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M-240 SALES AND DISTRIBUTION MANAGEMENT

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UNIT 1 INTRODUCTION TO SALES MANAGEMENT

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★ STRUCTURE ★

1.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss about the sales and distribution strategy.
- describe the sales management.
- explain the growing of personal selling.
- describe the sales forecasting and budgeting.
- discuss about the product-wise sales planning.
- what is the main importance of management and sales territories?
- explain the sales quotas meaning and importance.
- discuss about the sales and marketing planning.

1.1 INTRODUCTION

You are already familiar with the functions and scope of sales and distribution management through your exposure to units of MS-6, Marketing for Managers. This unit, deals with the inherent interdependence of sales and distribution management and takes you, step by step, through the strategy formulation process, in the sales and distribution management. It also gives a general framework within which joint decisions for sales and distribution are made.

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1.2 SALES AND DISTRIBUTION STRATEGY—SELLING AS A PART OF MARKETING

Sales and distribution management constitutes one of the most important parts of marketing management. As you have already seen, "Exchange" is the core, aspect of marketing, and it is the sales and distribution management, which facilitates it. Sales Management has been defined as the management of a firm's personal selling function while distribution is the management of the indirect selling effort *i.e.,* selling through extra corporate organisations which form the distribution network of the firm. The sales management task thus includes analysis, planning, organising, directing and controlling of the company's sales effort. Distribution Management comprises management of channel institutions as well as physical distribution functions.

The exchange process *i.e.,* the sale and delivery of goods/services from the manufacturer to the consumer can be consummated directly *i.e.,* by the firm itself through its own sales force or indirectly through a network of middlemen such as wholesalers and retailers. The importance of the sales and distribution function varies across organisations depending upon its nature and variety of products, target market, consumer density and dispersion, and the competitive practices among other things. For example, you may recall that in mail order companies (where the major exercise is distribution in response to orders received) virtually no personal selling effort is utilised. While, most organisations selling capital industrial equipment (say earth moving equipment, mainframe computers, CNC machine tools) do so through a team of their own sales engineers, involving little or no intermediary support. Notwithstanding, whether the sales and distribution function is organized internally, externally or jointly, the following essential tasks need to be performed in order to consummate successful exchange.

(a) Contact	—	Finding and communicating with prospective buyer.
(b) Prospecting	—	Bringing together the marketers offering and the prospective buyer.
(c) Negotiation	—	Reaching an agreement on price and other terms of the offer so that ownership and possession can be transferred.
(d) Promotion	—	Of the marketers offerings, and his satisfaction-generating potential.

(e)	Physical Distribution	—	Actual transfer of possession *i.e.*, timely and safe delivery.
(f)	Collection	—	Of relevant consumers information and revenue in exchange of goods or services.

Except for extreme instances of organisations which make exclusive use of either their own sales force or distribution channels, most organisations get the above functions performed through a combination of their own salesforce and the distribution network they choose to hire. A major decision in sales and distribution therefore becomes the judicious allocation of the above tasks between the salesforce and channel members. The determinants of task allocations are: competitive practice, product and market requirements, (including market size, frequency of purchase and customer concentration) preference and buying practices of the target customers, and certainly the management philosophy towards control.

1.3 SALES MANAGEMENT—PROCESS

The sales management function, as noted earlier comprises the management of the sales personnel and activities that make up the corporate sales effort. Sales managers are entrusted with the 'task of organising, planning and implementing the sales effort so as to achieve corporate goals related to market share, sales volume and return on investment. The task involves the sales manager in a set of activities both within the organisation and outside with other organisations.

Within the organisation he has the responsibility of structuring relationships both within his own department and with interacting organisational entities so that the sales task can be coordinated with other marketing tasks and performed effectively. It also includes allocating and operationalising the sales effort among the sales personnel.

Outside the organisation, his task would include developing and maintaining channel relationships effectively so that the flow of goods and service, and also promotion and feedback is facilitated.

Embodiment of all these functions can be seen in the development of sales strategy which often proves vital to the success of the organisation. Key decision areas in sales management which are particularly relevant to strategy formulation are:

- Deciding upon type and quality of sales personnel required
- Determination of the size of the salesforce
- Organisation and design of the sales department

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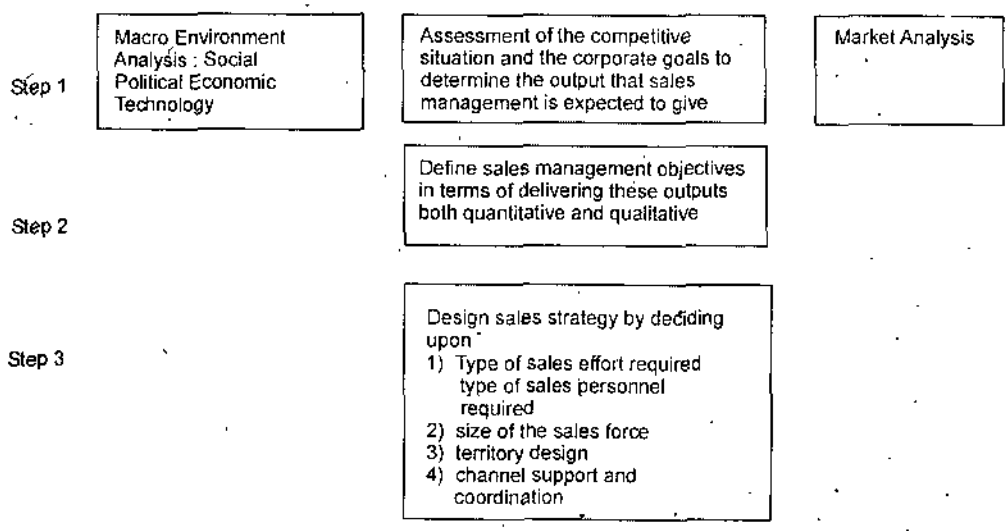
- Territory design
- Recruitment and training procedures
- Task allocation
- Compensation of sales force
- Performance appraisal and control system
- Feedback mechanism to be adopted
- Managing channel relationship
- Coordination with other Marketing department.

The above decisions give a fair idea of the scope of the sales management function. Strategy formulation in case of sales would involve identification of the sales goals and designing of a gameplan, using the organisational resources at hand to achieve those goals. The strategy formulation process can therefore be summarised as:



Let us go through the sequential stages of this process.

Assessment of Competitive Situation and Corporate Goals

The sales objective is directly affected by the corporate mission or goal which in turn identifies the specific set of common needs and wants the company would like to satisfy. Another input in objective setting is the macro business environment. Variables in the political, economic, social and technological environment have significant bearing on what and how much the company would be able to sell. The environmental scan thus provides pointer to a company's specific opportunities and threats, strengths and weaknesses.

A sound market analysis, is also a prerequisite to objective, setting for sales strategy. Specifically the company would need to know.

1. Current size and growth rate of the market. In multiproduct

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companies this analysis would have to be made by product/market and by geographical territories covered.

2. Consumer needs, attitudes and trends in purchasing behaviour
3. Competitor analysis covering:
   - current strategy
   - current performance, including market share analysis their strengths and weaknesses
   - expectations as to their future actions.

Setting Sales Objectives

Sales objectives, are intended to direct the available sales resources to their most productive use. These also serve as standards against which actual performance is compared. The sales objectives are stated in quantitative and qualitative terms. The qualitative goals generally relate to strengthening dealer relationships, developing good consumer support, nullifying product misinformation, attaining desired corporate image. The qualitative sales objectives reflect the expectations the top management regarding the contribution of sales function to the total marketing effort. They, therefore affect both the size and quality of the sales force. For example when a company selling high value, technical household products relies only upon its own sales personnel to carry out the entire sales function and take up part of promotional responsibility too, the quality and the size of the sales personnel it requires would be significantly different from that of a company where sales personnel are, only required to coordinate with and service channels. Examples of the products could be the Eureka Forbes salesman selling vacuum cleaners to consumer and the Summet salesman servicing Summet dealers. In the former case the salesmen are expected to carry out the entire selling and market cultivation function while in the second case, they are mainly expected to coordinate and service the distributors. The qualitative sales objectives are relatively long term one and emanate out of the marketing policy of the company.

Determination of the Type of Sales Force Needed

The quality of the sales personnel needed, would depend upon the quality of contribution that top management expects the sales organisation to make as well as the actual workload that is expected to be generated. Specifically, it would depend upon the role that the salesmen are expected to perform. If the company has decided to do significant amount of preselling through its advertising the salesman's job is considerably simplified and this has implication for the type of salesmen needed. Companies like Instrumentation Ltd., Kota, manufacturing sophisticated technical equipment

expect their sales engineers to carry out the entire span of activities from commissioning and installation of equipment to after sales service. You can therefore clearly envisage that the type of sales personnel would vary across organisations, depending upon the role that has been decided for them in the organisation. Some of the factors that influence the type of sales person are product characteristics, customer characteristics, competitors practices channel design and corporate marketing policy.

Determination of the Size of the Sales Force

Another key decision is the determination of the number of sales persons needed to achieve the sales objectives. Recruiting more than the optimum number would mean that the company is bearing unnecessary costs at the expense of its net profits. Recruiting less than optimum would mean losing opportunities for exploiting sales prospects. It is not easy to prescribe an ideal sales force size as the important determinants of sales force size-market size, and potential, competitive activity, allocation of sales task between the channel and corporate organisation differ from company to company. With respect to their own set of variables, companies do try to arrive at an ideal figure by using various methods such as (a) the incremental method, (b) the workload method and (c) the sales potential method.

Organising the Sales Effort—Territory Design

Personal selling objectives set the tone of the selling activities to be performed in an organisation. Defining these activities and their level of performance would lead you to an estimate of how many sales personnel at various levels are required in the organisation.

While creating territories sales managers can choose from different type of bases:

Geographical basis which utilizes the existing geographical boundaries and assigns them to the sales personnel.

Sales potential basis which consists of splitting up a company's customer base according to the dispersion of its sales potential.

Servicing requirement basis where the company splits up its total market according to servicing requirements of its current and prospective customers (servicing here means maintaining and developing the account).

Workload basis: This approach considers both account potential and servicing requirements and in addition reflects the difference in workload created by topographical, locational and competitive factors.

Establishing and Managing Channels Support and Coordination

The channels of distribution usually act as the only point of contact the final buyer has with the manufacturer. They together with the sales organisation of the manufacturers collectively bear the *responsibility, of* consummating exchanges with the final buyers. When indirect distribution is adopted, it is imperative that the sales organisation initiates dealer cooperation programmes. Dealer support typically has to be ensured in the area of maintenance of adequate stocks of the products and local promotion in the form of point purchase displays and local advertising. Another key area of support is the provision of market feedback the norms of which must be decided between the dealer network and the manufacturing organisation. The management of manufacturer dealer cooperation, includes inter alias:

- Choice of appropriate dealer incentive programmes to stimulate distributive outlets to greater setting effort.
- Deciding upon procedures for sharing information with the dealer network.
- Deciding upon measures to ensure and promote dealer loyalty.

