

Sales Quotas and Contests

Meaning of Sales Quota

It is an expected performance objective. Quotas are routinely assigned to the sales units, such as departments, divisions, and individuals and they proceed to reach at these quotas in their respective domain. They are sales assignments or goals, which are to be achieved in a specific period of time.

Sales quotas are the sum of the total sales of a future period and duties to achieve the component of total sales by each salesperson are handed down to them at the beginning of the period.

They are sales assignments, or goals and expectation of the top management expressed in volume or in rupee sales for a specific future period. It is a part of the company's total expected market share that is assigned to the salespeople in each territory, a branch, a distributor, a selling agent, a dealer, or any other selling unit as a target to be achieved in a specific future period of time.

It is a quantitative goal assigned to a specific marketing unit such as a salesperson or a territory for a time period. So, sales quota is a standardized method of evaluating the effectiveness and performance of salespeople. Quotas are based on sales but there is a difference between sales potential and quota. A sales forecast is an estimate of what a firm expects to sell during a time period using a particular marketing plan.

Sales quotas may be set equal to, above, or below the sales forecast. Sales potential is the maximum share of the market demand that a firm can obtain under the legal environment. Sales potentials help the firms for long-term and strategic planning, but sales quotas are used for different reasons.

Definitions of Sales Quota

- According to Philip Kotler, "A sales quota is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort."

- According to Kirkpatrick, “Sales quotas are sales assignments or goals, they are management’s expectations in dollars or units for a specific future period.”
- According to Cundiff and Stiff, “Sales quota is a quantitative goal assigned to a specific marketing unit, such as to a salesman or territory.”

Objectives and Importance of Sales Quota

The objectives and importance of sales quotas may be explained under the following points:

1. Lifeblood of Business

The sales quotas are the lifeblood of a business and serve both as a goal and as a means of measuring the performance of a company in relation to that goal.

It is also a basis for setting sales and operations budgets.

For a salesperson, it stands as a method of measuring performance and qualifying for advertisement.

It is a common objective both for the salesperson and the company.

2. To Provide Performance Standards

Quotas provide a means for determining which sales personnel are doing an average, below average, or above-average job.

Territorial sales volume quotas, for instance, are yardsticks for measuring territorial sales performance.

Quotas identify the strong and weak points additional analysis of performance data uncovers reasons for performance differentials.

3. Sales and Expense Control

To maintain a check on expenses and profits, the company determines expense quota.

Still, others establish quotas for-profits percentages on sales.

Control over expenses and profitability is tightened through quotas.

4. To Motivate Desired Performance

Quotas motivate sales personnel and distributive outlets to achieve assigned performance levels.

Some managements use quotas solely for inspirational purposes, basing them almost entirely upon what they think individuals can be inspired to achieve.

Quotas should be attainable goals, achievable with the justifiable price.

To motivate him, a salesman should believe strongly in quotas attainability.

5. Sense of Direction

Sales quotas are assigned to the salesmen, so as to give them a sense of direction in their sales effort.

When Companies assign quotas for each product in their total line of products, they are trying to communicate to their sales force which products should be given priority.

By setting quotas for various product lines or for certain classes of customers, the sales managers can guide sales force activities into desired channels.

6. Basis of Compensation

Sales compensation is often tied to the degree of quota fulfillment.

Incentive plans are also linked to quota fulfillment.

7. Better Performance

Sales quotas are set higher than the sales forecast to encourage sales managers and salespeople to perform at their best level quotas provide goals and incentives to achieve a certain performance level.

8. To Evaluate Performance

Performance against quotas also helps in identifying strong and weak points of the salesperson.

The performance can be judged for various products and in various territories.

If a salesperson is below average in many ways then sales executives can take action for correct weaknesses.

9. Appraising Selling Effectiveness

As standards for appraising selling effectiveness, quotas specify desired performance levels for sales volume.

10. To Provide Data

The two basic uses of quotas are, first, to provide standards of measurement of each individual's salesperson's performance and, secondly, to provide the basic data for company sales forecasting and financial control.

11. Balanced Growth of Market Territories

By the process of setting sales quota, all the market territories can be developed in a balanced way.

For example, for slow-moving territories, more sales quotas can be assigned.

12. Preparing Promotional Budget

Sales quotas also serve as a basis for determining the budget for promotional activities like advertising, sales promotion, etc.

If the sales quota is high for a particular territory, its budget for promotional activities will also be determined high.

13. Coordination with Other Departments

Setting sales quotas also makes it easy to establish coordination with other departments such as production purchasing, finance, warehousing, etc.

