Xactly

The Sales Hockey Stick:

Why Sales Performance Spikes at the End of a Period

In sales, predictability is crucial for accurate forecasts and hitting corporate goals. But often, performance tends to spike at the end of the period, creating uncertainty. Discover how you can reduce the impact of the Sales Hockey Stick in your organization.

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Overview

Picture this: it's the last day of your fiscal year.

It's a busy time for your sales team as they zero-in on closing business. Over the past few weeks, there has likely been a non-stop stream of emails from your leadership team to rally everyone. "Let's close the year strong. Pull us in wherever you need help." The pressure is on to get the signatures on the dotted lines and close deals.

The home stretch of any sales period is an exercise of persistence, excitement, and sometimes just sheer luck. However, it highlights an interesting trend. In many companies, sales performance tends to peak primarily at this time, and a majority of the revenue comes in during the last week, day, or even hours of the period.

This concept—called the Sales Hockey Stick Theory—is common across a number of industries, and it is raising questions around how enterprises create predictable sales performance.

What is the Sales Hockey Stick?

Instead of driving consistent, measurable behavior over time, sales performance spikes near deadlines, such as quarter- or year-end. And it's more common than you might think. 73 percent of Xactly webinar attendees say the Sales Hockey Stick is an area of concern in their company.

> *"You see this phenomenon where January is usually a slow month, February is slow, maybe a little bit of an uptick. But then the vast majority of the business happens in that third month of the quarter.*
>
> *We have seen examples, especially in SaaS companies where literally 50 to 60% of the quarter is happening in that last month. 50 to 60% of that is happening in the last two weeks, and 50 to 60% of that is happening in the last two days.*
>
> — Chris Cabrera, Founder and CEO, Xactly

At Xactly, we're no strangers to the Sales Hockey Stick. In fact, we're quite familiar with it. When he founded the company in 2005, Xactly Founder & CEO Chris Cabrera noticed the spike in performance and wondered if it was a matter of quarter-end timing. So when he pushed out Xactly's fiscal year by one month, it provided the perfect opportunity to see if that would make a difference.

The results: we didn't eliminate the peak in performance. It just shifted out by one month as well. So this raised another question, if it's not timing, what's causing this performance spike to occur, and what can we do about it?

What Causes the Sales Hockey Stick?

For many organizations, it boils down to a combination of two main factors: sales rep behavior and customer buying habits.

SALES REPS

According to Xactly Insights data, only 41 percent of sales reps make their quota, yet 92 percent of companies hit their overall targets. This speaks to the old adage that 80 percent of revenue comes in from about 20 percent of your sales team.

These high-performing reps take the period and divide it up into different activities. With knowledge of your unique sales cycle, this allows them to prioritize and better influence deals to close on time. However, this creates a behavior pattern: most of these deals come in at the same time—the end of the period—which causes the Hockey Stick performance spike to emerge.

CUSTOMERS

Buyers are intelligent creatures, and like sales reps, they know the best time to make a deal. The perfect example of this is buying a new car. It's well-known that end-of-quarter or year-end is the best time to buy. Why? Because car salespeople are under heightened pressure to hit quotas and close deals. That makes the negotiation process a bit easier, and as a buyer, you're more likely to get a favorable deal.

The same is true for sales in any industry. Customers and prospects know when the pressure is high. So they may hold off on agreeing to deals until the end of a period to help their organization get the best contract—which adds to the Sales Hockey Stick performance spike.

OTHER POTENTIAL FACTORS

Aside from sales rep behavior and customer buying habits, there are other factors that can influence the Sales Hockey Stick. Budgets are typically locked in at the start of a new year.

This means that funds will be less flexible at the start of a quarter, and later on, they'll tend to become more available towards the end of a period when there is excess cash available. This can also cause more deals to close at end-of-year, and ultimately, add to the Sales Hockey Stick.

The Good, the Bad, and the Ugly

So is the Sales Hockey Stick good or bad? Like many questions in business, it depends. But note that the Sales Hockey Stick does impact more than just your sales performance. Perhaps, the biggest challenge is that it inhibits sales predictability by creating uncertainty and stresses resources beyond your sales team.

> ***“DXC is a services business, so our product is our workforce, and it’s really important that we can predict. Otherwise, the larger this uncertainty [of which deals will close when], the harder it is to move your product.***
>
> - Brad Gifford, VP of Revenue and Sales Operations, DXC Technology

SALES FORECASTING UNCERTAINTY

Accurate sales forecasting relies on trust in your sales pipeline. You know which deals should close based on where they sit in the sales cycle—but there’s always the chance that one big deal will get pushed. And that loss can be a hard blow for organizations—especially during times of economic uncertainty.

