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If something cannot be measured, compared, and incentivised, don't do it.

Seven Systems To Beat Your Targets Each And Every Time

Are targets in your company driven from the top down, with management allocating to the various business units what they wish to achieve at total company level?

Do you and your management share the same understanding about the difficulty of achieving your targets, or does management believe it will be easier for you to hit your targets than you do?

Budgeting is the single most important business planning process, because it states the business assumptions for a given period of time. A good budget includes at minimum:

- The objectives to be achieved and the resources to be allocated by the company for achieving those targets
- A detailed list of the assumptions upon which these objectives were based
- The investment rationale in terms of the human and promotional items required to attain the set targets
- Performance metrics for the milestones to be achieved, the timing within which each milestone is to be reached, and the results of meeting the milestones

- Contingency plans in case market, company, or product trends necessitate the change of investment strategy

Budgeting is also the main performance monitoring tool, so it forms the basis of on which bonuses and incentives are awarded and the metric for your personal career performance and advancement.

How do most companies budget?

Most companies follow a conservative process of budgeting based on negotiation between each operating unit or division and central management or headquarters.

What is wrong with this approach and why should it be avoided?

It is negotiated. Top management usually asks for more than the various business units can offer. Business units provide less than what they can actually achieve because they understand the bargaining process in front of them and they want to start the process from the low end.

At the end of the day, one side starts at 110, the other at 90. Eventually they meet at about 100 and they are both happy.

It is mainly internal. Targets are based mainly on top management needs and do not necessarily reflect the ability of the various business units to achieve those targets in a timely manner.

If headquarters expects that your targets will increase by at least ten percent across the world as a result of a new product introduction and you are in Taiwan where the local government has just imposed price constraints or a ban on new product introductions, you have a problem. The gap is going to be sizable.

Everybody gets a fair share of the target pie of the boss. When your boss gets a target, he/she allocates it across the business units or regions he is managing.

You get your share based on your past performance (you might get “punished” with tougher targets if your previous performance was better than others...) or according to the expected potential

of your business unit (even if it is projected by headquarters without regard for local variables that can affect your ability to achieve or exceed the targets).

In most companies, the budgeting process does not roll over time. The budget is tied to the financial year, the twelve-month reporting period that the company works under.

However, markets—consumers, users, behaviors—neither understand nor abide by that; so why should budgeting give us the impression that each new financial year is a separate entity with a beginning point and an end?

Budgeting should roll, applying an evolutionary process every quarter and revising assumptions and corresponding plans without disrupting the business. Every quarter you should renew and extend your budget coverage for another quarter. For example, if your company's budgeting process covers a yearly period of twelve months, then as each quarter passes, you should plan for a period of a full twelve months by including one more quarter in your planning process.

7 Systems to Beat Your Targets Each and Every Time



Understand the corporate budget model... then beat it

Check the corporate timelines for budgeting. Plan your own timetable around the corporate one, but do it more aggressively.

- *Set early budget-preparation deadlines.* Start each phase of the budget planning process earlier for your unit so you have more time for reviews, adjustments, and contingency planning. Bringing target deadlines earlier by even one week provides you with plenty of room to do more thorough analyses and to prepare pre-emptive contingency plans.

- *Set more aggressive targets.* Increase each target by a small increment depending on the possibility you have to improve performance. That applies to every target area, including investments and expenses, not just sales.
- *Do pre-budgeting exercises.* Using main strategy and financial indicators, do a summary analysis of no more than three pages. Well prepared snapshots give you a good idea of overall trends and assumptions and help you identify potential opportunities and make resource-allocation decisions.

A pre-budgeting exercise will also help you create several “what if” scenarios or hypotheses and give you a more complete plan for improving your performance. It will also improve your preparation for the final discussions with management.

The pre-budgeting strategy elements can include success factors related to environment and brands main strategic thrusts, or the main strategies you plan to utilize for attaining your objectives.

