Why Sales Quotas Can Lower Revenue

What would happen if you got rid of your sales staff’s quotas? Would they slack off and make your profitability plummet?

According to new research from the Stanford Graduate School of Business, the opposite very well may happen: eliminating quotas can provide a means of boosting your profits.

Quotas are generally seen as a way to encourage and pay off employees who work the hardest, but researchers Harikesh Nair, a Stanford GSB associate marketing professor, and Sanjog Misra of the University of Rochester found that quotas can actually encourage employees to make fewer sales. Nair explained how in a Stanford press release:

Those who have already made the quota in a current compensation cycle may have an incentive to postpone additional sales. Alternatively, those who perceive they have no chance of making the quota in the current cycle have a perverse incentive to postpone their effort to the next cycle.

In their research, Nair and Misra worked with a Fortune 500 company developing an alternative compensation system, which eliminated quotas. The result of the new system was an approximate increase of $1 million a month in incremental revenues.

Of course, one company’s success with eliminating quotas shouldn’t be taken as a condemnation of the entire system, which may work very well for some companies.

“What managers need to do is evaluate more carefully how the [quota] system is functioning for their own organization,” Nair suggests. He advises managers to analyze
employees’ behavioral patterns regarding the compensation system, and to look at sales data over time to see how employee output changed when different quotas or incentives were introduced. This can give managers an idea of whether quotas are helping or doing more harm than good.

Courtesy of BNET Back To B-School.

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