PURPOSES OF SALES QUOTAS: THE SALES MANAGER'S PERSPECTIVE

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Abstract

This study was an attempt to examine the sales manager's purposes of sales quotas for their sales persons. 115 sales executives of 23 firms in Nigeria were offered the questionnaires to participate in the study. Address labels were provided with the instructions to the respondents to mail the completed surveys directly to the researcher. The findings of the survey reveal that a sales quota is a sales performance goal. It serves such purposes as: indicating strong and weak spots in a company's selling structure; furnishing a goal and incentive for the sale force; improving the effectiveness of compensation plans; controlling selling expenses; and evaluating sales contest result. Management should recognize the characteristics of a goal quota plan. They should also make sure that their sales-people understand the bases on which quotas are set and the process which is used to set them.

Introduction

According to Sandis (2000: 35 – 45), a sales quota is a performance goal assigned to a marketing unit for a specific period of time. The marketing unit may be a salesperson, a branch office, a district or region, or a dealer or distributor. For example, each sales person might be assigned a sales volume goal or a gross-margin goal for the coming three-month period. Morgan and Inks (2001: 463 – 472) noted that this quota goal may be stated in dollars, product units, or selling activities. The specified time period usually is a month, a quarter, six months, or a year; but it may be for as short a period as a week. A marketing units quota may also be established for individual products and/or types of customers. When salespeople achieve their quotas, they often receive some sort of reward for their performance.

The most frequently used types of sales quotas are those on: sales volume; gross margin or net profit; activities; expenses; and some combination of the four (Galea, 2004: 29 – 30). The types of quota that management selects depend on several factors, including the nature of the product and the market. Undoubtedly, the most widely used type of sales quota is one based on sales volume. A volume quota may be established for a geographical area, a product line, a customer, a time period, or any combination of these bases. Ordinarily, it is more effective to set a monthly or quarterly quota than an annual one. Some high-performance sales organization even set daily sales quota (Oliva 2001: 44 - 46).

Even when a company sells a large number of products, it may be feasible to group them into a few broad lines and then set unit quotas for each line (Jap, 2001: 95 – 108). Management uses volume goals because they are simple to understand and easy to calculate. Many sales managers still regard sales volume as the only real measure of a sales person's worth to the company. However, sales volume alone does not tell the full story of a salesperson's productivity and effectiveness. It does not indicate the profit generated by the person's efforts nor does it measures the effort to which the sales person has done a fully balanced sales job (Shaw, 2001: 28 – 30). In fact, volume quotas discourage balanced activities by the sales force because they stress volume to the detriment of non-selling activities.

Many companies set quotas based on gross margin or net profit. These goals may be established on many of the same bases as a volume quota (Renartz and Kumar, 2002: 86-94). One significant draw back to gross margin or net profit quotas is the possibility that friction may arise between management and the salespersons. The sales people may not understand how their quotas were calculated, and the salespersons may not be able to measure their progress during the quota period. Another limitation-especially of a net profit quota – is that the salesperson has no control over some of the factors on which the quota is based. For example, unexpectedly high production costs may leave the company with little or no profit on a certain product (Zoltners and Lorimer, 2000: 139 -150). A compromise approach is to base the quota on a salesperson's contribution to profit. Contribution to profit, or contribution margin, is the amount left after deducting a salesperson's direct expenses from his or her gross margin. The remainder is the amount the salespersons is contributing to cover the overhead costs (Goran, 2002: 574 -583).

Some companies attempt to encourage a profit consciousness by establishing a quota based on the salesperson's travel and other expenses. Often the expense quota is related to sales volume or to the compensation plan. A salesperson may be given an expense quota equal to 2 percent of sales. That is, direct expenses, such as travel, entertainment, food, and lodging, must not exceed 2 percent of net sales volume (Goutain, 2000: 161 – 172). Expense quotes probably encourage a salesperson to be more aware of costs and profit than volume goals. Nevertheless, it seems that an expense quota is a negative approach to the problem. A person's attention may be devoted more to cutting expresses than to boosting the sales of profitable products (Frankwick, Porter and Crosby, 2001: 135 – 146).