The pre-budgeting financial indicators can include: year-by-year sales, gross margin, and brand-contribution trends for key brands, total market share trends, and price and volume projections (actual and assumptions).



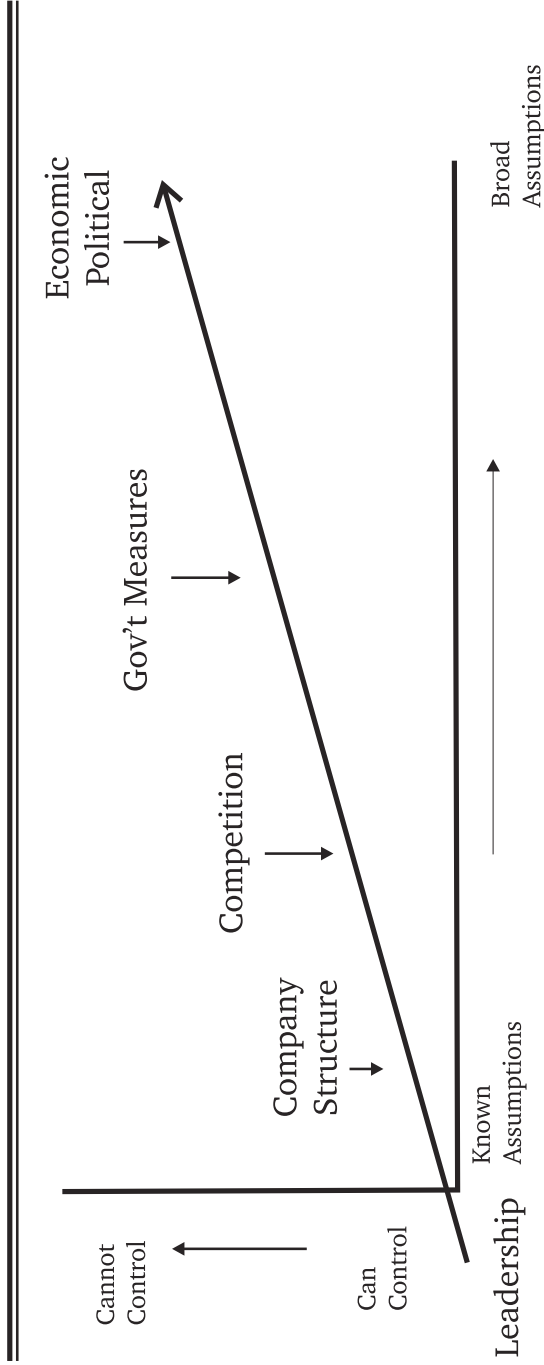
Manage the assumptions included in the budgeting process

All budgeting, forecasting, and planning involves assumptions. Actually this is what budgeting is about; the assumptions address the expectations and the means to achieve those expectations.

How well you know the assumptions, how broad your assumptions are, and how you communicate them to management will be critical for getting fair and achievable budget targets.

- The golden rule in managing assumptions is that the less you know about an area you plan to invest in, the less control you have over this area, and the broader the assumptions you must make. The opposite is also true and should be considered in your strategy; the more you know about the assumptions, the

BUDGETING – ASSUMPTIONS MAPPING



Lever

- Lean
- Flexible
- New product launches
- Commercial terms
- Lobbying
- Contingency plans
- Currency exchange
- ROI mentality

more control you have over them and the tougher and tighter your strategy should be.

List the major areas, factors on which assumptions need to be based. These can include: structure (organizational related matters, resources, etc.), competition, government activities, and economic parameters (e.g. cost of money).

- The Y axis marks the degree of control or influence you have over each factor, moving from your organization (where theoretically you have the maximum control) to the environment (e.g. government), where you have the least control).
- The X axis maps out the precision of the assumptions you should take for each area. At the base of the axis, your planning assumptions are very strict, aggressive, and well-defined in terms of internal resources and organizational capabilities, since these are things you have power to manage on your own. As you move along the X axis, however, you need to make wider, more conservative assumptions, simply because your knowledge and ability to influence is more limited.
- In assumption mapping, you then proceed to adjust your levers (the main strategic drivers) to link this map to your strategy and execution plans.



