Guide to Sales *Planning*

argano

Sales Planning Guide

Sales planning is the go-to-market tactical blueprint for your sales organization. It is how sales leadership will link territory design, quota targets, sales team member roles and headcount, incentive models and the operating philosophy together to maximize sales performance.

Although core sales planning concepts have been around for decades, the methodology for sales planning has shifted dramatically, evolving from using spreadsheets as planning tools.

> *The availability of Sales Planning and Sales Performance Management (SPM) solutions have created opportunities for more efficient, accurate sales planning and territory and quota management.*

In this guide, we cover the following components of an efficient, effective sales planning strategy:

- Implementing a continuous planning approach
- Applying top-down and bottom-up planning approaches
- Assessing capacity to scale appropriately
- Using data to inform decisions
- Setting territories that align with objectives and motivate the sales team
- Using quotas to drive desired business outcomes
- Creating incentives that reward the right behaviors
- Testing scenarios
- Communicating clearly
- Adjusting as needed
- Reducing risk
- Benefiting from an SPM solution
- Following sales planning recommendations

Implementing a Continuous Planning Approach

Sales planning has historically taken place in regularly scheduled sessions once a quarter or even once a year. However, market variability, economic volatility and supply chain disruption now require continuous re-evaluation and plan revisions. Not making adjustments as conditions change can cause missed opportunities and allow small problems to grow larger than necessary.

Consider trip planning as a metaphor. A paper map used to be the only tool available to plan the route from where you are to where you wanted to go. Navigation solutions now offer continuous route adjustments that take into account road closures, construction, accidents, traffic, and more conditions that affect the decision of which route to take. Paper maps still work, but they put you at a disadvantage if any variable conditions come into play.

Similarly, infrequent planning sessions using spreadsheets can still be used sales planning; however, that approach will not be as efficient or effective as continuous planning using a sales performance management (SPM) solution.

Plans that are not optimized can prevent companies from meeting revenue goals in multiple ways:

- Missing market opportunities
- Failing to meet strategic objectives
- Losing top salespeople
- Underservicing markets
- Overpaying for performance

The Sales Planning Phases

Sales planning has several phases that repeat throughout the year.

Adjustment

Incorporate feedback and re-align territories and quotas where required. Potential problems in the planning stage include misalignment of quotas with corporate objectives, and setting unrealistic or demotivating quotas that cause disengagement and turnover.

Execution

Explain why territories were adjusted, and how compensation is tied to quotas. A successful rollout is critical for quotas to have the desired effects. If the plan is late, poorly communicated or not clearly understood, the result can be lack of motivation, higher turnover, and failure to meet targets. Tracking performance versus achievement is also a critical part of the execution phase.

Evaluation

Determine who did and did not reach their quotas as defined in the compensation plan, and then pay commission. Speed and accuracy are essential in the evaluation and compensation phase. An SPM solution provides transparency so there are no surprises, and errors are greatly reduced.

If certain teams or territories are consistently not reaching their quotas, audits can identify training opportunities, unbalanced territories, the need for quota adjustments and other remedies. The data provided by an SPM solution is invaluable to help identify problems and determine solutions.

Applying Top-down and Bottom-up Planning Approaches

Sales planning is executed using a combination of top-down and bottom-up planning approaches.

- **Top-down** applies when the overall company goals are the main driver for departmental goals. In this approach, planning begins at the "top" and is pushed down the organizational hierarchy for review, consideration and adjustment.
- **Bottom-up** occurs when sales managers and teams determine goals based on the market opportunities they see. From here, the plan begins at the "bottom" and the goals are aggregated up with adjustments being made by leaders.

Neither approach is fundamentally better than the other. Most organizations use a combination of top-down and bottom-up adjustments throughout their sales planning cycle, resulting in multiple revisions and scenarios considered before finalizing the sales plan.

Assesing Capacity to Scale Appropriately

One risk of using a bottom-up approach to sales planning is that it may not align with a company's actual capabilities. To prevent disappointing customers after a sale is made due to back-orders or a lack of available support or installation resources, it's essential to understand what the overall organization's capacity is, and define what role sales plays in moving the organization to the next stage of growth.

