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

- CEO
- VP of Sales (US)
- VP of Sales (International)
  - Country Director Europe
    - Country Mgr. Northern EU
    - Country Mgr. Southern EU
  - Country Director Asia
    - Country Mgr. China
    - Country Mgr. PAC Rim
  - Regional Director West
    - Account Manager CA North
    - Account Manager CA South
    - Account Manager West
  - Regional Director Central
    - Account Manager Midwest
    - Account Manager Southwest
  - Regional Director East
    - Account Manager NE
    - Account Manager NYC Metro
    - Account Manager South
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 obsolesce
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?