps stay with the company, their negative perceptions around the unrealistic quotas could adversely impact customer relationships, company reputation, and ultimately, of course, sales results and revenue. Continuing to rely on spreadsheets for planning sales territories and quotas simply does not make good business sense on several different levels.

Replacing a sales rep takes 1-3 months, with a cost of over \$40,000, for over 2/3 of respondents.



Figure 1: Time and cost of replacing a sales rep.

² SiriusDecisions. “2014 Sales Planning Research Study” by SiriusDecisions. Commissioned by Anaplan. Published 2014. <https://www.anaplan.com/papers/sirius-decisions-survey-2014/>

³ Ventana Research. “Sales on the Cutting Edge Benchmark” by Ventana Research. Published 2011. http://www2.ventanaresearch.com/SPMBRPromotion_SPMExecutiveSummary.html

Who should be involved in the sales territory and quota planning process?

If your company struggles when it comes to creating solid sales plans and defining fair and realistic territories and quotas, you are certainly not alone.

Many of the largest enterprise organizations rely on spreadsheets for sales planning and complete them in silos without the necessary cross-functional stakeholders and subject matter experts contributing to the outcomes (i.e.; Marketing, Finance, Product Management, Operations, etc.)

The SiriusDecisions survey indicated that “only 33% percent of the respondents collaborated with their marketing teams when planning and setting sales quotas” and “only 32% percent included their product management team.”

Equally interesting, Finance is only included in the planning process about 23% of the time although a staggering 25%-35% percent of the respondents would like to see Marketing, Product Management and Finance at the table for sales planning.

Having all stakeholders from across the entire organization such as Sales, Marketing, Finance, Product Management, and Operations reaps significant benefits such as creating a more informed plan, ensuring buy-in across the company, and promoting engagement through inclusion and diversity at the table.

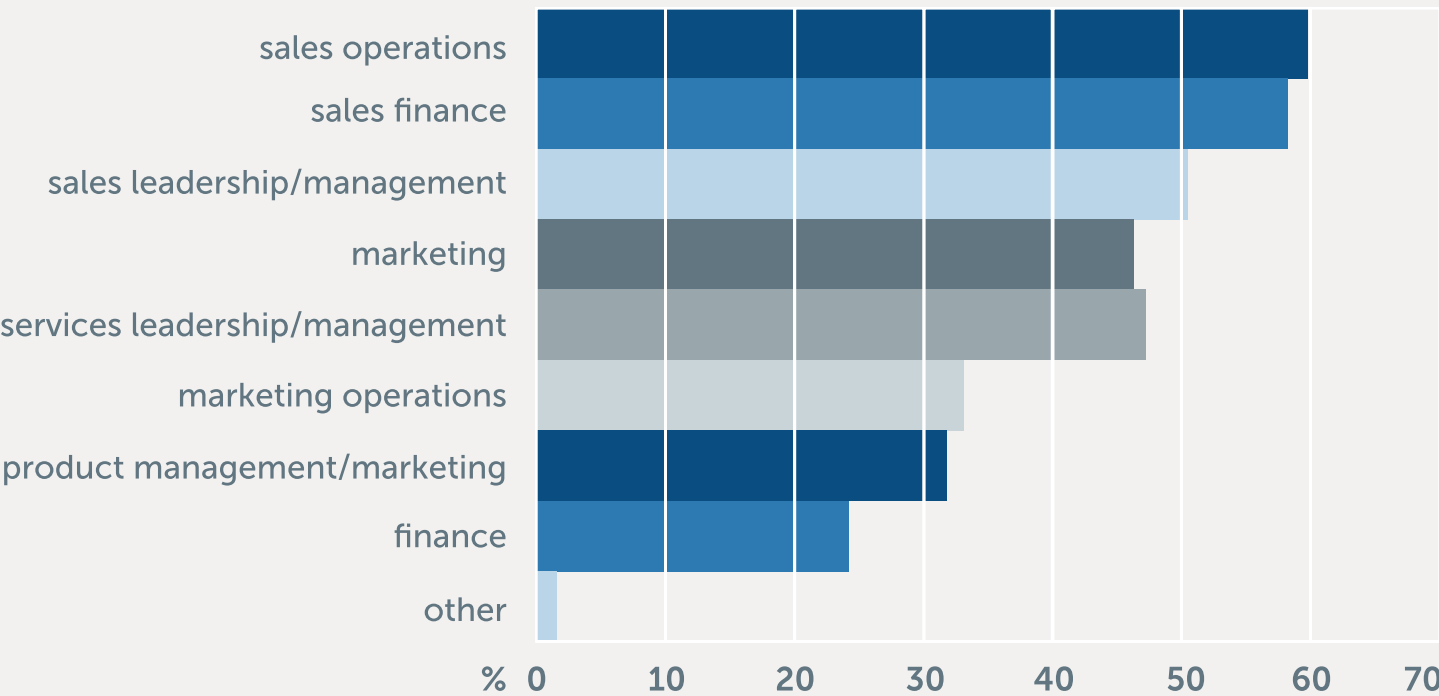


Figure 2: Groups involved in the sales planning process.