Manage management expectations by creating them

How much input do you give management when it sets your unit's targets?

Anticipate and beating management expectations about targets can be easy, especially if management follows the conservative approach of yearly budgeting from the top down.

You create those expectations in the minds of your management throughout the year by means of a systematic approach:

- Start early in the year by reminding management about the volatility that exists in the environment where your business

unit operates. You can refer to the most recent issues, problems, and crises that you faced, especially when those relate to the environment. Remember to emphasize the risks that stem from factors you cannot control, like government regulation and major competitive moves. For example, the volatility of the environment is higher in a market like Turkey than in a market like Canada. Your management knows that but also expects you to raise it as a concern.

- Communicate to key people in management the news articles or stories that refer to changes in competitive activities or industry issues. Change always coincides with risk, and by sending those messages on a frequent basis you start increasing the level of concern and risk. The closer you get to the formal budgeting process, the more frequently you should communicate that kind of news.

Choose the area that is of particular concern to your business unit and remind management about its impact. It could be business units that have new operating committees in place or several new members. Or it could be an important company product or service where your competitors are heavily undercutting your price.

- Include headquarters in the task forces you form to manage your major challenges. These representatives from headquarters will communicate to their colleagues the volatility and risk surrounding your business, and hopefully they will observe and report your good management of the situation.



Incorporate contingency plans as key elements of your budget

Contingency is an integral part of any type of planning. In fact, the more volatility in a plan, the more important a sound contingency plan is.

Contingency refers to the strategies and plans a company has in place for when things don't go the way initial assumptions and expectations predicted. Contingency refers to the "what if" scenarios and plans you put in place to manage variances and risks.

How do you create solid contingency plans?

- Anticipate the areas of risks and exposure and have plans ready in case they are needed (“reactive plans”). Once you identify these areas of risks, quantify and monitor their development on a frequent basis.
- Perform a detailed evaluation of the risks and prepare your reactive plans. These plans need to go to great detail about resources and be ready to come off the shelf in case they need to be deployed quickly.

Make sure you have the milestone deadlines on which you will make decisions about activating your contingency plans. The decision to activate can be taken at the end of each quarter or mid-year.

- Don't go wild with contingency plans. Make them simple to implement. Remember, if you decide to activate a contingency plan, this plan must be ready to be executed. You will not have time to prepare your organization fully, so you need simple and focused plans.

A simple example could be a case of having a best- and a worst-case scenario to accompany your main plan.

The most effective contingency plans are rolling in their nature. The general manager identifies the point when change or adjustment takes place once the contingency plan goes into effect. Then, depending on the situation, he adjusts continuously the bar as the issue or the success of the contingency plan dictates. For example, the less the impact in improving declining sales, the deeper you need to go into your contingency plan for allocating resource to other investment areas (if that was your initial plan).

- Manage the implementation of the plan tightly when you decide to proceed with it. As with any other project, strong sponsorship from upper management and good talent among the participants will increase the probability and extent of success.



Remember, a contingency plan must work. If it doesn't, the alternatives are usually less under your control; your performance will be damaged as you will be investing without a plan. At any rate, headquarters will tell you how to manage it, and that will mean you have even less control.

- Learn from it. Contingency plans go into place because the initial assumptions or plans did not work. Take the lessons, record them, and discuss them throughout the company so that you expand the knowledge base and improve future planning.



Be prepared to sacrifice one part of your targets in order to keep the momentum

Assume that despite all your efforts, your business unit has a target that seems unreachable and possibly unrealistic.

Challenge management to the point where your voice has been heard and heeded by the right people in the hierarchy. If targets don't change, accept it with your chin up. Then put plans in place to achieve it.

When you allocate your own divisional or company target across each one of your brands or sub-units, put the extra, non-realistic, part of the target in only one brand or product category.