All departments make efforts according to the total and integrated sales quota.

Characteristics of Sales Quota

1. It is the sales goals set for a product as well as of a salesman.
2. There is a time-dimension of a sales quota.
3. Sales quotas are assigned to salesmen, middlemen, or a branch.
4. It requires a desired level of performance.
5. It is a managerial tool of direction and control of sales activities.
6. Sales quotas are determined on the basis of sales forecasting, sales potential, estimates of costs, and other market studies.
7. The success of sales quotas system will depends on accuracy of data and information used for forecasting.

Types of Sales Quota

Sales quota is divided into four different categories according to the difference in forecasting and cost allocation procedure, management goals, selling issues and executive decision.

The following are the different types of sales quota.

1. Sales and Volume Quota

Sales and volume quota is allocation of sales quantity for salesperson, geographical regions, distribution outlets etc. This quota can be implemented according to sales performed or revenue earned by respective units.

The combination of both the criteria can also be used for the implementation of this quota. The quantity of sales and revenue earned can be allocated to the respective unit (salesperson, region) and it has to fulfill at least one of them.

2. Financial and Budget Quota

Financial and budget quota is used to determine and restrict expenses on sales to attain desired net profit planned.

It is implemented on various segment of sales organization to control the expenses accordingly. The aim of these quotas is restriction of expenses for making sales so that profit can be increased.

3. Activity Quota

In competitive market, the effective performance of sales group is required. It can act as a long term benefit for the organization. Organizations set up activity quota for sales force for efficient results. These can be performed by allocating sales target to salespersons.

The following are the activities listed under sales quota –

- Number of accounts opened through the salesperson
- Number of sales calls made to potential customer
- Number of demonstrations made to show the product
- Number of maintenance activities performed

Activity quota is planned on the basis of these activities performed by the salesperson. By setting quota for the activities, efficient performance and controlling can be managed.

4. Combination Quota

It depends on product type and market condition, issues related to sales of product and the challenges faced during the sales of a product. Organizations set up quota with combination of sales volume and activity quota in order to increase sales.

Methods for Setting Sales Quota

Sales quota for any unit like salesperson, region, etc., should be a reasonable and an achievable goal, for it to be fulfilled at the provided time span. At the same time, quota should not be such that it doesn't take much effort to achieve.

The following are some of the methods for setting the sales quota –

1. Total Market Estimate Method

Total market estimate method is used to determine sales quota in places where the management doesn't have any data about the market potential. It can be determined by dividing the company's sales quota with respect to regions or dividing sales quota according to relative sales opportunity as per region.

2. Territory Potential Method

Territory potential method directly relates territorial sales potential to sales quota. The potential here is total industry's sales for that segment. Sales potential represents the maximum market size of the product; size of the market reflects the sales potential. This method gives precise results if territorial sales potentials are used with a combination of territorial design.

3. past Sales Experience Method

Past sales experience method determines the sales quantity based on the previous year sales. Managements of organizations set this up by increasing some percentage from the previous sales record.

For more precision in the approach, managements most commonly use an average of several years as a base line for the measurement. This method is simple and doesn't take much effort to implement.

4. Executive Judgment Method

In this method, sales quota volume is determined by the management, but it is more likely to be a guess. The management decides the sales quantity and no fixed procedures are involved.

This method is not precise and it's mostly not used by organizations to determine the sales quota. This method doesn't provide any estimate for territorial based sales volume.

5. Sales People Estimate Method

In this method, the sales quota is determined by the salesperson of the organization. Through this approach, a more relevant sales estimate can be maintained, which can be achieved by the salesperson.

Salesperson have better knowledge of the market conditions, so they can set the target as per their standards, and if the standards are set by the salesperson themselves rather than imposed by the management, their fulfillment is more likely possible.

6. Compensation Plan Method

Compensation method is based on management's view of what a particular salesperson should receive as revenue; this method does not take into account the sales projection or territorial volume.

For example, if a salesperson has to receive 20,000 as salary, which can be received as 10 percent commission of the sales amount, then the salesperson has to sell products worth 200,000.