Capacity planning also includes sales capacity, which is more than just a head count of salespeople. Ramp-up time and turnover need to be factored in to have an accurate picture and prevent setting unattainable quotas or lacking adequate coverage in a potentially profitable territory.

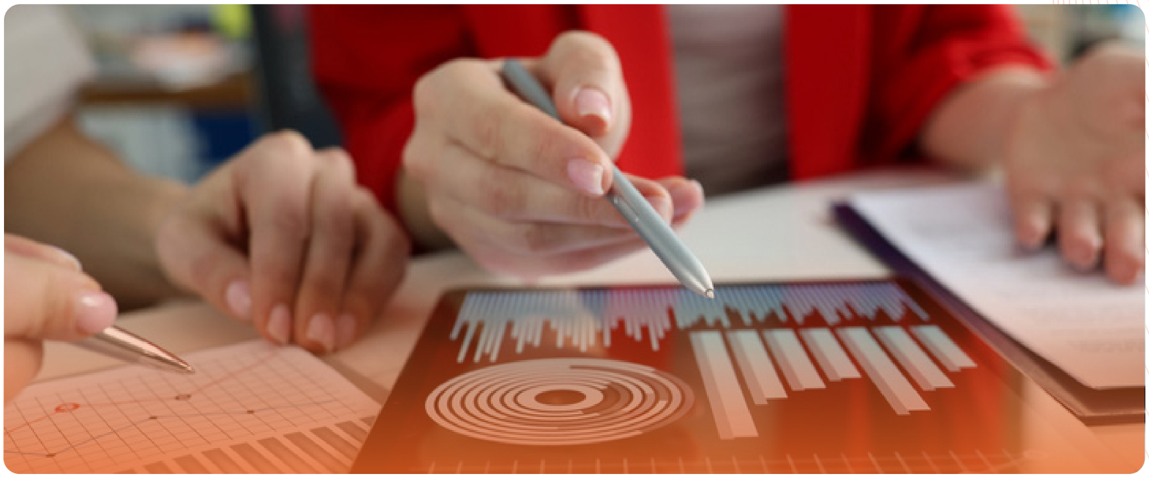
To accurately assess capacity, sales planning should include multiple departments: marketing, sales, finance, revenue operations, and human resources.

Using Data to Inform Decisions

One of the key reasons why an SPM solution is such a powerful tool is that it provides leadership with current data. An SPM solution presents decision-makers with customer, capacity, and sales data by integrating with other systems such as:

- Customer Relationship Management
- Human Capital Management
- Enterprise Resource Planning
- Financial Planning and Analysis
- Operational Sales Management
- Quota Planning
- Incentive Compensation Management

Having visibility into historical data is essential to evaluate territories and make accurate forecasts for quota setting. However, simply copying what you did last time is not an effective sales planning strategy. By integrating other systems with SPM as part of an overall sales compensation management strategy, you can more effectively use current data and market intelligence to realign territories and optimize sales plan.



Setting Territories that Align with Objectives and Motivate the Sales Team

In a top-down sales planning approach, the company's overall goals will trickle down to territories and quotas; while a bottom-up approach uses sales potential from optimized territories and quotas to define overall objectives. In either scenario, both the company's overall goals and the sales territories and quotas need to be aligned as part of the sales planning process.

Effective territory and quota management (TQM) is critical for maximizing sales performance. Well-defined territories ensure that you have the right people selling to the right markets, with no gaps and no internal clashes. Quotas align with territories to set sales targets and incentive compensation.

TQM is a large, critical part of the sales planning process. Territories and quotas need to be carefully planned, monitored, and adjusted to ensure that they're having a positive effect on the sales team. Spreadsheets cannot keep up with changes and allow proper modeling. An SPM solution is a powerful tool for implementing TQM best practices.

Methods to define territories

A territory delineates the accounts available to an individual salesperson or team. Territories and quotas are heavily dependent on each other. A top territory will have a high quota, and a high quota needs a top territory.

There are several methods that can be used to define territories, including geography, products & services, markets, revenue potential, accounts, and hybrids. Territories need to be re-examined and re-defined frequently due to a variety of factors including the market, the economy, and competitor activity.