The Sales Hockey Stick adds to this uncertainty because you can’t guarantee and accurately map out what deals will be part of the performance spike at the end of the period. You may have a deal ready to close, but that signature won’t come in until the first day of the next quarter. Now the revenue you expected to have this quarter isn’t there, which impacts your workforce planning and forecasting.

THE EFFECT ON OTHER TEAMS

The last few days of the quarter can be a stressful time. Reps are closing deals, but finance and legal are trying to nail down agreements and close the books for the period. When revenue forecasts are shifting at the last minute, the Sales Hockey Stick uncertainty spills over onto other teams within your organization.

While reps are moving at light speed to close deals, it also means your operations, legal, reporting, and compensation teams shif direction and every last resource is squeezed for time. This opens the door to risk—with resources strained for time, there’s greater potential for financial, legal, and other errors.

Solving the Sales Hockey Stick

It might be more fitting to call the Sales Hockey Stick an organizational burden rather than a true problem. While it doesn't entirely halt successful business, it can make operations more difficult. And even though you can't necessarily eliminate the Sales Hockey Stick all together, there are things you can do to reduce the stress it creates.

BALANCE BIG DEALS AND RUN-RATE BUSINESS

The key to reducing the Sales Hockey Stick is finding a way to create predictability. On the one hand, you have these big deals—the ones that can take multiple quarters to close—that make up the bulk of your Hockey Stick. But you also have the steadier run-rate business deals that are more predictable in nature.

Ideally, to reduce the impact of the Sales Hockey Stick, you want to balance out your mix of deals in the pipeline. Your incentive compensation plan design can help create this balance by encouraging sales to go after a variety of deals to ensure linearity in the quarter.

FOCUS ON GO-TO-MARKET STRATEGIES BEFORE INCENTIVES

Before you can even begin to build out incentive compensation plans to drive balanced sales behaviors, you have to ensure you have the right go-to-market structure in place. That means you also need to defuse risk by having roles on your team that focus on your big enterprise deals and others that center on run-rate business.

Sales team structure is key. Consider a mix of roles focused on select segments coupled with roles in the top segment dedicated to run rate. This, along with well-designed incentives, can help drive a more balanced sales stream.

Solving the Sales Hockey Stick

USE TARGETED SPIFS

Consider the deals you have in your pipeline. What would the impact be if you could close a deal earlier than expected instead of pushing it out another quarter? Chances are, the results would be positive. By examining where deals are in the pipeline, you can get a better idea of the number that can realistically close earlier than expected. Then, using a Sales Performance Incentive Fund (SPIF), you can encourage reps to pull forward deals from the next quarter and bring revenue in earlier.

CONSIDER ELIMINATING INCENTIVE THRESHOLDS

Thresholds set a minimum amount that sales reps have to hit in sales before they receive a compensation payout. As a result, this incentive structure can push payouts to the end of the period as reps close more deals, which ultimately, exacerbates the Sales Hockey Stick. By removing thresholds and establishing a “sell, get paid, sell, get paid” process, you can eliminate this annual issue and align compensation with company objectives.

WHAT DOESN’T WORK: LINEARITY BONUSES

These bonuses come in many flavors, but in general, they are payments earned under the premise of “if you consistently achieve your quarterly goal, then we’ll pay you an additional bonus.” The idea is to reduce annual hockey stick performance, but these bonuses often just end up causing additional spend with very little impact in reducing the problem.

The issue is that you don’t clearly define the real goal. If you seek stronger performance earlier in the year, take direct action. While linearity bonuses can be somewhat successful in isolated scenarios, they don’t work at scale to drive incremental behavior change. We should not incent for the sake of incenting.

Making Sales Predictability a Reality

The Hockey Stick is a familiar challenge in sales. In some ways, it can be helpful to close year-end deals, but the impact is more evident in the larger deals with longer sales cycles.

Fortunately, the Sales Hockey Stick isn't all bad. One Xactly customer, Brad Gifford, VP of Revenue and Sales Operations at DXC Technology, has found a key silver lining: your sales reps are even more motivated during this time, which means there's room for your sales and incentive plans to improve sales performance in the beginning and middle of the period.

Even though the Sales Hockey Stick is unavoidable at some level, the key lies in predictability, which requires strategic data insights. And in today's world, using data isn't aspirational, it's imperative. That means you need the right tools, like a Sales Performance Management (SPM) solution, in place to manage your sales and incentive plans and the data insights to guide strategic decision making. SPM helps you continuously analyze performance, be agile to adopt new strategies, and optimize plans at any time.

Xactly's specialty is helping complex enterprises make their processes simple. That's not to say the unique complexity of your organization and sales plans goes away, but with the right SPM partner, your processes and sales transformation as a whole are much easier.