Sacrificing the success of one product in favor of more important targets may harm the chances of success for the sacrificed product. But it is preferable to spreading the risk across all of your products equally and limiting the probability for success for all products.

Placing a small part of your business at higher risk can be more easily managed than spreading the risk across your entire portfolio. Otherwise, the momentum of your organization will slow down and affect negatively the morale of your people.

You could make adjustments to improve the prospects of the sacrificed product by adding additional resources, but do this only when you see other products performing over budget or/and the market trends for the product under pressure are changing favorably.



Walter's Case

Walter Billington, Business Unit Head Fast Moving Consumer Goods, UK.

Walter had received a seemingly unrealistic total division target for the year. He managed to keep momentum and performance high in his organization, but he did so by sacrificing the target achievement on one specific product line.

“I thought I had done a good job in presenting my budget assumptions for the following year, but finally I received an overall sales target for my division which seemed impossible to achieve.

“I knew that spreading the pressure across all brands would simply create a major stretch for all people, leading to underachievement and loss of momentum, and I did not want this to happen.

“I chose to put the part of the total target which seemed unreachable on one of the brands which was large in size but in a very volatile competitive environment which made the chances of achieving targets on this product remote anyway.

“With realistic targets on the other brands, we had a very good first half, overachieving targets and having promising trends.

Looking at this positive trend mid-year, I increased the targets in the well-performing brands, which gave me the opportunity to formally lower the targets of the overstretched one. People behind this brand started feeling good as their targets were now more realistic and their performance started to improve.

“We did not quite manage to achieve our initial target that headquarter set for the product under stretch; but having achieved our overall division target, all people were content, felt and were successful, including the people working on the product with the stretched targets.”



Set a ten percent margin of fat on top of your internal targets. Then, forget about them

You have received your targets and they are tough to achieve, stretched. Your efforts to manage assumptions and create realistic expectations has worked.

It is now up to you to allocate those targets among products and spread them across the year in a way that balances the stresses across all of them.

Here are some guidelines:

- *Increase the target before you announce it to your teams.* People adjust their efforts according to the objectives they have been assigned. They will easily incorporate a slight increase of the budgets upwards, and their mindsets will be adjusted to reflect the new target.

For example, add a small percent of, say, five to ten percent spread equally across brands.

That way, you create a leverage, a filter between internal target-setting and your commitment to headquarters. This will give you an additional push and increase your probability of success.

- *Allocate targets on a quarterly basis based on actual results in the past as well as trends developing today. But push achievement towards the earlier part of the year.*

For example, assume that you expect your sales to be twenty-five per cent per quarter over four quarters for the year. Try to accelerated it by bringing performance earlier in the year such as follows:

1Q: 28% 2Q: 27 3Q: 25 4Q: 20.

That way, you achieve a good ratio on your overall targets by mid-year (five percent over the budget performance) and then, with much less pressure on numerical performance, you can focus attention on more qualitative work, such as development and training programs for your people or pilot testing ideas, concepts, new products, etc.

Depending on your industry, the percentages of allocation will depend on the seasonal nature of each business as well as other critical parameters, such as government spending cycles.

- *Balance out targets and pressure across products.*

Revise your targets and their allocation on a quarterly basis by balancing out the pressure across products or sub-units. Increase the future quarterly targets on products that show above expected performance and lower the targets on products that have a tougher time and cannot meet their targets.



Set incentives to achieve targets and keep momentum high

Incentive systems are performance-management tools and key component of successful teams.

Good incentive systems are used to set the right tone, to create and sustain momentum, and most importantly, to balance pressure across brands, geographies, and teams.

A sound incentive plan covers the following areas:

Duration: Depending on the business you are in and the way your company is organized, incentives can be yearly, quarterly, or monthly.

The shorter the duration, the tighter the connection between performance and incentives.

You can also choose to have a combination of incentives that include both short and long term objectives, with the emphasis always being on the shorter term ones.