The following is a list of different ways to define territories:

Geographical territories

For products and services that need face-to-face sales interaction, geographical territories are often used so that visits can be done efficiently. Ensuring fair territory distribution can be tricky due to higher opportunities in certain areas and increased travel requirements in others.

Product-based territories

For companies with multiple product lines, clients may be best served with a different sales representative for each product. Where specialized knowledge of a product or service is required, having product-based representation makes sense.

Market-based territories

In many instances, the way a product or service is marketed and sold is heavily dependent on the target industry. In these cases, it makes sense to have a market-based territory as the primary delineator.

Potential revenue-based territories

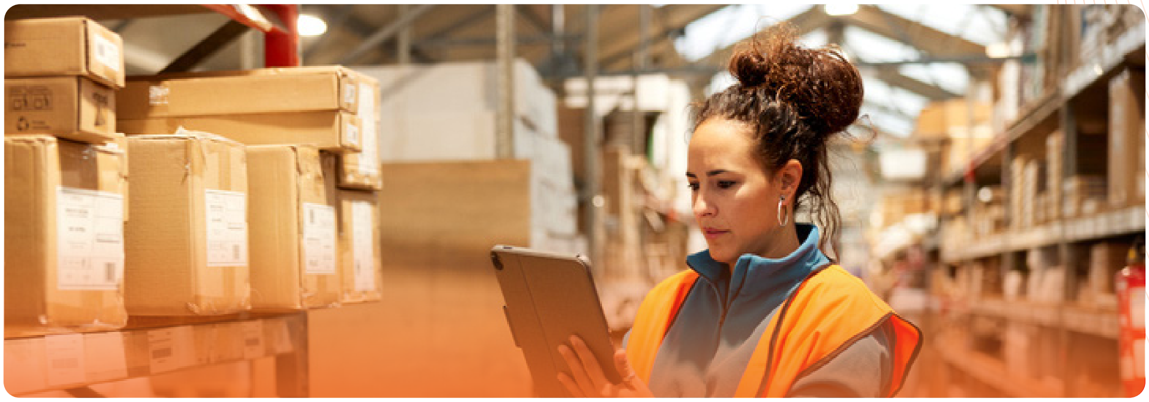
Potential revenue can be used to balance territories by applying sub-territories along with another means of alignment. Calculating the opportunities within each territory is a key part of balancing territories.

Named account territories

Larger organizations with significant customer relationships often design territories around specific named accounts. Territories can be made up of existing customers, potential customers, past customers, and can also be subdivided within these accounts by applying other territory definitions.

Hybrid territories

Depending on the size of the sales force and the number of products and services being sold, hybrid territory definitions may be needed. For example, defining territories first by industry, then by geography.



Using Quotas to Drive Desired Business Outcomes

In order to properly motivate and fairly reward team members who have different objectives and obstacles, quotas need to be carefully thought-out and customized based on a full picture of the opportunity each salesperson has. Spreadsheets do not provide the comprehensive information needed to plan quotas effectively.

Quotas are not simply a commission calculation input. Quotas are a tool used to drive desired sales behavior to support business goals. Quotas must be realistic and achievable to minimize salesperson turnover. The ability to react to changing conditions and adjust quotas is essential. Many factors can play into the overall business strategy in a given timeframe which will require the sales team to take specific actions.

If a sales representative simply wanted to maximize sales, the best, easiest strategy from a sales perspective might be to sell established products. However, there may be instances where selling certain products is not in the company's best interests. In conjunction with intelligent incentive plan design, can help solve for this.

For example, supply chain issues could be stalling the production of a bread-and-butter product or adversely affecting the profitability of a product that was a top seller in previous years. In those cases, quotas for products with readily available parts and products with higher profit margins would be set to ensure that the sales team focused on selling higher-profit products that the company can deliver.

Here's another example: If a company's goal is to establish a foothold in a new market or to lay groundwork for the introduction of a new product or technology, then maximizing sales of a legacy product would not be in line with the company's long-term strategy. Quotas could be used to reward salespeople for taking actions like calling on a list of new accounts and introducing the company to new prospects.