When does the sales planning process typically begin?

Sales planning cannot begin too early in the year, but it certainly can't be initiated too late. As a best practice, we encourage organizations to begin the sales territory and quota planning process two or three months before the end of their fiscal year.

Yes, it is a busy time for sales operations, and we all know that traditionally the fourth quarter is when the sales reps themselves are extremely focused on closing deals. But as we stressed earlier, sales planning is an important business imperative.

When over 400 sales executives were asked in the SiriusDecisions survey "How soon before the end of the year do you start your sales planning process?" their replies show that most start the sales planning process

two to three months before the end of the current fiscal year:

% of Respondents	# of Months Before the End of the Fiscal Year
17%	1
28%	2
21%	3
7%	4
12%	6

Table 1: How soon before the end of the year do you start your sales planning process?

Companies deliver quotas two weeks to one month after the start of the fiscal year, which means most sales reps start the year without a current compensation package.

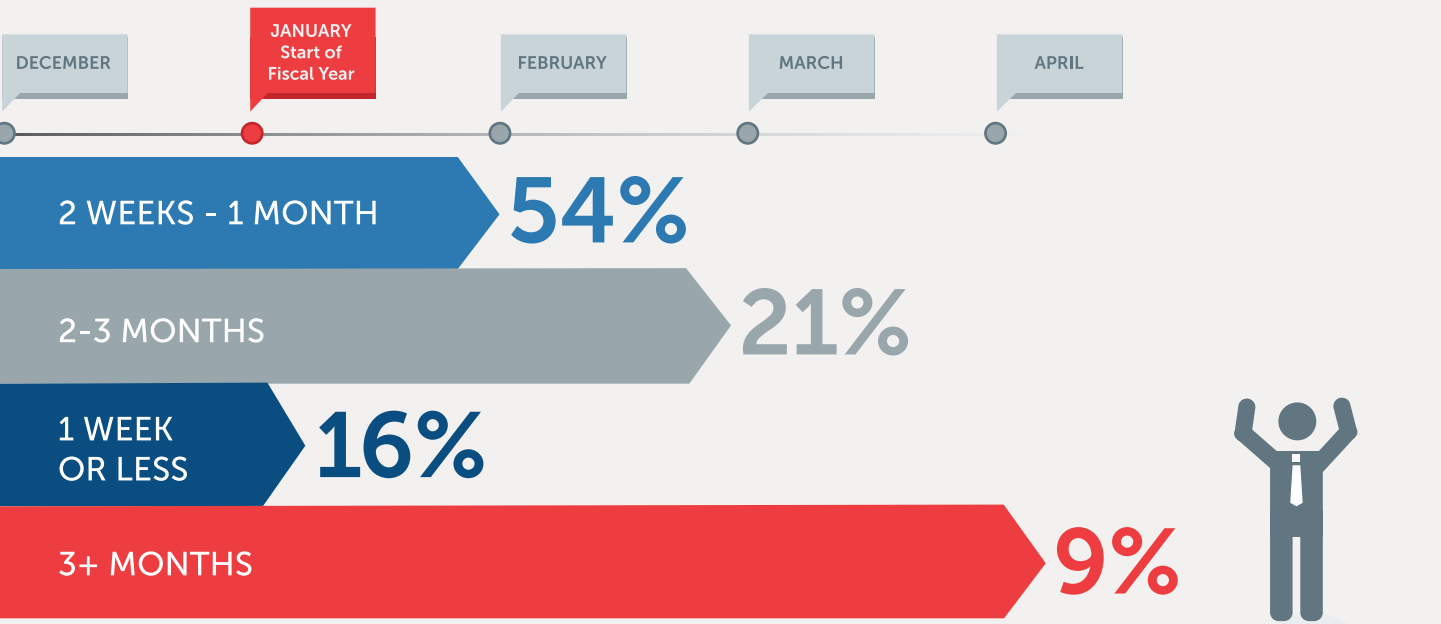


Figure 3: Most sales quotas delivered two weeks to one month after the start of the fiscal year.

On average, 56% of organizations have completed their sales planning before the start of the new fiscal year; 39% of organizations completed at the start of the new fiscal year; and 5% of organizations don't complete until after the new fiscal year.

Clearly, many organizations are cutting it close and waiting too long to plan their sales territories and quotas. When organizations wait too long to plan their sales territories and quotas, sales reps find they start the year without clear direction as companies deliver their quotas late.

The SiriusDecisions survey found that companies deliver quotas two weeks to one month after the start of the fiscal year, which means most sales reps start the year without quota agreement and a current compensation package.