One way to decrease the emphasis on sales volume is to establish a quota based on activities. Management may select from such tasks as: daily calls; new customers called on; orders from new accounts; product demonstrations made; and displays built. (Dorsch, Calson, Raymond and Ranson, 2001: 157 – 166). Activity quota properly established and controlled can do much to stimulate a fully balanced sales job. This type of quota is particularly valuable for use with missionary salespeople. Probably, the principal difficulties in administering an activity quota are, first, to determine whether the activity actually was performed and, second, to find out how effectively it was done (Desphande and Farley, 2000: 353 – 362). Companies that are not satisfied with any single type of quota may combine two or more types. A combination quota seeks to use the strong points of several types of quotas, but frequently such a plan is limited by its complexity (Carlson and Pearo, 2004: 48 -59). In many cases, combination quota structures are so complicated that they are not easily understood by the salespeople: then the quota becomes a source of dissatisfaction rather than an incentive (Colgate and Danaher, 2000: 375 -387).

A sales quota – especially a sales volume quota is related to both the sales potential and sales forecast. The sales potential influences the sales forecast, and the sales forecast helps to shape the quota (Cherry and Fraedrich, 2000: 173 – 188). However, a sales quota is not the same as either of these planning tools. Management usually sets sales quotas so that their total equals the sales budget. Thus if all the salespersons reached their quotas, the sales budget would be met. Fundamentally, two general approaches may be used to set volume quotas: Quotas are set in conjunction with territorial sales potentials. Also quotas are set on the basis of considerations other than sales potentials, such as past sales, executive judgment, salesperson determination, or compensation design (Chonko, Dubinsky, Jones and Robert, 2003: 935 -946; Boles, Babin, Brashear, and Brooks, 2001: 1 -13). Sales quotas help in planning and evaluating sales force activities. When setting sales quotas, the sales managers should consider the goals and strategies developed in the marketing planning. If the marketing goal is to increase market share, then a sales volume quota may be appropriate. However, if the goal is to increase a company's return on investment or net profit as a percentage of sales, then a sales volume quota probably is not appropriate. Instead, some form of quota based on gross margin, or even an expense quota, is more in line with a profit – oriented goal. Thus good sales quota can help effectively implement the strategic plans (Brasheer, Bole, Bellenger and Brooks, 2003: 189-199).

Research Problem

A sales quota is a performance goal assigned to a marketing unit for a specific period of time. The marketing unit may be a sales person, a branch office, a district or region (Sandis, 2000: 35 – 45). Some companies place the quota problem in the laps of the salespeople by letting them set their own performance goals. The rational for this move is that the salespeople are closer to their territories than the management and thus can do a better job. Even though that setting their own quotas may allow the salespeople to reflect the several useful purposes that sales quotas serve to the company. Of course, if salespeople make the decisions about their own goals, they will have higher morale and strive more to attain the quota. However, from the practical stand point, this method leaves much to be desired. Salespeople do not have access to the necessary information. Also, salespeople often tend to be optimistic about their abilities and opportunities in the territories. Therefore, they may set unrealistic quotas that are void of the management purpose for sales quotas.

On the other side, a final essential ingredient in a well-planned and well-operated quota system is its whole hearted acceptance by the sales force. Salespeople often are suspicious of quotas, either because the purpose are not apparent or because there are questions about factors underlying the plan. The purposes of the quota, the bases on which the quotas are set, and the methods used in the process should be explained to the salespeople. When the quota is ready for formal installation, the sales force will probably be more inclined to accept it if they have had a hand in its development and purpose. Management also stands to gain by soliciting ideas firm salespeople, who may introduce considerations that escaped management notice.

Salespeople could be kept informed about the management purposes for sales quotas allocated to them. They could also be kept informed about their process toward meeting the performance goal. Conferences and correspondence with the salespeople often could be necessary. The sales force also may need some incentives to reach the goal. This may come from a bonus for achieving the quota or from some other direct link with the compensation plan. Management could make it clear that quota performance is reflected in periodic merit ratings, salary reviews, or considerations for promotion.

Research Purpose

Therefore, the purpose of this study was to examine the sales manager's perspectives in establishing a purpose for sales quotas. This would alleviate the salespeople's suspicious of quota, and make the purpose more apparent.

Research Method

This study worked with both primary and secondary data. The secondary source used both published and unpublished materials from texts, libraries, companies and other public documents. 115 sales executives of 23 firms in Nigeria were given the questionnaires to participate in the study. Address labels were provided with instructions to the respondents to mail the completed surveys directly to the researcher. The sales executives were also promised a copy of the summary results to entice them to participate. This approach appears to have created much interest and willingness to participate might have been lower otherwise. SPSS for windows was used to analyze the data collected from the survey.