Different types of Quotas

At the highest level, the primary types of quotas include the following:

Volume

Volume can be either units or dollars. With a volume-based quota, salespeople need to sell a set amount (units or dollars) of a specified product or service within a set timeframe to receive a certain commission. Commission will usually increase as sales volume increases.

Profit

Instead of a revenue-focused quote (volume of dollars), a profit-based quota rewards sales of profitable products. Calculating profit is more complicated than simply adding up revenue, but can be done with the right Sales Performance Management solution.

Activity

Salespeople receive compensation when they take specified actions such as the following:

- Give demos
- Schedule calls
- Hold meetings
- Send emails

Forecast

With a forecast quota, the historical sales for a specified territory in a previous timeframe is adjusted to set the new quota. This type of quota setting can cause issues when it is based on guesswork. However, a TQM solution can provide a framework for forecasting that uses data for enhanced forecasting accuracy.

Hybrid

Often, more than one type of quota calculation will be combined to provide the best balance of challenge, opportunity, and attainability. Hybrid quotas also provide flexibility to adjust for different territories.

Every organization will define quotas differently, some with volume defined as the number of deals, others with profit-based quotas, and many using a combination style of quotas.

Creating Incentives that Reward the Right Behaviors

Having access to historical incentive attainment and payout patterns helps to show how your sales organization has performed in the past. Access to accurate data prevents incorrect assumptions or guesses from skewing decision-making.

Determining what the "right" behaviors are depends on the overall goals defined in the sales planning process. If the plan is top-down, then those are goals set primarily by the company which sales is then following. If the goals are driven by sales, then the incentives need to reflect the objectives that the sales department has defined.

An SPM solution can help ensure that commission structures are aligned with overall objectives, and that the criteria for incentive qualification are well-defined, to prevent over-payment.

Testing Scenarios

An excellent way to determine which plan will be the most effective is to model the effects of different plans and different adjustments. SPM solutions with modeling capabilities can identify unexpected effects when quotas, territories and incentives are modified.

Testing different scenarios is a valuable process to prevent surprises when a new plan is rolled out and to avoid the need to make adjustments immediately after a plan has been implemented. Before finalizing a plan, the effects of adjustments to territories and quotas should be modeled so that the best scenario can be predicted and implemented.

Communicating Clearly

The most strategic, well-informed plan will fail if the sales team does not understand what they are supposed to do. Clearly communicating quotas, territories and incentive plans is essential in order for sales to buy in and execute the sales plan. An SPM solution gives sales managers and individual salespeople the tools they need to understand their objectives and to know how well they are performing according to their quotas. Having day-today knowledge of actual sales performance prevents surprises at the end of a fiscal period when it is too late to take measures to ensure that quotas are met.

> With an SPM solution a sales manager can identify an under-performing team member and provide additional training or assistance as needed. Additionally, individuals and teams can see where they rank for incentives and take action to ensure that they meet their goals.

Adjusting as Needed

A plan is just a starting point. Even the best plans will most likely require adjustments before you reach your goal. Spreadsheet systems are notoriously difficult to adjust, but an SPM solution makes it much easier to evaluate the effects of potential adjustments, then make those adjustments and quickly communicate them to the field.

Signs that Territory and Quota Management could be improved

Territories need continuous reevaluation and rebalancing. Realigning sales territories should not be a major, rare event. They should be adjusted to accommodate the many variables in the sales equation such as market opportunity, economic situation, potential of sales reps, ability to deliver, market sophistication and lifecycle stage.

Quotas are not reached

Territory management and quota management go hand-in-hand. If a quota is unrealistic for the size or type of territory, the sales force is unlikely to reach their targets.

Strong leads are not pursued

If too many potentially big accounts are assigned to a few sales representatives, those accounts may be underserved, and those opportunities will be lost.

Disengagement

Sales representatives who feel that their territory or quota was not assigned fairly are not likely to be highly productive or make positive contributions to a company's growth.

Turnover and recruiting issues

Sales representatives take territories and quotas seriously. If they do not see an opportunity with an assigned territory, they are likely to look elsewhere. If word gets around that your territories are unbalanced, it may be difficult to attract top talent.