Flexibility: Incentives should be adjustable within the year as the targets evolve. If a target is not reachable due to other factors than the performance of people or teams, you should adjust incentives to provide fair rewards to the participants.

Flexibility allows the company or business units to balance the pressure across brands, teams, or time periods within the performance year. For example, if Team A is below its targets by twenty

percent in the first quarter but Team B is up by fifteen percent, then the targets of Team A can be adjusted downwards to become more realistic while those of Team B can be adjusted upwards to reflect its previous performance.

This provides a fair and balanced adjustment of pressure moving forward into the year.

A Cap: Incentives should be based on a maximum ceiling of performance and benefits. Whether this cap will be at 130 percent or 160 percent depends on the business you are, the size of business you are managing, and the volatility expected. For mature markets, for example, I believe that 130% is generally a fair ceiling for most businesses.

A ceiling is necessary, since an employee can perform up to 30 percent better due to his own contribution; people can work 20–30 percent harder, smarter, or more systematically, but it is rather difficult to believe that people perform at 200 percent. That can mean only that targets were set too low or market trends changed very favorably. In either case, the high performance was due to circumstances, not design or effort.

A cap on performance is also an important control mechanism. A cap keeps unethical behavior under control, as some employees may use means that are not acceptable or desirable to get higher-than-expected performance for selfish reasons.

A balance between individual versus team contribution: All plans should have individual and team components; each employee needs to be incentivised for the areas he/she is directly responsible for, yet the team should account for twenty-five to fifty percent of the overall incentive.

As closely as possible, incentives should be based on the areas an employee can personally affect; otherwise the individual contribution is lost in the overall team or company performance and interest in performing better is lost.

Measurement of what is important: For the commercial departments in the organization, numerical targets should include sales, market share, and profitability, at the minimum.

The right balance among these three elements depends on the business and the focus the company has set for itself.

Behaviors: Behaviors for achieving ethical performance and practice should also be targeted appropriately, measured, and included in the overall incentive plan.

Behavioral elements include: alignment to the strategy, team spirit, pursuit of the overall strategy, compliance, ability to innovate, etc.

Performance kickers: Kickers are used when focus and attention need to be directed to a specific brand during one period of time more than during others. Performance kickers can be used during a new product launch or during a major promotional campaign, for example.

Kickers are limited in both duration and the size of the reward.

They should be an integral, ongoing, element of the overall incentive plan.

Benchmarking target achievement across sales reps: You know you have set target correctly when seventy-five to eighty percent of your total sales representatives are performing at close to a hundred percent of their targets, while only ten to fifteen percent are coming up short. That means that ten to fifteen percent of your people are missing their target and, yes, this is healthy and strategic.

If, for example, more than forty percent of your people are over-achieving targets, you have set very low targets.

If, on the other hand, forty percent of your people are missing targets, you have set overly aggressive targets and risk losing momentum and profits!

Take Aways

- Don't try to be a hero during the period when budgets are being negotiated with your management. Don't promise the stars or you will end up disappointing them. In turn, they will disappoint you when your performance review time comes. Offer headquarters ambitious but realistically attainable targets, and be a hero by exceeding them.
- Beat your internal company competitors, the other general managers or business-unit heads. In most companies this is more important for career development than beating your competitors in the marketplace where you compete. Of course you cannot beat your internal competitors without doing well in the market place.
- Don't put incentives on everything your people sell. This dilutes the incentive focus away from your big ticket items. Allocate incentives disproportionately towards the biggest opportunities. If you achieve targets on the big items, you will more than cover any losses you might have on the smaller ones.
- See contingency planning as a key element of your budgeting process, not as an "in-case-things-go-wrong" plan. Use contingency plans when things go differently from the initial plans, which is the case most of the time.

Final Word

Now that you know proven and innovative systems for maximizing performance, it is time to put them to work for you.

Implementing what you read in this book will be more challenging than reading about it, but it will also be enjoyable and rewarding.

Go for it.