1.4 FRAMEWORK FOR JOINT DECISION-MAKING IN SALES AND DISTRIBUTION MANAGEMENT: ROLE OF SALES MANAGER

As assessment of the strategy in both sales and distribution would again bring you to the realisation that most of the strategic both decisions in sales and distribution require compatibility.

Joint decision-making would necessarily involve determination of the components of the total marketing tasks to be allocated to sales management and distribution management, which essentially being a marketing mix decision need not be discussed here. What we shall examine in the allocation of the distribution responsibility is the division of responsibility in relation to contacting, prospecting, negotiating and transaction, promotion, physical distribution and information collection. The criteria of allocation of these tasks would evolve from an analysis of the end user behaviour, competitive practices, channel attributes and expectation, and company's strengths and weaknesses. These criteria as discussed earlier in context of channel selection could be quantitative—cost per rupee of revenue, financial commitment, sales volume achieved etc., and qualitative *e.g.*, desire for control and channel adaptability. Though these criteria would differ from organisation to organisation, certain guidelines for decision-making can

be evolved from the following generalisation developed on the basis of, observed market behaviour and distribution trends.

The following chart shows that the various sales and distribution tasks that facilitate the exchange transaction and should be performed by a sales manager:

(a) Achievement of sales goals through:	— distribution channels — company's sales force
(b). Personal and prospecting through:	— distribution channels — company's sales force
(c) Personal and non-personal promotion through:	— distribution channels — company's sales force
(d) Maintaining inventory through:	— distribution channels — corporate organisation/ co-owned depots
(e) Accounts receivables through:	— distribution channels — sales force/corporate sales organisation
(f) Information feedback through:	— distribution channels — company's own sales force

Between the two extremes of Mall order houses which have no corporate field sales organisation and the totally vertically integrated system which involve no independent middlemen, majority of our business enterprises today utilize the service of both—their own corporate sales department and the external distribution agencies in some proportion or the other. The decision-making task in sales and distribution management, on most issues therefore has to be accomplished jointly, as decisions in one area necessarily have implications for the other. Let us then evolve framework for joint decision-making insales and distribution management.

The allocation of specific sales and distribution tasks between company's sales personnel and independent channel depends upon consumer characteristics, product characteristics, company and competitive characteristics as well as the environmental factors. Practices some propositions could be put as under.

1.5 PERSONAL SELLING

The terms 'personal selling' and 'salesmanship' are often used without distinction. However there are some vital differences between the two terms. Salesmanship is Seller initiated effort, that provides prospective buyers with information and motivates them to make favourable decisions

concerning the seller's products or services. 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers. It takes several forms including calls by company's sales representative, assistance by a sales clerk, an informal invitation from one company executive to another. It is employed for the purpose of creating produce awareness, stimulating interest, developing brand preference, negotiating price etc.

Thus keeping in view the diversified nature of personal selling, we would discuss in this unit the growing importance of personal selling, its changing role, functions and process.

1.6 THE GROWING IMPORTANCE—OF PERSONAL SELLING

The increase in complexity of products has increased the importance of personal selling. Manufacturers of highly technical products such as computers, electronic typewriters, digital phones, microwave kitchen appliances, remote control equipments etc., depend more heavily on personal selling than do grocery or toiletry products manufacturers.

Ever growing competition from, domestic and foreign sources have also increased the importance of sales persons in the marketing effort of a firm. In personal selling company's sales persons are often referred to as sales representative, salesman or sales girl they remain on the company's payroll or work on commission basis or both to push the product in the market by positively motivating the prospective customer through oral presentation or demonstrating the product in question.

Consumers want all sorts of goods and services but inertia may keep them from buying. Sales efforts stimulate the consumption process by reducing people's inherent reluctance to make purchase decision. In fact sales person act as catalyst in the market place.

When the nature of the product is such that the buyer needs special information in order to use it properly, sales representative acts as a consultant to consumer, to apprise them of products technicalities and usage. Sales persons also work out the details of manner and timing of given physical possession.

In case of industrial products, the promotion mix mostly consist of personal selling rather than advertising. Being high value and complex product, personal contact with the customer is essential to convince him of the product's quality and utility.

On the other hand, consumer product companies use personal selling together with advertising, to influence prospect to try their brand. But personal selling

in this case cannot substitute for advertising, it can only be used tactically to intensify marketing effort, mainly because it is expensive.

Personal selling is more effective during product launching stage. For example: McDowell, used personal selling tactics during launching of soft drink "SPRINT" in Delhi.

Similarly Eureka Forbes a manufacturer of appliances which includes vacuum cleaner and a number of home care appliances adopted personal selling for its premium product vacuum cleaners. Since the vacuum cleaner is a high value product and the concept is fairly new to the Indian market, demonstration is necessary to convince buyers, and personal selling has successfully achieved this. Other Companies *e.g.*; Johnson and Johnson for its product in the so called 'embarrassment' category, like sanitary napkins or contraceptive used personal selling successfully.

During the product launching stage companies selling products like Richbru Coffee, Signal Toothpaste, Surf, Dalda etc., utilised personal selling efforts. The importance of Personal Selling in the Indian context stands out due to the following factors:

- In the absence of the availability of all India media many companies find it expedient to extensively use personal selling to achieve their promotional objectives.
- Companies which cannot afford a large outlay for advertising on a regular basis also find personal selling a more reliable method.
- The vast network of our distribution system needs the support of the manufacturer sales force for market combing as well as development.
- Low levels of literacy and lack of adequate customer education regarding various products, make personal selling a very effective method in product adoption particularly in the rural markets.
- Orientation of Indian Consumers are such that they want the best value for their money, owing to high marginal value of rupee, which necessitates personal selling.

The factors discussed above individually or in combination make personal selling an integral part of the communication mix of the company.

1.7 SITUATIONS CONDUCIVE FOR PERSONAL SELLING

In certain marketing situations, personal selling provides an effective and efficient solution to most of the selling problems. However its

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economic efficiency relative to other element of the marketing mix needs to be thoroughly appraised. Now we will discuss some of the situations when personal selling in a company becomes more relevant.

Product Situation

Personal Selling is relatively more effective and economical in case:

- When a product is of a high unit value like xeroxing machine, computers etc.
- When a product is in the introductory state of its life cycle and require creation of core demand.
- A product requires personal attention to match specific consumer needs *e.g.*, insurance policy.
- Product requires demonstration *e.g.*, most of the industrial products.
- Product requires after-sales service.
- Product has no brand loyalty or very poor brand loyalty.

Market Situation

Personal selling situation can be best utilised when:

- A company is selling to a small number of large-size buyers.
- A company sells in a small-local market or in government or institutional market.
- Desired middle men or agents are not available.
- An indirect channel of distribution is used for selling to merchant-middlemen only.

Company Situation

Personal selling is relatively more effective and economical when:

- The company is not in a position to identify and make use of suitable non-personal communication media.
- A company cannot afford to have a large and regular advertising, outlay.

Consumer Behaviour Situation

Personal selling is more effective when:

- Purchases are valuable but infrequent.
- Consumer needs instant answers to his questions.
- Consumer requires persuasion and follow-up in the face of competitive pressures.

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1.8 THE CHANGING ROLES OF SALES PERSONS

Now we would discuss, the changing role of sales persons. Owing to the increasing importance of personal selling in recent times, the concept of personal salesman has undergone a seachange from a fast talker to consultant.

Now before discussing the selling styles one point should be noted that only well-developed and established companies have reached to consultant stage level, every selling task does not require this. Still one or more than one strategies of personal selling discussed here are used in Indian companies. Table 1.1 shows the activities relevant to the use of each strategy.

Communication strategies: At the lowest level of personal selling, the sales representative is an alternate medium for communicating information about the product or service offered by company. The only strategy appropriate for increasing sales at this level is walking more and talking more. There is little reason to use representatives as a communication medium when there are alternative mass communication media like press, radio, television available.

Table 1.1. The Changing Roles of the Sales Representative

Strategies for Selling	Activities
Business Management	• Manage accounts and Territory strategies as a strategic business unit • Invest time and expenses in the most profitable opportunities • Sell to meet the clients total system and long-term needs. Be a consultant.
Client Profit-Planning Strategies	• Become part of the clients' plan • Expand to other department • Find new uses for your product • Services are an important part of the offer at this point. • The customer become a client. • Perceive, classify and serve the customer's needs.
Negotiation Strategies	• The product is adjusted to meet the customer's need. • The representative understands the immediate and narrow needs

	of the customers.
Persuasion Strategies	• The representative tries to fit the customers into the existing product mix by skillfully overcoming objections.
Communication Strategies	• The representative is a personal comm unicator, providing product and service information close to the point of the buying decision.

Persuasion strategies: The persuasion level requires the sales representatives to go beyond the role of a mere communicator to the role of understanding at least the immediate and narrow needs of the customers. At this stage, the sales representative tries to fit the customer into the existing product or service mix by skillfully anticipating and overcoming objection. This is what Indian market is experiencing.

Negotiation strategies: During negotiation, the product and commercial terms are adjusted to meet the customer's needs rather than just attempting to skillfully overcoming objections as practiced in previous stages. The critical skill at this stage of selling is analysing and understanding the customer needs and determining how the company's products and services can meet these needs. At this point, the customer becomes a client and the process of consultative selling begins.

Client profit-planning strategies: In India, client profit-planning strategy is applicable in industrial product selling. The representative is put to work with clients team to learn about profit-planning system, product, finance, marketing, research and development and future plans etc., so that the product meeting the client's needs could be developed.

Business management strategies: At this stage professional representative is responsible for managing territory as a strategic business unit-investing time and expenses in most profitable manner. Few Indian Companies are using a system of national account management (like Modi Xerox) in which manager is responsible for all sales to a few key accounts. Territory representatives along with sales managers and accounts managers develop business strategies and bottom line responsibility to meet objectives of the organisation.

1.9 DIVERSITY OF SELLING SITUATIONS

All of us being consumers often come across variety of selling situations. Differences in marketing factors cause each company to have individualised selling styles. Each different type of selling job requires the sales person-to perform a variety of different tasks and activities under different

circumstances. The job of a soft drink driver salesperson who calls in routine fashion on a number of retail stores is different from that of a computer sales person who sells a system for managing information to executive of a consultancy firm.

Before categorising sales persons into basic selling styles, one convenient way to classify, the many different types of sales job is to array them on the basis of the creative skill required in the job, from simple service–or repeat order selling to the complex developmental selling. Let us now discuss the different kinds of selling positions prevalent 'in Indian companies.

Delivery sales person: The primary job of the delivery sales person is to deliver the product *e.g.*, soft drink, bread, milk etc. The selling responsibilities are secondary. Good service and a pleasant personality may lead to more sales.

Inside order taker: The retail sales person standing behind a counter is an inside order taker. The customer comes to the sales person with the intention to buy a product or service, the sales person only serves him or her. The sales person may use suggestion selling but ordinarily cannot do much more.

Outside order taker: The soap or spices sales person calling on retailer is an outside order taker. They do little creative selling. In contract with store personnel these representatives actually may be discouraged from doing any hard selling. That task is left to executives higher in the hierarchy.

Missionary sales people: These sales persons we not expected or permitted to solicit an order. Their job is to build goodwill or to educate actual or potential user or provide services for the customers, as in the case of Medical representatives, working for the pharmaceutical company.