Difficulty accommodating exceptions

In some cases, there will be special considerations that need to be factored in, such as a pre-existing relationship or customer preference to deal with a specific sales representative. Territories and quotas need to be able to be adjusted for exceptions without wreaking havoc on the system.

> Any one of these issues is a serious problem that requires a remedy. When something unplanned happens in the market, economy, or company, an SPM solution provides current data to inform decision-makers and allow plans to be adjusted as needed.

Reducing Risk

A sales performance management (SPM) solution can eliminate and greatly reduce many risks associated with a legacy or manual spreadsheet system.

Risk	Improved SPM Solution
Gaps in Coverage	By modeling proposed territories and centralizing data, the risk of leaving coverage gaps or spreading resources too thin is greatly reduced.
Time Wasted on Low Potential Accounts	If territories are properly balanced, the sales force can focus their efforts on highrevenue, best-opportunity accounts. If too many of those accounts are assigned to a small subset of the sales force, they may be neglected.
Not Meeting Quotas	With an SPM solution, executives and managers have an up-do-date view of sales so that any gaps or risks can be acted on right away, preventing end-of-month surprises.
Salespeople not understanding targets	By communicating clearly with an SPM solution, salespeople have visibility on their objectives and opportunities.
Overpayments	By automating calculations and centralizing data, the risk of overpayment through incorrect quota setting is greatly reduced, and any errors that are made can be resolved faster.
Lack of Transparency	Whether it is an auditor or a salesperson who asks to see what targets were set, when and why, a business needs to be able to provide the information. An SPM solution provides a high level of transparency.
Lost Market Opportunities	Manual systems often result in slow, confused territory assignments. An SPM solution can greatly speed up the rollout process while reducing unrealistic or underwhelming target setting. An SPM solution also makes it easier for the sales team to understand expectations and begin addressing market opportunities faster.
Poor Plan Performance	Designing effective sales programs can be extremely complex. By using an SPM solution to model the effects of proposed plans, organizations are more likely to develop plans that are achievable, motivating, and that meet corporate objectives.

Benefiting From an SPM Solution

Effective sales planning has multiple benefits that exceed reaching sales targets.

Outcome	SPM Solution
Improved agility	With the faster planning and rollout capabilities of SPM, companies can react to market opportunities by re-aligning the sales team quickly.
Reduced frustration and turnover	Being expected to meet unrealistic targets is a problem that top sales performers would not endure for long. SPM solutions share the rationale behind territory assignments, offering evidence that expectations are achievable, resulting in higher job satisfaction and motivation.
Improve scalability	By reducing the administrative burden of territory and quota management, the sales force can be expanded more easily to meet market demands without requiring a significant increase in administration.
Improved Visibility and Line of Sight on Sales	An SPM solution can be designed to provide performance insights into managers, individuals, teams, and regions which can be used for coaching, better planning, and strategic decision making.

Following Sales Planning Recommendations

For best results using a sales performance management (SPM) solution, it is important to follow these recommendations:

- Ensure that your sales planning process includes mechanisms for feedback from finance, sales leadership and executive leadership
- Align the plans for territories and quotas with your go-to-market strategy
- Draw from historical territories and existing quota setting processes while remaining open and flexible to adopt best practices and make necessary changes
- Consider your organization's relationship between territory setting and quota setting; actively plan quotas in conjunction with territories to get a feel for how sales goals will be achieved in each version of the plan
- Create multiple plans and analyze the benefits and drawbacks of each
- Decide, and communicate how temporary territory gaps will be covered and credited
- Always consider the change management and communication aspect of territory reassignment

In order to successfully implement an SPM solution, multiple factors need to be considered, including:

- Knowledge of your industry
- Features and limitations of the software application
- Best practices associated with market-leading approaches to SPM
    - Choose the best SPM solution for your specific business needs
    - Plan and execute the implementation of the new solution carefully
    - Train users on how to use the new system
    - Manage the ongoing maintenance of your solution to ensure optimized performance

Argano's sales performance specialists have the experience and leadership needed to solve your territory and quota management challenges.

To learn more about how a Sales Performance Management (SPM) solution can be used for strategic sales planning, contact us.