

SECRET SAUCE SALES

The Ratchet Effect

Don't punish someone for proving the target was too low.

What the evidence says

Ratcheting occurs when future performance requirements rise because of current performance. Sometimes that is rational: the market has grown, capability has improved or the original assumptions were demonstrably too conservative. The danger is making exceptional performance automatically become tomorrow's minimum.

Recent field research in a large Chilean beverage producer and distributor examined a change in supervisor-driven sales-goal ratcheting. A one-standard-deviation reduction in ratcheting was associated with an average 19% increase in sales. The researchers' model estimated that complete elimination could produce a 34–39% increase in that setting, explicitly presented as an upper-bound estimate.

The mechanism is economically uncomfortable but understandable: when strong current performance reveals information that management will use to make future targets harder, a rational seller may restrict output, delay deals or conceal true capacity.

What this challenges

- “You did £700k, so £700k is now the baseline.” Actual performance is not identical to repeatable capacity.
- Automatic year-on-year uplifts based only on the previous result.
- Reward systems that unintentionally teach sellers to sandbag forecasts, move deal timing or hide upside.

What sales managers should do

Treat material overperformance as new evidence and diagnose it before resetting the target. Ask what actually created the result, what was repeatable and what changed structurally in the Sales Maths.

A £700k result against a £500k target might reflect higher sustainable deal values and better conversion. Or it might reflect one exceptional customer, a competitor temporarily leaving the market, deals slipping from the prior period or unsustainable effort. Same result; very different evidence.

Targets should rise when evidence of sustainable capacity changes — not merely because somebody had a brilliant year.

- WHAT CREATED THE OVERPERFORMANCE? Identify the deals, customers and conversion changes.
- WHAT WAS REPEATABLE? Separate durable capability and opportunity from exceptional events.
- WHAT CHANGED IN THE MATHS? Deal value, conversion, volume, cycle time, capacity?
- WHAT SHOULD BECOME THE NEW ASSUMPTION? Change only what the evidence supports.
- WHAT BEHAVIOUR WILL THE NEW TARGET ENCOURAGE? Ask what a rational seller learns from your decision.

Targets need a memory policy

Every organisation implicitly decides how past performance affects future expectations. If the rule is unclear, sellers form their own: beat target and next year gets harder.

A better system makes the logic explicit. Exceptional performance triggers analysis, not an automatic ratchet. Use the new evidence, rebuild the maths, and then decide what the next target should be.

The Secret Sauce

Exceptional performance is evidence. It isn't automatically the new minimum.

Academic sources

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