Creative sales person of tangible products: In sales job it is often difficult to conduct creative selling for tangible product such as vacuum cleaners, Automobiles, Airplanes, encyclopedias etc. The job happens to be difficult because the customers may not be aware of their need for the product or they may not realise how new products can satisfy their wants better than those they are presently using. When the product is of a technical nature, this category may overlap that of the Sales Engineer.

Creative sales person of intangible product: Laws of intangible products such as insurance, advertising services, consulting services, communication systems or educational programmes, require creativity of sales person to handle the situation. Generally selling the intangible products is difficult as their benefits cannot be demonstrated tangibly.

From the above mentioned variety of sales job it is clear that different sales position require different amount and kinds of skills. In today's market where self service stores and counters have made the selling task easier, technically developed products or intangible items require greater amount of creativity and perseverance, on the part of sales person. To facilitate an understanding of the various roles of sakes person, they can be grouped into four task specific determinants such as, consultative, technical commercial and direct sales.

Consultative sales: Consultative sales are characterised by the product or service that is sold at the higher level of an organisation *e.g.*, computer system or management consultancy service. The decision to purchase such products involves higher capital outlay thus sales job requires a low key, low pressure approach by the sales person. It would also require a very strong knowledge about product, patience to discuss product with several people of organisation and potential benefits to the user. Even at times when the progress of sales slows down representative has to make creative and sensitive efforts to resume interest but without appearing to exert pressure on the prospect.

Technical sales: The most distinctive characteristic of technical sales is the product knowledge required by its sales person, unlike the consultative sales, where sophistication in organisation relationship and persuasive ability we sales persons' most valuable assets. Even time required to sell the product is relatively less than consultative sales.

Most of the technical purchasing requires approval of several people but only one or two pups with technical knowledge influence decision. If the sales representative is able to satisfy; these people with product characteristics, application, installation process approval from higher management is usually forthcoming. The technical sales persons though not strangers to the process of making a sale, are trained to utilise the rational approach; by going into details of product utility and features.

Commercial sales: This field generally includes non-technical sales to business, industry, government and non-profit organisation *e.g.*, office equipment, wholesale goods, building products, business services and others. Unlike the previous two types, it is customary for the commercial sales person to make sales on first or second call. The process stresses approach to right person (decision maker), making a smooth presentation and closing the sales.

The field is composed of order takers, to follow up and maintenance of accounts and order getter, to develop new accounts. Since these require different approaches, they normally require different personality traits *e.g.*, the order getter are more aggressive and more highly motivated.

Direct sales: Direct sales are primarily concerned with the sales of

products and services to ultimate consumers *e.g.*, restaurants, door to door sales, insurance, encyclopedias, magazines etc. There is normally some emotional appeal associated with this type of selling, thus sales persons are required to possess strong persuasive ability. Often length of time to close sales is shortest in the case of above product categories. In fact, sales persons are trained to close the sales on the first visit because it is felt if consumers are given time, they will either cool off from buying or will buy from competitor.

1.10 QUALITIES OF A GOOD SALES PERSONNEL

Some people says salesmen are born salesmen, while others believe that training can help in making good salesmen. Irrespective of these opinions, good salesman has certain qualities and abilities as a result he is able to perform better than others. In this section we would discuss qualities of a good sales person. Philip Kolter has identified two basic qualities of a good sales person namely, empathy and persuasion. But others have listed more. Some of the qualities of a good sales person are as follows:

1. **Ability to estimate customer's needs and desires:** He is alert and quickly determines what the customer wants and the best way to sell.
2. **Ambition:** He likes to do a good job and is interested in getting ahead with your company.
3. **Appearance:** Appearances mean a lot today and the successful salesman is neat and organised. He presents himself well in person. Also, he keeps his desk books and manuals neat and ready for use.
4. **Business sense:** He understands that you are in business to make a profit and quickly learns the ins-and-outs of your organisation.
5. **Courtesy:** He reveals a sincere desire to help customers and treats them as guests even when he visits their places of business.
6. **Creativeness:** Imagination, vision and the ability to create ideas make your man dynamic.
7. **Curiosity:** He wants to learn all he can about his job, his products and his customers.
8. **Enthusiasm:** There is nothing that can drain away a prospect's buying interest more than a half-dead salesman. Dullness should be left at home. A salesman must radiate enthusiasm during and after the sales call.
9. **Figure sense:** He should have the mathematical ability to figure and fill up order form correctly and to make the necessary reports.

10. **Flexibility:** A good salesman is able to adapt himself to a variety of customers. Each contact may require a adapting the sales talk, speech habits and even appearance.
11. **Friendliness:** A salesman should be able to make people like him and he must like to meet people.
12. **Handwriting:** He must write legibly so that his paper work can be readily understood by his office people and by his customers.
13. **Health:** Good health generates energy and energy is needed to sell. Poor health prevents many salesmen from fulfilling their potentials.
14. **Integrity:** A salesman must be trusted to do his job well. He cannot help but he successful when his customers trust him.
15. **Interest in his job:** He likes selling and working for your company.
16. **Knowledge:** In some business, an applicant must also have a through knowledge of the highly specialized products or services his employer offers. In some cases, this knowledge can be gained only by years of experience.
17. **Loyalty:** He must be able to impress upon his customers the idea that his company is the best in the business.
18. **Mental abilities:** He has the intelligence to understand your products and those of your competitors. He must know how to use words, to understand and direct people and to remember names and faces. He should also be able to understand prospective customers and know how to act under varying conditions.
19. **Motivation:** He must have more than just an interest is selling. Psychologists have found certain predominant patterns in men who have become realty successfully sales men. They live in the present and not in the future. They do want power over others and prefer not to work under close supervision.
20. **Originality:** He is constantly searching for new ideas to be used in selling your products and will suggest better ways of doing things.
21. **Persuasiveness:** Very few products of any type actually sell themselves. They must be sold. Your man must have the ability to get people to agree, There are situations when persuasiveness may vary keeping in view the consumer's response.
22. **Poise:** His maturity is reflected in his behaviour. He should be positive and confident, energetic and businesslike. He should be able to demonstrate to your customers that he knows what he is talking about.
23. **Self-starter:** Your man works well without constant supervision and is able to make decisions on his own.

24. **Speech:** He can speak clearly and maturely in a natural tone. He can emphasize sales points with sincerity and friendliness.

1.11 GOALS OF SALES MANAGEMENT

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When a sales person of Eureka Forbes contacts a house-wife and sells his vacuum cleaner, he is actually doing personal selling. When the sales person of Hindustan Lever visits a grocery store and sells Lux, Lifebuoy, Wheel, etc., he's also practicing the personal selling. When a candidate wants to be selected as a Marketing Manager in a company, he sells himself to his prospective employers and practices personal selling. A child asking for a favour from his mother by requesting her to buy him a chocolate or a pack of cookies is also practising personal selling. So vast is the scope of personal selling that everybody has experienced.

The goal of all marketing efforts is to increase profits through sales by offering need gratification to customers. Personal selling is a major promotional method to achieve this goal. In many companies, personal selling is the largest operating expense often totaling 7 to 13 per cent of sales. In contrast to this, the expenses on advertising on an average are just 1 to 3 per cent of sales for different companies.

In industrial product companies personal selling is the major selling force. The nature of the goods, in industrial products, often requires certain specialised knowledge, which is presented in person by the salesman. The value of the order generated by the sales person in such a situation is so high that it makes the hiring of the sales person an economical proposition. Apart from industrial products, the personal selling is a cornerstone of selling in organisations marketing products, which require specialised knowledge and skills. Such organisations are the ones marketing pharmaceutical products, medical instruments or electronic products, etc.

Let us also try to discover the need of personal selling effort in organisations marketing the fast-moving consumer goods (FMCG). In such organisations, the demand is often created through advertising but it is met through the personal selling effort. For example, the sales person of Hindustan Lever Limited does not go door to door to meet the prospects to create demand of his products. But he goes to the grocery store so as to ensure that the brands being advertised by his company are made available at as many retail shops as possible. Thus the objective of the personal selling effort in such a situation would be more of meeting the demand, already created by advertising or other promotional means, rather than to create it as in the case of industrial goods or pharmaceutical products.

In order to make it easier for you to understand, we shall discuss the personal selling process in separate parts.

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1.12 ANALYSING MARKET DEMAND AND SALES POTENTIAL

Personal selling is one of the important parts of the total Marketing Mix, and an essential component of Promotion Mix. We know that Marketing Mix comprises of 4 P's, which are Product, Price, Promotion, and Place or Distribution.

The promotion mix, which is an important component of Marketing Mix, also has four mix parts. These are Personal Selling, Advertising, Publicity, and Sales Promotions.

The above introduction would help you in understanding the significance of Personal Selling in the overall marketing scene. Since the Personal Selling effort is managed by Sales Management Personnel, the topic is discussed under Sales Management and not in promotion Management.

Personal selling is the process by which the representatives of the organisation (Management Manufacturing and Marketing) come in direct contact with the prospects (potential buyers) to convince and persuade them to purchase their products. Personal selling, along with other components of promotion mix and marketing mix, is a means to implement marketing plans and strategy.

Almost all the organisations, in any industry, involved in marketing their products employ sales representatives or sales personnel to directly contact the potential buyers and to persuade them to buy their products.

It may be worthwhile to distinguish between personal selling and salesmanship. While personal selling forms an important element in total scheme of Marketing Management, salesmanship, on the other hand, is one of the skills used in personal selling. Thus, salesmanship is a part of personal selling in the same manner as personal selling is a part of the promotion mix, and promotion is a part of the Marketing Mix.

Difference between Advertising and Personal Selling

Let us try to understand the difference between advertising and personal selling also so as to clearly distinguish between these two important components of the marketing mix.

From a broad perspective, both—the personal selling as well as the advertising—are the means to communicate with the target customers for the product or service of an organisation. To be effective, *i.e.*, to produce results, in terms of sales or orders, both should be understandable

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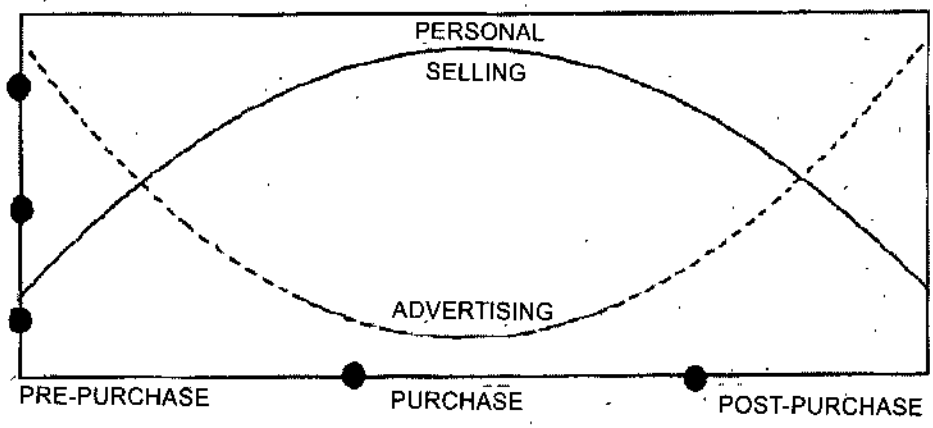
interesting, believable and persuasive. We shall discuss the process of designing a personal selling effort involving all these four criteria of an effective communication.