When organizations wait too long to begin their sales planning, sales executives and managers become rushed. There is not enough time to analyze the sales performance of previous years. And sales representatives become anxious and unsettled. These are just some of the consequences of failing to initiate the sales planning process early enough.

Five tips for getting your sales territories and quotas right

Getting the right sales reps selling the right products to the right accounts with the right quota targets is vital—yet this is also one of the biggest challenges for most sales organizations. All of the marketing magic in the world will be ineffective if you don't get this foundational step right. And, in the worst case, misaligned sales territories and quotas can cause significant turnover with your sales people, affecting key customer relationships and organizational knowledge. Below are a few tips to consider in your sales planning efforts:

- 01** Begin by setting clear, well-defined corporate objectives before planning how you will define your sales territories and assign sales quotas
- 02** Collaborate and communicate with all of the stakeholders (i.e.; Sales, Finance, Operations, Marketing, Product Management, etc.) throughout the entire sales planning process
- 03** Consider a top-down, bottom-up methodology to ensure buy-in across the entire sales team
- 04** Get started early as sales planning is typically time consuming and iterative
- 05** Move beyond spreadsheets to a territory and quota planning solution that rapidly adopts to change

Many organizations are cutting it close and waiting too long to plan their sales territories and quotas.

Consolidating the data provides better insight and improved decision-making for sales planning

You've most likely heard a version of this saying before, "Past performance is a good prediction of future behavior", and it's true. It's important to consolidate the data from your CRM, ERP, HR, SPM, and other systems and analyze the sales performance from multiple perspectives.

By analyzing your top and bottom performers; each of the sales reps' quota attainment; sales trends; and sales performance by product, sales rep, sales team, geography, and other attributes, you gain useful insight

that can provide you with a real competitive advantage in the way you plan your future sales territories and quotas.

As a best practice, it's recommended that you analyze two to three years of data during your sales planning process. 33% of the respondents from the SiriusDecisions survey indicated that although they had one year or less of sales data, they would like to be able to analyze at least two years of data when planning their sales quotas.

Planning sales territories and quotas contributes to improved incentive compensation design

Just as planning sales territories and quotas are challenging, so is incentive compensation planning and design. Far too often, organizations "put the cart before the horse" and begin designing their compensation plans before planning their sales territories and quotas.

That's probably fine if the compensation plans are simple, such as revenue-based compensation plans where commissions are calculated as X% of generated revenue dollars. However, today, many compensation plans have become much more complex.

Desired sales behaviors are more focused on measures such as year-over-year growth, improved profitability, and increased revenue. In order to achieve this, it is essential to complete the sales territory and quota planning process before starting on compensation design.

The design of the compensation plans needs to be aligned to the sales territories and quotas that, in turn, are aligned with the organizations goals and objectives. In other words, complete alignment from the top down.

Poor sales territory and quota planning results in higher sales team attrition

When sales territories, quotas and incentive compensation plans are not aligned with the organization goals and objectives, sales reps are not focused or motivated to achieve the desired results.

It's not their fault – the sales territories, quotas and compensation plans are simply misaligned. This misalignment is costly as sales reps become dissatisfied, lack motivation and decide to leave.

Although the SiriusDecisions survey disclosed that the most often cited reason for sales reps' voluntarily attrition to be because of offering potential, the second

reason was attributed to quota allocation. Survey results go on to confirm that the resulting recruiting, hiring and onboarding of sales rep replacements is costly and time consuming.

According to more than a third of the SiriusDecisions survey respondents, it takes two to three months to replace a sales rep with many indicating the cost to be between \$80,000 to \$100,000 for recruitment, hiring, and onboarding. This does not include the sales reps earnings, commissions, incentives and expenses once they become productive.

Conclusion

The sales territory and quota planning process remains a challenging annual task that, if not done properly, can be extremely costly. It's recommended that you get started early, collaborate with all of the stakeholders, and ensure alignment beginning with well-defined

organizational goals and objectives, territory and quota plans, down to the incentive compensation plans designed to drive the right sales behaviors and selling activities.

About Anaplan

Anaplan is disrupting the world of business planning and execution. We built our in-memory platform from the ground up to empower companies to plan, collaborate and act—in real-time. Stay ahead of critical business events, rapidly model potential impacts and course correct on the fly. With Anaplan's cloud-based platform and planning applications, you can continuously align your people, plans and spend to your market opportunities. Anaplan is a privately held company, headquartered in San Francisco, CA with global offices on four continents. To learn more, visit anaplan.com. Join us on twitter: @anaplan

CONTACT US

 [linkedin.com/company/anaplan](https://www.linkedin.com/company/anaplan)

 twitter.com/anaplan

 facebook.com/anaplan

 plus.google.com/+anaplaninc

© 2014 Anaplan. All rights reserved.