Sales contest

A sales contest is a motivational program in which rewards are offered to sales people based upon their sales and/or results. There are three types:

- Direct competition — the sales people compete against each other and there is one winner
- Team competition — there are teams which are rewarded collectively for winning.
- Goal — rewards are given for achieving goals which may be won by more than one person

Objectives of the Sales Contests

Sales contests motivate salesman to increase sales volume along with higher profits. The main objectives of sales contests are as follows:

1. To risen the sales.
2. To make new customers attracted.
3. To arrest seasonal sales slumps.
4. To push new products, high margin goods and slow moving goods.
5. To get repeated orders from present and former customers.
6. To improve sales personnel performance.
7. To bring a spirit of competition among the salesman.
8. To improve customer's services.
9. To achieve the sales targets.
10. To increase incentives to sales force.
11. To make the products of the company popular.
12. To bring talented and intelligent salesman to the forefront.
13. To generate team spirit among the salesmen and foster a sense of cooperation.

How to create a sales contest?

Creating a sales contest is not an easy task. It requires a lot of planning and preparations to create an effective sales contest. In this section, you will learn about the step by step procedure to create a sales contest.

Step 1. Define the motive of the sales contest:

Companies organized them for various reasons such as to boost sales, to boost profit, to increase the sales of a particular product, or to stimulate sales team. Your motive should be clearly defined and explained to employees and prepare the strategy for the sales contest accordingly.

Step 2. Define The incentives of Sales contest:

Your sales employees are most interested in the incentives that you to offer as a winning price of a sales contest. You should not randomly pick a sales incentive and announce it as the price for the contest winner.

Create a survey and learn about the wishes of your employees what they truly want or you can decide the price of sales contest based on the season.

For example, most employees like to take vacations with their family during the festive break, or they need extra money to be able to celebrate the festive season with their family.

Get the opinion of your employees through a survey and decide the price for the contest accordingly.

Step 3. Set the rules for the sales contest:

Set rules for the sales contest beforehand to avoid confusion at a later stage. For example, define the timeline of the contest clearly, define the goal of the contest, etc. also mention do's and don'ts for employees so that they know what they can do and what they can't to achieve their goal.

Step 4. Discuss your sales contest plan with relevant management:

Don't just create a sales contest idea overnight and introduce it the next morning. Plan it, plan it well, and get it in written form and discuss it with relevant management, ask their opinion, make modifications, and get their approval before sharing it with your sales staff.

Step 5. Make the early announcement:

Plan sales contest a few months before you decide to introduce it. Make your staff aware of it. Conduct meeting introduces the rules, dos, and doesn't.

Answers the doubts and queries of your sales staff and don't leave any room for confusion. in addition to this, remind them about the contest more than once.

Send emails and put a notice about the contest in the staff room. In this way, your employees will be aware of the contest, and there will not be any room left for the confusion at a later stage.

Step 6. Review it for the last time:

At last, review your contest plan again and work on the loopholes if you find any before you launch the contest. Make sure that your sales contest is for the benefit of your organization as well as your employees.

Advantages of Sales contests

The main advantages of sales contests are as follows:

1. The sales contests increase the sales volume along with increase in profits of the company.
2. Sales contest stimulate salesman's efforts more vigorously to attain the sales targets.
3. The possibility of winning the prizes attracts young, talented and efficient salesmen to offer their services more effectively.
4. During slump period, sales contest are the best means of not only arresting the decline in sales but also raising the volume of sales.
5. Sales contest generate team spirit among the salesmen and foster a sense of cooperation.
6. The sales contests are helpful in bringing out the talented and more intelligent salesmen to the forefront for promotion purposes.
7. Sales contests raise the morale of the sales force and develop the spirit of competition.
8. Sales contests increase the goodwill and the reputation of the company.
9. New customers are attracted on account of sales contests.

10. Consumers are also benefited by sales contests.

Disadvantages of Sales Contests

The disadvantages, limitations or objectives of sales contests are as follows:

1. Sales contests do not really increase sales over the long run, but they merely provide a short-term sales expansion.
2. High caliber and more experienced sales personnel look upon the sales contests as juvenile and silly.
3. Sales contests cause sales personnel to launch their sales efforts during the competition and thus sales slump occurs both before and after the sales contests.
4. The disappointment suffered by sales contest losers' causes a general decline in sales force morale and enthusiasm.
5. Sales contests distract salesmen from the main job of selling and encourage them only to concentrate on winning prizes by fair or foul means.
6. Sales contests lead to unanticipated and undesirable results, such as, increased returns and adjustments, higher credit losses and over shocking by dealers.
7. Sales contests are temporary devices for motivating sales force, and if used too frequently have a narcotic effect. No greater results in the aggregate are obtained with such contests.
8. When the product is in short supply, it is ridiculous to encourage sales contests.
9. It is argued that the sales force is regularly paid for their services under the basic comprehension plan. Hence there is no necessity of organizing sales contests.
10. The competition atmosphere generated by sales contest weakens team spirit.