However, there are some notable differences between these two means of communication. While the personal selling effort is a two-way communication process, the advertising is a one way communication. In the personal selling situation, as we have observed, the customer comes in direct contact with the sales person who, in turn, is representing an organisation. The customer can ask any number of questions so as to satisfy his/her quarries about the product, the sales person is offering. It is the sales person's, responsibility to satisfy his customer on the benefits of his product. If he does so, he gets the desired sales or an order. Thus, the result of the personal selling, whether positive in terms of an order or negative in terms of no order, is also quick and easily measurable.

In advertising, on the other hand, the customer does not coarse in direct contact with any representative of the organisation. Thus it is a one way communication. The reactions, attitudes or perceptions of the viewers cannot be immediately gauged in advertising.

Let its also understand a very interesting aspect of advertising and selling, about their relative importance of the two, during three different stages of a products/brand's market. The three phases can be the-pre-purchase phase, the purchase phase and the post-purchase phase. The pre-purchase phase is characterised by the phase where the organisation is trying to convince the targeted customers on the benefits of the product/brand. The purchase phase is the time/duration when the customer is making his mind to annually buy the product.The post-purchase phase is one when the customer has bought the product and is evaluating the decision.



Advertising has a major role during the pre-purchase phase as the mass demand for product has to be generated. The advertising also

plays an important role in post-purchase phase as it gives sound reassurance to the purchaser that he has taken a sound decision in buying that product. The personal selling, on the other hand, has an important role to play in all the three phases. It plays a major role in the purchase phase.

1.13 THEORIES OF SELLING: GOAL SETTING PROCESS

Before we, discuss the actual process of goal setting in selling, let us understand the theories of selling. There are three main theories of selling, which are as follows:

- AIDAS Theory
- Right Set of Circumstances Theory
- Buying Formula Theory.

AIDAS Theory

This theory is based on the premise that during a sales presentation, the prospect consciously goes through five different stages. These are ATTENTION, INTEREST, DESIRE, ACTION AND SATISFACTION. In fact the name of this theory has been derived from the initial letters of these five words. The proponents of this theory believe that the sales person should design his presentation in such a manner, which takes care of all these stages of the process of selling. The details of five components of AIDAS theory are as follows:

Attention

The sales person should attract the prospect to his presentation before he actually goes into the details of the same. This is to ensure that the prospect becomes receptive to the presentation.

Let us understand the need for securing attention. We would all appreciate the fact that usually the prospect may be busy in his routine jobs or his daily assignments. Thus, before meeting the sales person the prospect's mind may be involved in something other than the topic which even remotely does not concern the product, about which that the sales person in going to talk about.

Unless the sales person involves the prospect's mind in the presentation his total effort may go unnoticed or unregistered. Drawing the prospect's attention, therefore, tantamount to dissociating him from other assignments and involving him in the presentation, both physically and mentally, so as to gain maximum from the sales meeting.

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Interest

Once the salesperson has successfully gained the prospect's attention, he/she should maintain the interest of the prospect's throughout the presentation. In other words, the sales person should ensure that the prospect remains glued to his presentation throughout its length and that he does not wonder away from the same. The sales person should be aware of the interest, likes, dislikes, attitude and motivation of the prospect and should proceed with the presentation, keeping in view all these factors.

Desire

The next step in the sales process, as per AIDA's theory, is to create a strong desire in the prospect's mind to purchase his product. The sales person should consciously try to bring the prospect into this stage of readiness to the point of buying his product. He should concentrate on projecting the benefits of his product to the prospect.

He should go even to the extent of presenting benefits according to the motivation of the prospect. The sales person should also be prepared to anticipate the resistance to his sales presentation in terms of objections or questions from the prospect. Not only that, he should be prepared with several answers and explanations to the anticipated objections.

Action

Once the sales person has been successful in taking his prospect through the three stages, as discussed above, he should induce the prospect into actually buying the product. It would be interesting for us to understand that even after going through the three stages of attention, interest and desire, the prospect may still have some doubt or some inertia which will stop him from taking the final decision of actually buying the product. Hence, it becomes an important task of the sales person to help his prospect in taking the final decision.

At times, we ourselves also experienced that inertia, as a prospect. We might have liked the vacuum cleaner of Eureka Forbes during its presentation at our home by the company's sales person. He might have answered all of our objections quite satisfactorily. It is now upto us to take the final decision of placing an order to the Eureka Forbes' sales person. But we keep on thinking whether to go for the same or not. Try to recollect, what the sales person told you at that time. He must have said, "Sir, should I send the machine tomorrow or today?" or " Sir, we also have an attractive finance option whereby you can pay in instalments, or "Sir, only for you I can ask my sales manager for a 10% discount on the billing price."

As we have observed, the sales person tries to push us into a situation

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to take a decision. And he has exercised the technique of closing very skillfully. This is what is expected of a sales person in this stage.

Satisfaction

Once the prospect has placed an order, the sales person should ensure that the prospect carries the impressions of having taken the right decision. He should always thank the prospect and even go to the extent of saying, "I appreciate your choice Sir, you have taken an excellent decision".

The sales person should also ensure that the delivery of the order takes place within the time frame and all other promises are kept, regarding installation, free servicing, etc. Moreover, the sales person should try to keep in touch with his prospects and should keep enquiring about the efficient performance of his purchase.

Right Set of Circumstances Theory

The advocates of this theory says that all the circumstances, which led to the sales were appropriate or "right" for the sales to have taken place. In other words, if the sales person is successful in securing the prospect's attention, maintaining his interest and inducing his desire to buy the product, the sales will result. Moreover, if the sales person is highly skilled, he will take control of the presentation, which would lead to sale.

Buying—Formula Theory

In the earlier theories, emphasis was laid on the sales person or the seller. In this theory the emphasize is on the buyer. This theory emphasises on the needs or problems of the buyer. The sales person assist the buyer in finding an appropriate solution to the problem. This solution may be in terms of a product or service.

The Buying—Formula theory is based on the analysis of the sequence of events that goes in the buyers' mind during the sales presentation. Thus, the theory emphasises on the factors internal to the prospect and the factors, which are external, *i.e.,* influence of the sales person on his prospect's decision to buy his product. The theory is based on the presumption that the sales person will take care of the external factors.

The sequence of events in a prospect's mind can be represented as:

Needs → Solution → Purchase

There are all the chances that a continuous relationship will develop between the prospect and the sales person. As a result of sales, the satisfaction will also come in the sequence. This sequence can be presented as:

Need → Solution → Purchase → Satisfaction

Furthermore, whenever a need is felt, the solution is available in the form of a product or service or both. A product or a service belongs to some manufacturer or a marketing agency. The product, service or the manufacturer may also have a brand name.

For example, if some one is feeling hungry, he/she has a need. The solution lies in food. So the sequence of events in his/her mind will progress from need (hunger) to solution (food). The next step will be "What food,", whether it is Indian, continental, or Chinese. This step will ensure the decision on the product (fast-food). Now the person will think about the brand in the fast-food category. It may be Narula's, Wimpy's, Chotiwala's, Udipi's, etc. On taking this decision about the brand the person will purchase the food. His satisfaction or dissatisfaction will depend on the delivery time, taste, quality, seating space, etc. This sequence of events may thus be represented as:

Needs → Solution → Brand Name → Purchase → Satisfaction Dissatisfaction

In practice, most of the sales presentations or the personal selling efforts are based on one or a combination of these theories.

1.14 PURPOSE

It is of utmost importance that the sales manager has some idea of what will happen in the future in order that plans can be made in advance. There would otherwise be no point in planning. Many sales managers do not recognise that sales forecasting is their responsibility and leave such matters to accountants, who need the forecast in order that they can prepare budgets (dealt with later). Sales managers do not always see the immediate need for forecasting and feel that selling is a more urgent task. Indeed, the task of forecasting by the sales manager is often delayed until the last minute and a hastily put together estimation with no scientific base, little more than an educated guess, is the end result.

When one is in a producer's market – similar to the situations in the immediate post-war years, there is less of a need for forecasting as the market takes up all one's production; it is less a matter of selling and more a matter of allowing customers to purchase. However, in a buyer's market the situation is different.

The consequence of over-production is unsold stock which is costly to finance from working capital borrowings. The marginal money, *i.e.*, the cost of borrowing the last unit of revenue, comes from the bank overdraft, which is at least base rate of borrowing plus 1 or 2 per cent.

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It can therefore be seen that over-production and holding stock can be costly. Conversely, under-production can be detrimental as sales opportunities might be missed due to long delivery times and business might pass to a competitor that can offer quicker delivery.

Thus the purpose of the sales forecast is to plan ahead and go about achieving forecasted sales in what management considers to be the most effective manner. It is again emphasised that the sales manager is the person who should be responsible for this task. The accountant is not in a position to know whether the market is about to rise or fall; all that can be done is to extrapolate from previous sales, estimate the general trend and make a forecast based on this. The sales manager is the person who should know which way the market is moving, and it is an abrogation of responsibility if the task of sales forecasting is left to the accountant. In addition, the sales forecasting procedure must be taken seriously because from it stems business planning. If the forecast is flawed then business plans will also be incorrect.

1.15 PLANNING

It has been established that planning stems from the sales forecast and the purpose of planning is to allocate company resources in such a manner as to achieve these anticipated sales.

A company can forecast sales either by forecasting market sales (called **market forecasting**) and then determining what share of this will accrue to the company or by forecasting the company's sales directly. Techniques for doing this are dealt with later in the chapter. The point is that planners are only interested in forecasts when the forecast comes down to individual products in the company.

We now examine the applicability and usefulness of the short-, medium- and long-term forecasts in so far as company planners are concerned and look at each from individual company departmental viewpoints.

1. *Short-term forecasts*: These are usually for periods up to three months ahead and are really of use for tactical matters such as production planning. The general trend of sales is less important here than short-term fluctuations.

2. *Medium-term forecasts*: These have direct implications for planners. They are of most importance in the area of business budgeting, the starting point for which is the sales forecast. Thus, if the sales forecast is incorrect, then the entire budget is incorrect. If the forecast is over-optimistic then the company will have unsold stocks, which must be financed out of working capital. If the forecast is pessimistic then the firm may miss out on marketing opportunities

because it is not geared up to produce the extra goods required by the market. More to the point is that when forecasting is left to accountants, they will tend to err on the conservative side and produce a forecast that is lower than the trend of sales, the implications of which have just been described. This serves to re-emphasise the point that sales forecasting is the responsibility of the sales manager. Such medium-term forecasts are normally for one year ahead.