Findings and Discussion

Sales quotas are widely used basis for evaluating sales force performance. Salespeople who meet their quotas are judged to be performing adequately in the activity the quota concerns. Thus quotas can have a big impact on a salesperson's morals. Because of these strategic and behavioural considerations, it is important that management do the best job possible when setting quotas. The survey table shows that sales quotas serve several uses purpose. For example, when accurate quotas are established for each territory, management can determine that extent of territorial development by whether or not the quota is being reached. If the sales total significantly exceeds the pre-determined standards, management should analyse the reasons for this variance. If the Sales in a district fail to meet the quota, this failure tells management that something has gone wrong. Of course, it does not tell why the failure occurred. It may be that competition is stronger than expected, the salespeople have not done a good selling job, or the potential was over estimated.

Survey Table: Purposes of Sales Quotas

	The sales manager's purposes	Percentage of sales
S/No	Of Sales Quotas	Managers who Agree
1	To indicate strong or weak spots in the selling structure	12%
2.	To Furnish goals and incentives for the sales force	23%
3.	To Control salespeople activities	20%
4.	To evaluate productivity of salespeople	21%
5.	To improve effectiveness of compensation plans	9%
6.	To control selling expense	10%
7.	To evaluate sales contest results.	5%
	Total	100%

Source: Field Survey

The survey table also reveals that in business, as in any other walk of life, individuals usually perform better if their activities are guided by standards and goals. It is not enough to say to a salesperson that we expected you to do a good selling job. It is much more meaningful to express this expectation in a specific quota consisting of a given Naira sales volumes or number of new accounts to be acquired during the next month. Without a standard of measurement, salespeople cannot be certain their performance is satisfactory. This survey also disclosed that sales relative to quota are the most widely used performance criterion by which salespeople are judged. The survey table also shows that a corollary to the preceding point is that quotas enable management to direct the activities of the sales force more effectively than would otherwise be possible. Through the use of the appropriate type of quota, executives can encourage a given activity such as selling high-margin items or getting orders from new customers. The sales persons are not likely to know which area of activity should be stressed unless management tells them.

The survey table also indicates that quotas provide a yardstick for measuring the general effectiveness of sales representatives. By comparing a person's actual results with his or her quota, management can evaluate that person's performance. Quota performance also provides guidance for field supervisors by indicating areas of activity where the sales force needs help. Decisions on whether to give salespeople promotions or raises are often based largely on their performance in relation to their quotas. It is also found in the survey that a quota structure can play a significant role in a sales compensation system. Quota can furnish incentives to salespeople who are paid straight salary. A sales person knows, too, that a creditable performance in meeting assigned quotas reflects favourable on him or her when it is time for a salary review.

In some cases, sales people receive a bonus if they achieve a certain quota or they may receive a commission on all sales above so preset level (or quota) of sales. Inequities in territorial potential may cause inequities in compensation unless a firm established a quota system. The survey table also discloses that management can often encourage expense control by the use of expense quota alone, without tying them to the compensation plan. Some companies gear payments for the salespeople's expenses to a quota. Companies may set an expense quota and let the salespeople know their effectiveness in being judged in part by how well they meet it. Finally, the survey table indicates that sales quotas are used frequently in conjunction with sales contests. Salespeople rarely have equal opportunities in a contest unless management makes some adjustment to compensate for variation in territorial potentials and workloads. Using the common denominator of a quota, management can ensure each participant a reasonable equal chances of winning, provided the quota has been set accurately.

Conclusion

The last major element in sales management planning is the establishment of a sales quota. A sales quota is the sales goal assigned to a marketing unit in a specified period. Sales quotas may be expressed in aggregate or broken down by customer and products. Sales quotas are used to motivate salespeople, evaluate their performance, and control their efforts. For a quota plan to produce its potential benefits, the quotas must be attainable with normal effort, easy to understand, and complete.

Recommendations

1. When setting sales quotas, the sales managers should consider the goals and strategies developed in the marketing planning. If the marketing goal is to increase market share, then a sales volume should be appropriate. But if the goals is to increase a company's return on investment or net profit as a percentage of sales, then a sales volume quotas should be not be used. Instead, some form of quota based on gross margin, or even

expense quota should be more appropriate with a profit – oriented goal. Thus good sales quotas can help effectively implement the strategic plans.

2. Additionally, sales quotas should be used to guide the salespersons' activities. Quotas that are too high should cause salesperson to high – pressure and overload the customers, while quotas that are low may not serve to motivate the salesperson.

3. Finally, sales quotas should be used for the basis for evaluating the sales force performance. Salespeople who meet their quotas should be judged to be performing adequately in the activity the quota concerns. Thus, quota can have a big impact on a salesperson's morals. And because of these strategic and behavioural considerations, it is important therefore, that management should do the best job possible when setting quotas for their salespersons.

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