3. *Long-term forecasts*: These are usually for periods of three years and upwards depending on the type of industry being considered. In industries such as computers three years is considered long-term, whereas for steel manufacture ten years is a typical long-term horizon. They are worked out from macro-environmental factors such as government policy, economic trends, etc. Such forecasts are needed mainly by financial accountants for long-term resource implications and are generally the concern of boards of directors. The board must decide what its policy is to be in establishing the levels of production needed to meet the forecasted demand; such decisions might involve the construction of a new factory and the training of a workforce. In addition to the functions already mentioned under each of the three types of forecast, other functions can be directly and indirectly affected in their planning considerations as a result of the sales forecast. Such functions include the following:

   a. It has been mentioned that production needs to know about sales forecasts so that they can arrange production planning. There will also need to be close and speedy liaison between production and sales to determine customer priorities in the short term. Production also needs long-term forecasts so that capital plant decisions can be made in order to meet anticipated sales.

   b. Purchasing usually receives its cue to purchase from production via purchase requisitions or bills of material. However, in the case of strategic materials or long delivery items it is useful for purchasing to have some advance warning of likely impending material or component purchases in order that they can better plan their purchases. Such advance warning will also enable purchasing to purchase more effectively from a price and delivery viewpoint.

   c. Human resource management is interested in the sales forecast from the staffing planning viewpoint.

   d. It has already been mentioned that the financial and, more

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specifically, costing functions need the medium-term forecast to budget. Later in this chapter we discuss the role of the sales forecast in the sales budgetary procedure and how such a function operates. The long-term forecast is of value to financial accountants in that they can provide for long-range profit plans and income flows. They also need to make provision for capital items such as plant and machinery needed in order to replace old plant and machinery and to meet anticipated sales in the longer term.

e. Research and development (R&D) will need forecasts, although their needs will be more concerned with technological matters and not with actual projected sales figures. They will want to know the expected life of existing products and what likely changes will have to be made to their function and design in order to keep them competitive. Market research reports will be of use to R&D in that they will be able to design and develop products suited to the marketplace. Such a view reflects a marketing orientated approach to customer requirements. Here reports from salespeople in the field concerning both the company's and competitors' products will be useful in building up a general picture; such information will be collated and collected by the marketing research function.

f. Marketing needs the sales forecast so that sales strategies and promotional plans can be formulated in order to achieve the forecasted sales. Such plans and strategies might include the recruitment of additional sales personnel, remuneration plans, promotional expenditures and other matters.

A useful model, proposed by Hogarth, involved three interactive forecasting components: the person performing the task of forecasting, the actions that are a consequence of that person's judgements and the ultimate outcome of that judgement. This model is shown in Figure 1.1.

The individual making the forecast is represented in the scheme in terms of beliefs relating to the forecasting task. This judgement relates to acquiring and processing information and the output from this information. This is then translated into action, which is the sales forecast. The outcome refers to action that, along with external factors, then produces the final forecast. Feedback points are included as corrective measures that might be needed as the forecast becomes reality.

It can thus be seen that an accurate forecast is important because all functions base their plans on such forecasts. The short-, medium- and long-term forecasts all have relevance to some business function and, in the absence of reasonably accurate forecasting, where such plans are not

based on a solid foundation, they will have to be modified later as sales turn out to be different from those predicted in the sales forecast.

Now that the purpose of sales forecasting has been established, together with its role as a precursor to all planning activity, we can look at the different types of forecasting technique, bearing in mind that such forecasting is the responsibility of the sales function. Such techniques are split into two types: qualitative techniques and quantitative techniques.

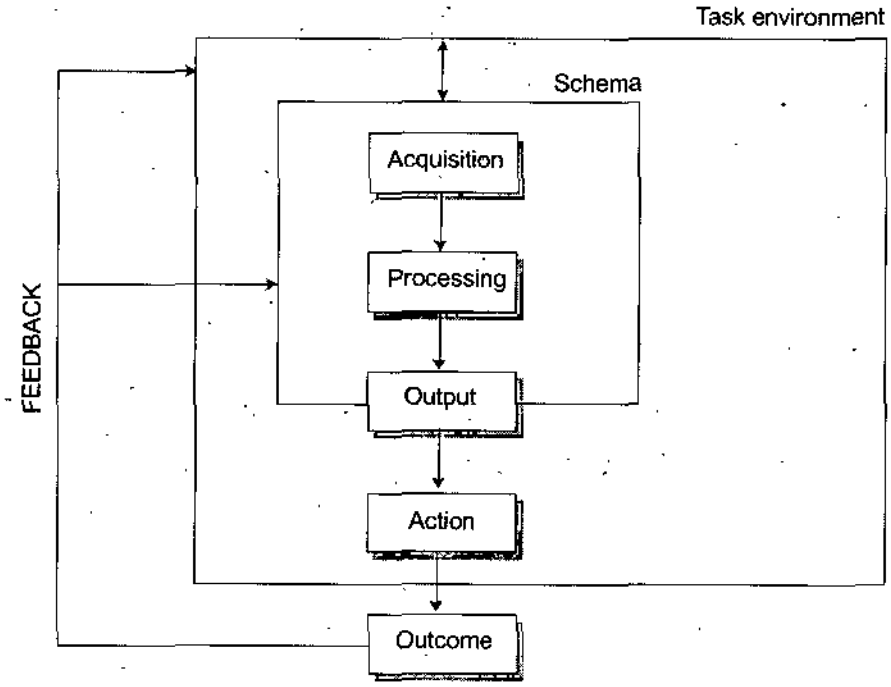

Figure 1.1 A conceptually based model of judgemental forecasting

1.16 LEVELS OF FORECASTING

Forecasts can be produced for different horizons starting at an international level and ranging down to national levels, by industry and then by company levels until we reach individual product-by-product forecasts. The forecast is then broken down seasonally over the time span of the forecasting period and geographically right down to individual salesperson areas. These latter levels are of specific interest to sales management, for it is from here that the sales budgeting and remuneration systems stem, as we discuss later in the unit.

However, companies do not generally have to produce international or national forecasts as this information is usually available from recognised international and national sources. The company forecaster finds such data useful for it is by using such information that product-by-product forecasts can be adjusted in the light of these macro-level predictions. It is also from these market forecasts that the company can determine

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what share it will be able to achieve through its selling and marketing efforts. These marketing efforts involve manipulating the marketing mix in order to plan how to achieve these forecasted sales (*e.g.*, a price reduction could well mean more sales will be possible). Once it reaches a detailed level of product by product forecasting, geographically split over a time period, it is then termed the 'sales forecast', which is more meaningful to sales management. Indeed, it could be said that this is the means through which sales management exercises control over the field salesforce and, as we describe later, this is the revenue-generating mechanism for the entire sales organisation of a company as seen in the example that follows.

1.17 QUALITATIVE TECHNIQUES

Qualitative forecasting techniques are sometimes referred to as judgemental or subjective techniques because they rely more on opinion and less on mathematics in their formulation. Consumer/user survey method involves asking customers about their likely purchases for the forecast period, sometimes referred to as the market research method. For industrial products, where there are fewer customers, such research is often carried out by the salesforce on a face-to-face basis. The only problem is that then you have to ascertain what proportion of their likely purchases will accrue to your company. Another problem is that customers (and salespeople) tend to be optimistic when making predictions for the future. Both of these problems can lead to the possibility of multiplied inaccuracies.

For consumer products it is not possible to canvass customers through the salesforce. The best method is to interview customers through a market research survey (probably coupled with other questions or through an omnibus survey where questions on a questionnaire are shared with other companies). Clearly, it will only be possible to interview a small sample of the total population and because of this the forecast will be less accurate. There is also a question of the type and number of questions one can ask on such a sample survey. It is better to canvass grades of opinion when embarking on such a study and these grades of opinion can reflect purchasing likelihoods. One can then go on to ask a question as to the likelihood of purchasing particular makes or brands which will, of course, include your own brand or model.

This method is of most value when there are a small number of users who are prepared to state their intentions with a reasonable degree of accuracy. It tends, therefore, to be limited to organisational buying. It is also a useful vehicle for collecting information of a technological nature which can be fed to one's own research and development function.

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Panels of Executive Opinion

This is sometimes called the jury method, where specialists or experts are consulted who have knowledge of the industry being examined. Such people can come from inside the company and include marketing or financial personnel or, indeed, people who have a detailed knowledge of the industry. More often, the experts will come from outside the company and can include management consultants who operate within the particular industry. Sometimes external people can include customers who are in a position to advise from a buying company's viewpoint. The panel thus normally comprises a mixture of internal and external personnel. These experts come with a prepared forecast and must defend their stance in committee among the other experts. Their individual stances may be altered following such discussions. In the end, if disagreement results, mathematical aggregation may be necessary to arrive at a compromise.

This type of forecasting method is termed a 'top-down' method whereby a forecast is produced for the industry. The company then determines what its share will be of the overall forecast. Because the statistics have not been collected from basic market data (from the 'bottom-up') there is difficulty in allocating the forecast out among individual products and sales territories, and any such allocation will probably be arbitrary. Thus the forecast represents aggregate opinion and is only useful when developing a general, rather than specific product-by-product forecast.

A variation of this method is termed 'prudent manager forecasting' whereby company personnel are asked to assume the position of purchasers in customer companies. They must then look at company sales from a customer's viewpoint and 'prudently' evaluate sales, taking into consideration such factors as external economic conditions, competitive offerings in terms of design, quality, delivery and price and whatever other factors are considered relevant to making an evaluation of the company's sales.

Salesforce Composite

This method involves each salesperson making a product-by-product forecast for their particular sales territory. Thus individual forecasts are built up to produce a company forecast; this is sometimes termed a 'grass-roots' approach. Each salesperson's forecast must be agreed with the manager, and divisional manager where appropriate, and eventually the sales manager agrees the final composite forecast. Such a method is a bottom-up approach. Where remuneration is linked to projected sales (through quotas or targets) there can be less cause for complaint because the forecast upon which remuneration is based has been produced by the salesforce itself.

A variation of the above method is termed 'detecting differences in figures'. and here each stage in the hierarchy produces a set of figures before meeting. The salesperson produces figures, broken down by product and customer, and the area manager produces figures for the salesperson's territory. They then meet and must reconcile any differences in figures. The process proceeds with the area manager producing territory-by-territory figures and meeting with the regional manager who will have produced figures for the area, until it eventually reaches the sales manager and the entire forecast is ultimately agreed. The immediate problem with the salesforce composite method of forecasting is that when the forecast is used for future remuneration (through the establishment of sales quotas or targets) there might be a tendency for salespeople to produce a pessimistic forecast. This can be alleviated by linking selling expenses to the forecast as well as future remuneration.

When remuneration is not linked to the sales forecast there is a temptation to produce an optimistic forecast in view of what was said earlier about customers and salespeople tending to overestimate. The consequence of the above is that a forecast might be produced that is biased either pessimistically or optimistically. As a corollary to the above it can also be argued that salespeople are too concerned with everyday events to enable them to produce objective forecasts and they are perhaps less aware of broader factors affecting sales of their products. Thus their forecasts will tend to be subjective.

Delphi Method

This method bears a resemblance to the 'panel of executive opinion' method and the forecasting team is chosen using a similar set of criteria. The main difference is that members do not meet in committee.

A project leader administers a questionnaire to each member of the team which asks questions, usually of a behavioural nature, such as 'Do you envisage new technology products supplanting our product lines in the next five years? If so, by what percentage market share?' The questioning then proceeds to a more detailed or pointed second stage which asks questions about the individual company. The process can go on to further stages where appropriate. The ultimate objective is to translate opinion into some form of forecast. After each round of questionnaires the aggregate response from each is circulated to members of the panel before they complete the questionnaire for the next round, so members are not completing their questionnaires in a void and can moderate their responses in the light of aggregate results.

The fact that members do not meet in committee means that they are not influenced by majority opinion and a more objective forecast might result. However, as a vehicle for producing a territory-by-territory or

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product-by-product forecast it has limited value. It is of greater value in providing general data about industry trends and as a technological forecasting tool. It is also useful in providing information about new products or processes that the company intends to develop for ultimate manufacture and sale.

Bayesian Decision Theory

This technique has been placed under qualitative techniques, although it is really a mixture of subjective and objective techniques. It is not possible to describe the detailed workings of this method within the confines of this text; indeed it is possible to devote a whole text to the Bayesian technique alone. The technique is similar to critical path analysis in that it uses a network diagram and probabilities must be estimated for each event over the network. The basis of the technique can best be described by reference to a simple example. As this chapter does not easily lend itself to the provision of a case study that can encompass most or all of the areas covered, a practical exercise, followed by questions covering Bayesian decision theory, has been included at the end of the chapter which should give the reader an insight into its workings.

Product Testing and Test Marketing

This technique is of value for new or modified products for which no previous sales figures exist and where it is difficult to estimate likely demand. It is therefore prudent to estimate likely demand for the product by testing it on a sample of the market beforehand.

Product testing involves placing the pre-production model(s) with a sample of potential users beforehand and noting their reactions to the product over a period of time by asking them to fill in a diary noting product deficiencies, how it worked, general reactions, etc. The type of products that can be tested in this manner can range from household durables, for example, vacuum cleaners, to canned foods such as soups. However, there is a limit to the number of pre-production items that can be supplied (particularly for consumer durables) and the technique is really of value in deciding between a 'go' or 'no go' decision.

Test marketing is perhaps of more value for forecasting purposes. It involves the limited launch of a product in a closely defined geographical test area, for example, a test town such as Bristol or a larger area such as the Tyne-Tees Television area. Thus a national launch is simulated in a small area representative of the country as a whole, obviously at less expense. It is of particular value for branded foodstuffs. Test market results can be grossed up to predict the national launch outcome. However, the estimate can only cover the launch. Over time, the novelty factor

of a new product might wear off. In addition, it gives competitors an advantage because they can observe the product being test marketed and any potential surprise advantage will be lost. It has also been known for competitors deliberately to attempt to sabotage a test marketing campaign by increasing their promotional activity in the area over the period of the test market, thereby introducing additional complications when assessing the final results.

1.18 QUANTITATIVE TECHNIQUES

Quantitative forecasting techniques are sometimes termed objective or mathematical techniques as they rely more upon mathematics and less upon judgement in their computation. These techniques are now very popular as a result of sophisticated computer packages, some being tailor-made for the company needing the forecast. It is not proposed to go into the detailed working of such techniques because they require specialist skills in their own right; indeed a single technique could take up an entire textbook. Some quantitative techniques are simple while others are extremely complex. We now explain such techniques so you will have an appreciation of their usefulness and applicability. If the forecasting problem calls for specialist mathematical techniques then the answer is to consult a specialist and not attempt it on the basis of incomplete information given here. Quantitative techniques can be divided into two types:

1. *Time series analysis*: The only variable that the forecaster considers is time. These techniques are relatively simple to apply, but the danger is that too much emphasis might be placed upon past events to predict the future. The techniques are useful in predicting sales in markets that are relatively stable and not susceptible to sudden irrational changes in demand. In other words, it is not possible to predict downturns or upturns in the market, unless the forecaster deliberately manipulates the forecast to incorporate such a downturn or upturn.

2. *Causal techniques*: It is assumed that there is a relationship between the measurable independent variable and the forecasted dependent variable. The forecast is produced by putting the value of the independent variable into the calculation. One must choose a suitable independent variable and the period of the forecast to be produced must be considered carefully. The techniques are thus concerned with cause and effect. The problem arises when one attempts to establish reasons behind these cause and effect relationships; in many cases there is no logical explanation. Indeed, there is quite

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often nothing to suppose that the relationship should hold good in the future.

Reasoning behind causal relationships may not be too clear at this stage, but once the techniques are examined later in the chapter it should become self-evident. The first set of techniques examined are those concerned with **time series analysis.**

Quantitative Techniques (Time Series)

Moving Averages

This method averages out and smooths data in a time series. The longer the time series, the greater will be the smoothing. The principle is that one subtracts the earliest sales figure and adds the latest sales figure. The technique is best explained through the simple example given in Table 1.2. It can be seen that using a longer moving average produces a smoother trend line than using a shorter moving average.

Table 1.2. Office Goods Supplies Ltd: Annual sales of briefcases, moving average

		Three-Year		Five-Year	
Year	**Number**	**Total**	**Average**	**Total**	**Average**
1994	1,446	—	—	—	—
1995	1,324	4,179	1.393	—	—
1996	1,409	3,951	1,317	6,543	1,309
1997	1,218	3,773	1,258	6,032	1,206
1998	1,146	3,299	1,100	5,855	1,171
1999	935	3,228	1,076	5,391	1,078
2000	1,147	3,027	1,009	4,953	991
2001	945	2,872	957	4,810	962
2002	780	2,728	927	5,049	1,008
2003	1,003	2,957	986	4,706	941
2004	1,174	2,981	994	4,805	961
2005	804	3,022	1,007	5,186	1,037
2006	1,044	3,009	1,003	5,470	1,094
2007	1,161	3,492	1,164	—	—
2008	1,287	—	—	—	—

These data are reproduced graphically (see Figure 1.2) and it can be seen that averaging smooths out the annual sales figures. Five-year averaging produces a smoother line than three-year averaging. One can then produce a forecast by extending the trend line, and it is up to the individual forecaster to decide whether three year or five-year averaging is better. Indeed, it is sometimes unnecessary to smooth the

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data (in the case of a steady trend) and the technique is then termed trend projection. Generally speaking, the more the data fluctuate, the more expedient it is to have a longer averaging period.

Exponential Smoothing

This is a technique that apportions varying weightings to different parts of the data from which the forecast is to be calculated. The problem with moving averages and straightforward trend projection is that it is unable to predict a downturn or upturn in the market (unless the forecaster deliberately places a downturn or upturn in the data). In this technique the forecaster apportions appropriate degrees of 'typicality' to different parts of the time series.

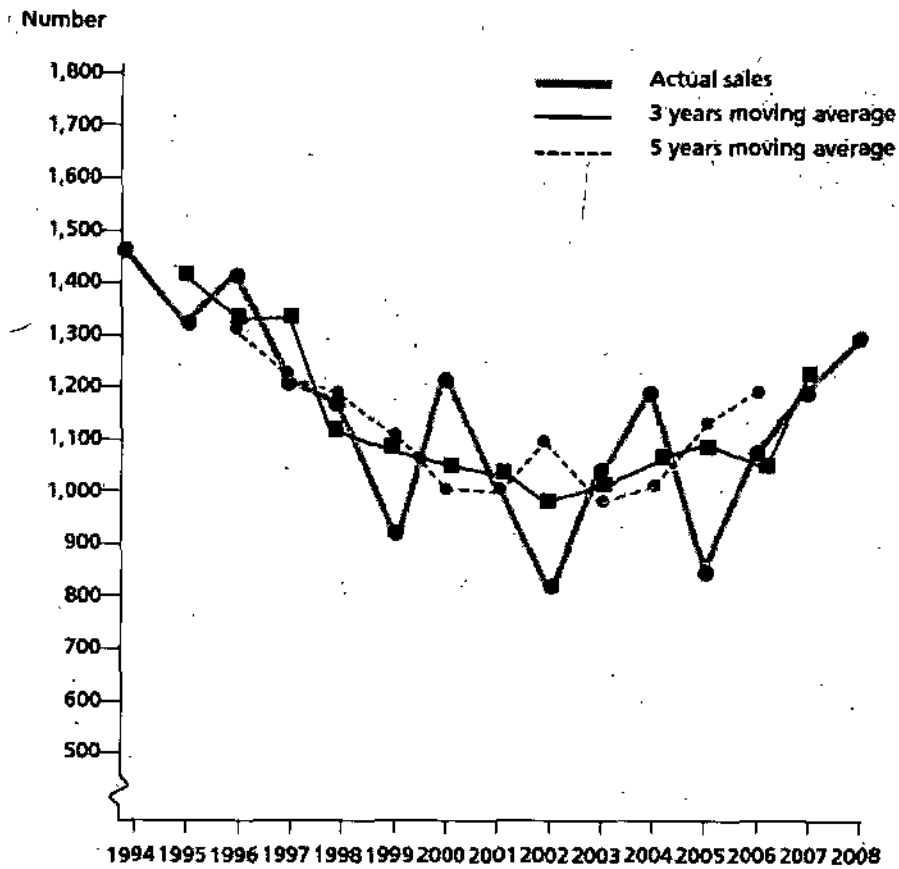

Figure 1.2 Office Goods Supplies Ltd: annual sales of briefcases, moving average

It is not proposed to explain the detailed mathematics behind the technique because this is not a sales forecasting textbook. Instead, the statistics used in the previous example have been taken and from these weightings have been applied to earlier parts of the series. These weightings are applied by the forecaster according to their own judgement as to how 'typical' earlier parts of the data are in the production of a forecast (although there is a mathematical technique for deciding this if necessary). The result is shown in Figure 1.3.

In the moving averages technique the forecast will take some time to respond to a downturn or upturn, whereas with the exponential smoothing method the response can be immediate. In the example in Figure 1.3 the forecaster has apportioned greater weightings to downturn periods of trade than to upturn periods, and the forecast will thus reflect another downturn period for 2009. Had a moving averages forecast been used, this would have produced a less steep continuum of the 2007–8 upturn trend. In practice the technique is simple to operate, but it is essentially a computer technique. The forecaster can very simply alter the smoothing constant for different periods to produce a number of alternative forecasts. The skill lies in determining the degree of weightings for earlier and later parts of the time series.

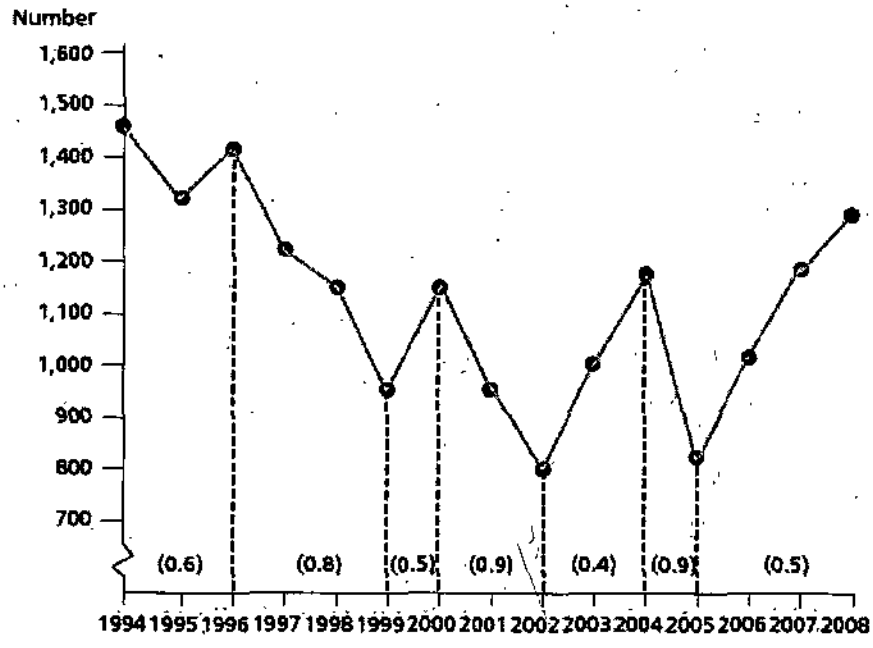

Figure 1.3 Office Goods Supplies Ltd: annual sales of briefcases, exponential smoothing (weighting shown in brackets)

Time Series Analysis

This technique is useful when seasonality occurs in a data pattern. It is of particular use for fashion products and for products that respond to seasonal changes throughout the year. It can be used for cyclical changes in the longer term (such as patterns of trade) but there are better techniques available for dealing with such longer-term trends. Thus its best application is where the seasonal pattern is repeated on a fairly regular annual basis. These seasonal movements are measured in terms of their deviation from the aggregate trend.

The technique is best explained graphically by using data from the previous example. The quarterly sales of briefcases have been taken for Office Goods Supplies Ltd for the years 2004–08 (see Table 1.3),

and it can be seen that sales exhibit a seasonal pattern, with a peak of sales in the final quarter of each year. When the sums of quarterly deviations from the trend are added, the resultant sum is +40 in this particular case (see Table 1.4). The total sum must equal zero, otherwise it would mean that a positive bias would be built into the forecast. However, this correction must come from all figures equally, and is calculated as: 40/4 = +10.

Therefore +10 must be subtracted from each quarter's figures. The corrected figures are then:

Quarter	1	2	3	4
Corrected deviations	–292	–19	–328	+639 = 0

Table 1.3 Office Goods Supplies Ltd: Quarterly sales of briefcases

Year	Quarter	unit sales	Quarterly moving total	Sum of pairs	Divided by 8 to find trend	Deviations from trend
2004	1	207				
	2	268	= 1,174	= 2,295	287	–64
	3	223	1,121	2,136	267	+209
	4	476	1,015	= 1,934	242	–88
2005	1	154	919	1,723	215	–53
	2	162	= 804	= 1,643	205	–78
	3	127	839	1,779	222	+139
	4	361	940	= 1,935	242	–53
2006	1	189	995	2,039	255	+8
	2	263	= 1,044	= 2,110	264	–82
	3	182	1,066	2,156	269	+141
	4	410	1,090	= 2,197	275	–64
2007	1	211	1,107	2,268	284	+3
	2	287	= 1,161	= 2,346	293	–94
	3	199	1,185	2,433	304	+160
	4	464	1,248	= 2,497	312	–77
2008	1	235	1,249	2,536	317	+33
	2	350	= 1,287			
	3	200				
	4	502				

Table 1.4 Office Goods Supplies Ltd: Sum of quarterly deviations from trend

Quarter	1	2	3	4
Year				
2004	--	–53	–64	+209
2005	–88	–53	–78	+139
2006	–53	+8	–82	+141
2007	–64	+3	–94	+160
2008	–77	+33	--	--
Sum	–282	–9	–318	+649 = +40

Table 1.5 Office Goods Supplies Ltd: Forecasted trend figures and deviations from trend that have been applied

Year	Period	Trend	Deviation	Forecast
2008	3	326	–82	244
	4	334	+160	494
2009	1	343	–73	270
	2	352	–5	347
	3	360	–82	278
	4	369	+160	529

In this particular example these figures must now be divided by 4 to produce a yearly aggregate (because four years' data have been used in their compilation) and the figures from which the forecast will be derived are as follows:

Quarter	1	2	3	4
Deviations	–73	–5	–82	+160 = 0

The figures in Table 1.5 are an extension of data at the end of Table 1.3 and these have been derived as follows. Unit sales are added to provide a one-year total. This total then summates the one-year moving sales by taking off the old quarter and adding on the new quarter. The quarterly moving totals are then paired in the next column (to provide greater smoothing) and this sum is then divided by 8 to ascertain the quarterly trend. Finally, the deviations from trend are calculated by taking the actual figure (in unit sales) from the trend, and these are represented in the final column as deviations from the trend.

The statistics are then incorporated into a graph and the unit sales

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and trend are drawn in as in Figure 1.4. The trend line is extended by sight (and it is here that the forecaster's skill and intuition must come in). The deviations from trend are then applied to the trend line, and this provides the sales forecast.

In the example in Figure 1.4 it can be seen that the trend line has been extended on a slow upwards trend similar to the previous years. The first two figures for periods 3 and 4 of 2008 are provided as a forecast, as this is a function of the calculation. These two periods of course passed, and it can be seen that the forecast is slightly different from what happened in reality. Proof that forecasting is never perfect! The four quarters of 2009 have been forecasted and these are included in the graph.

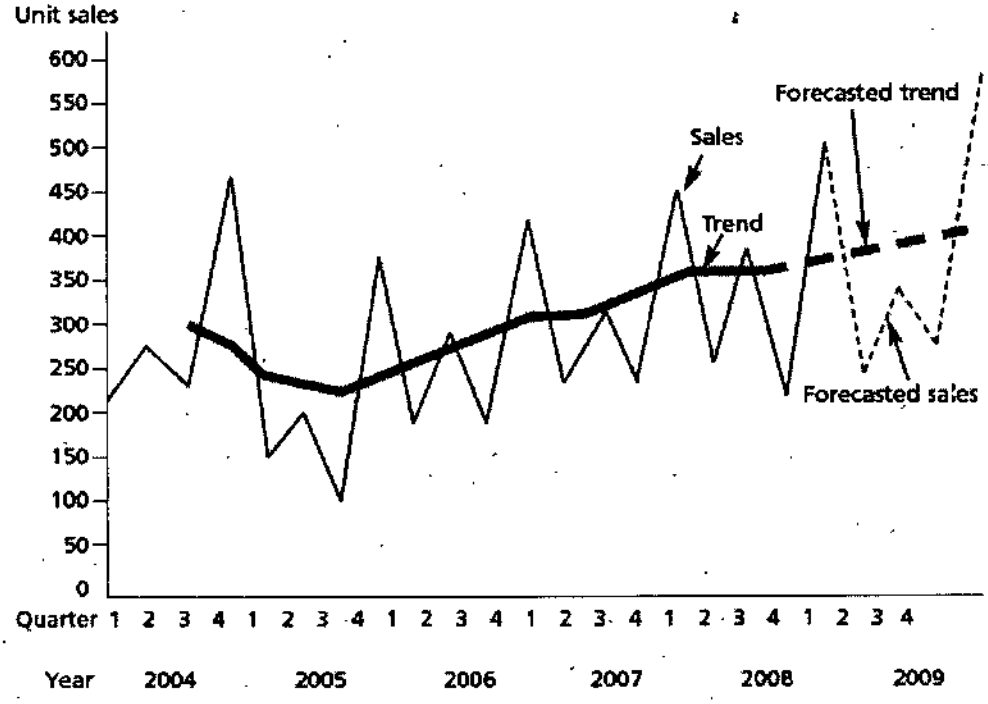

Figure 1.4 Office Goods Supplies Ltd: quarterly sales of briefcases and one-year forecast

The technique, like many similar techniques, suffers from the fact that downturns and upturns cannot be predicted, and such data must be subjectively entered by the forecaster through manipulation of the extension to the trend line.

Z (or Zee) Charts

This technique is merely a furtherance of the moving averages technique. In addition to providing the moving annual total, it also shows the monthly sales and cumulative sales; an illustration of the technique shows why it is termed Z chart.

Each Z chart represents one year's data and is best applied using monthly

sales data. As a vehicle for forecasting it provides a useful medium where sales for one year can be compared with previous years using three criteria (monthly, cumulative and moving annual).

The sales of briefcases for Office Goods Supplies Ltd have been provided for each month of 2007 and 2008 and this is sufficient to provide data for the Z chart as can be seen in Table 1.6. The figures in Table 1.6 are then transposed graphically in Figure 1.5.

Moving annual sales are obtained by adding on the new month's figure and taking off the old month's figure, 12 months previously. The cumulative sales are obtained by adding each month to the next month, and the bottom line of the Z is the monthly sales. The method is very much a comparison by sight method and in this case would be used for the medium-term (one-year) sales forecast. However, as a serious method for prediction its uses are limited; its main use is for comparison.

Table 1.6 Office Goods Supplies Ltd: Monthly sales of briefcases 2007–08

Month	Unit sales 2007	2008	Cumulative sales 2008	Moving nnual total
Jan	58	66	66	1,169
Feb	67	70	136	1,172
Mar	86	99	235	1,185
Apr	89	102	337	1,198
May	94	121	458	1,225
Jun	104	127	585	1,248
Jul	59	58	643	1,247
Aug	62	69	712	1,254
Sep	78	73	785	1,249
Oct	94	118	903	1,273
Nov	178	184	1,087	1,279
Dec	192	200	1,287	1,287

Miscellaneous

This final section briefly outlines two computer-based techniques; to describe their workings in detail would take a disproportionate amount of space together with a detailed knowledge of mathematics. They rely in their application upon sophisticated computer packages. If the reader wishes to pursue the techniques further, then a software specialist would advise on their applicability and the degree of accuracy for the desired intention. This is not to say that the forecaster (say the sales

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manager) should necessarily need to have a detailed knowledge of the technique that is being applied. All they need to know is what the forecast will do and its degree of accuracy.

The first of these techniques is Box-Jenkins, which is a sophistication of the exponential smoothing technique that applies different weightings to different parts of the time series. In the case of this technique, the computer package takes earlier parts of the time series and manipulates and weights parts of this against known sales from later parts of the time series. The weighting that provides the best fit is finally deduced and can then be used for the forecast. It is reasonably accurate for short- and medium-term forecasting.

The other technique is termed X-11 and was developed by an American named Julius Shiskin. It is a decomposition technique and breaks a time series down into trend cycles, seasonal cycles and irregular elements. It is an effective technique for medium-term forecasting and incorporates a number of analytical methods into its computation.

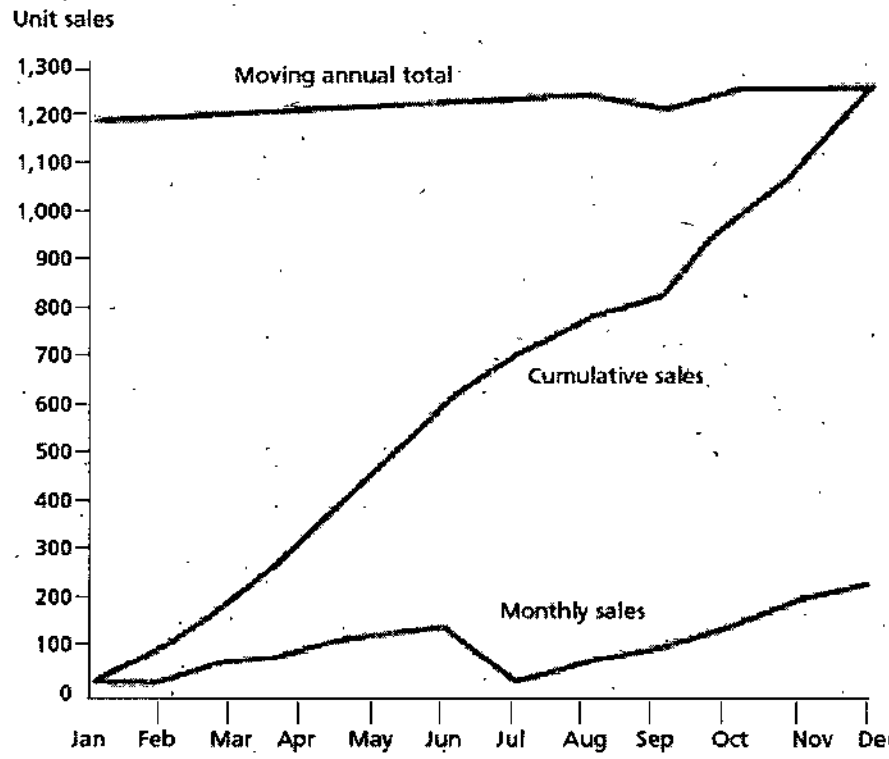

Figure 1.5 Office Goods Supplies Ltd: monthly sales of briefcases, Z chart for 2008

Quantitative Techniques (Causal)

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Leading Indicators

This method seeks to define and establish a linear regression relationship between some measurable phenomenon and whatever is to be forecasted. It is not appropriate to enter into a discussion of the technique of linear regression within the confines of this text; should you wish to pursue the technique further, most reasonably advanced statistical texts will adequately describe the method and its applicability.

The best way to explain the technique is to consider the following simple example. The sale of children's bicycles depends upon the child population, so a sensible leading indicator for a bicycle manufacturer would be birth statistics. The bicycle manufacturer will therefore seek to establish a relationship between the two and, if the manufacturer is considering children's first two-wheeler bicycles (say, at age three years old, on average) then births will precede first bicycles by three years. In other words first bicycles will lag births by three years.

The example is obviously an over-simplification, and there are forecasting packages available that permute a number of leading indicators; *i.e.*, they are indicators that are ahead of actual sales. It is possible to provide the permutation that best fits known sales, where the sales are lagged in time and the indicator is leading. The permutation that best fits the known sales to the indicator (or permutation of indicators) is the one to use in the forecast. Thus the permutation is constantly under review as time goes on. As forecasts pass into actual sales, so the forecasting permutation is modified to take account of most recent sales.

This more sophisticated type of forecasting uses what is known as correlation analysis to establish the relationship. Again the reader is directed to any reasonably advanced statistics text for a fuller explanation of its workings and implications.

Simulation

This forecasting methodology has become possible with the widespread use of computers. Leading indicator forecasting establishes relationships between some measurable phenomenon and whatever is to be forecasted, while simulation uses a process of iteration, or trial and error, to arrive at the forecasting relationship. In a reasonably complicated forecasting problem (which most are that utilise this technique) the number of alternative possibilities and outcomes is vast. When probabilities of various outcomes are known, the technique is known as Monte Carlo simulation and depends upon a predetermined chance of a particular event occurring (it is no coincidence that the technique derives from probabilities worked out for gambling games).

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We cannot explain the technique further without entering into complex mathematical discussions and explanations. In so far as this text is concerned, it is sufficient that you are aware of the technique; if further information is required, an expert forecaster should be consulted.

Diffusion Models

Most of the techniques discussed so far have depended upon a series of past sales for the company and the industry to be available before a forecast can be calculated. However, when new products are introduced to the market which are not simply extensions or redesigns of old products, then the technique for estimating sales comes from a body of theory called the diffusion of innovations. One of the authors made a study of the subject 20 years ago and produced a forecast for video-recorders that utilised the Bass diffusion model.

Again, as with most causal techniques, the mathematics are complicated and the best advice for the sales manager seeking to apply such a technique to a new product would be to seek the advice of a specialist. This is essentially a computer technique and its computation is complicated. Basically, diffusion theory assumes that the new product has four basic units:

- the innovation;
- the communication of the innovation among individuals;
- the social system; and
- time.

The theory goes on to say that the innovation can be categorised into one of the following groupings:

- continuous;
- dynamically continuous; and
- discontinuous.

This is a hierarchical listing, with the innovations being more widely removed from previous technology as one moves further down the list. This means that the further down the hierarchy the innovation is placed, the lower will be the degree of likely acceptance. In the early days of a product innovation, knowledge must be communicated to as many individuals as possible, especially those who are likely to be influential in gaining wider appeal for the innovation. This communication process is broken down into formal and informal communication. These two elements are fed into the forecasting model and as such the model can be applied without large amounts of past sales data. The formal communication is controlled by the company and includes such data as advertising expenditure

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and sales support for the launch and the informal element relates to such matters as family and reference group influences.

Once the innovation has been launched, a measure of the rate of adoption is needed in order to produce a useful forecast. Products are born, they mature and eventually die, and it is important to the forecaster using this technique that the first few points of the launch sales are known in order to be able to determine the rate of adoption. Thus a forecast can be made using only a small amount of data covering the early launch period. An assumption is therefore made that the product being considered has a life-cycle curve and that new product acceptance is through a process of imitation, *i.e.*, later purchasers will follow the innovators.

Use of Computer Software in Sales Forecasting

Software has been written designed specifically for forecasting purposes. The problem with any listing of such software is that it quickly dates, so if it is proposed to use a software package then the best advice is to consult an up-to-date listing. The following is a list of more generalised packages that have withstood the test of time.

FOCA from Timberlake Clark Ltd. Offers modern quantitative forecasting of time series using exponential smoothing, spectral analysis, Box-Jenkins and adaptive filtering.

MINITAB from CLE.COM Ltd. A general-purpose data analysis system that is easy to use. Its features include descriptive statistics, regression analysis with diagnostics, residual analysis and step-wise procedures, time series analysis including robust smoothers and Box-Jenkins operations.

RATS from Timberlake Clark Ltd. An econometric package that performs time series and cross-sectional regression. It is designed for forecasting of time series, although small cross-sectional and panel data may also be used.

SAS/ETS from SAS Software Ltd. An econometrics and time series library which provides forecasting, planning and financial reporting. It contains procedures for time series analysis, linear and non-linear systems simulation and seasonal adjustments, and its applications include econometric modelling and cash-flow planning as well as sales forecasting.

SORITEC from Timberlake Clark Ltd. Includes non-linear and simultaneous estimation techniques, simultaneous non-linear simulation and solution, a full matrix processing language and transfer function estimation.

SPSS-PC from SPSS (UK) Ltd. A fully interactive data analysis package with full screen editing facilities, data entry and validation and a range of analytical and reporting procedures.

STATGRAPHICS from Cocking & Drury Ltd. A statistical and graphics

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package that includes plotting functions (2D and 3D), descriptive methods, estimation and testing, distribution fitting, exploratory data analysis, analysis and variance, regression analysis, time series analysis including Box-Jenkins ARIMA modelling, multivariate and non-parametric methods and experimental design.

STATPAC GOLD from Molimerx Ltd with batch and interactive processing and good graphics that requires less memory than most other packages. This listing only documents those packages that are available in Britain; many more are available in the United States.

1.19 BUDGETING—PURPOSES

It was outlined at the beginning of this chapter that an organisation needs to budget to ensure that expenditure does not exceed planned income. It has been shown that the sales forecast is the starting point for business planning activities. The company costing function takes the medium-term sales forecast as its starting point, and from this budgets are allocated to departments (or cost centres). Budgets state limits of spending; they are thus a means of control. The company can plan its profits based upon anticipated sales, minus the cost of achieving those sales (which is represented in the total budget for the organisation).

The consequence of an incorrect medium-term forecast can be seen as the company profit plan will be incorrect. It has already been mentioned, but is re-emphasised here, that if the forecast is pessimistic and the company achieves more sales than those forecast, then potential sales might be lost owing to unpreparedness and insufficient working finance and facilities being available to achieve those sales. Conversely, if the forecast is optimistic and sales revenue does not match anticipated sales, then revenue problems will arise, with the company having to approach a lender – probably a bank – to fund its short-term working capital requirements (which can be expensive if interest rates are high). This latter factor is a prime cause of many business failures, not necessarily because of bad products or a bad salesforce, but through insufficient money being available to meet working capital needs. These problems stem from incorrect medium-term forecasting in the first place. The following budgeting practice used by Kraft gives an illustration of budgeting methods.

Alternative Types of Budgeting

There are a number of budgeting types to choose from Kraft uses a mix of the following:

1. *Zero based budgeting:* In a dynamic business it often makes sense

to 'start afresh' when developing a budget rather than basing ideas too much on past performance. This is appropriate to Kraft because the organisation is continually seeking to innovate. Each budget is therefore constructed without much reference to previous budgets. In this way, change is built into budget thinking.

2. *Strategic budgeting:* This involves identifying new, emerging opportunities, and then building plans to take full advantage of them. This is closely related to zero based budgeting and helps Kraft to concentrate on gaining *competitive advantage*.
3. *Rolling budgets:* Given the speed of change and general uncertainty in the external environment, shareholders seek quick results. US companies typically report to shareholders every three months, compared with six months in the United Kingdom. Rolling budgets involve evaluating the previous twelve months' performance on an ongoing basis, and forecasting the next three months' performance.
4. *Activity based budgeting:* This examines individual activities and assesses the strength of their contribution to company success. They can then be ranked and prioritised, and be assigned appropriate budgets.

1.20 THE SALES BUDGET

The **sales budget** may be said to be the total revenue expected from all products that are sold, and as such this affects all other aspects of the business. Thus, the sales budget comes directly after the sales forecast.

It can be said that the sales budget is the starting point of the company budgeting procedure because all other company activities are dependent upon sales and total revenue anticipated from the various products that the company sells. This budget affects other functional areas of the business, namely finance and production, because these two functions are directly dependent upon sales. Figure 1.6 best explains the sales budgeting procedure.

Figure 1.6 represents the way that cost accountants view the budgeting procedure. From the sales budget comes the sales department budget (or the total costs in administering the marketing function). The production budget covers all the costs involved in actually producing the products. The administrative budget covers all other costs such as personnel, finance, etc., and costs not directly attributable to production and selling.

The sales budget is thus the revenue earner for the company and other budgets represent expenditures incurred in achieving the sales.

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Cost accountants also have cash budgets and profit budgets, each with revenue provided from company sales. It is not proposed to go into why they split into cash and profit budgets. If you want to know more about the mechanisms involved here, then any basic text on cost accountancy should provide an explanation.

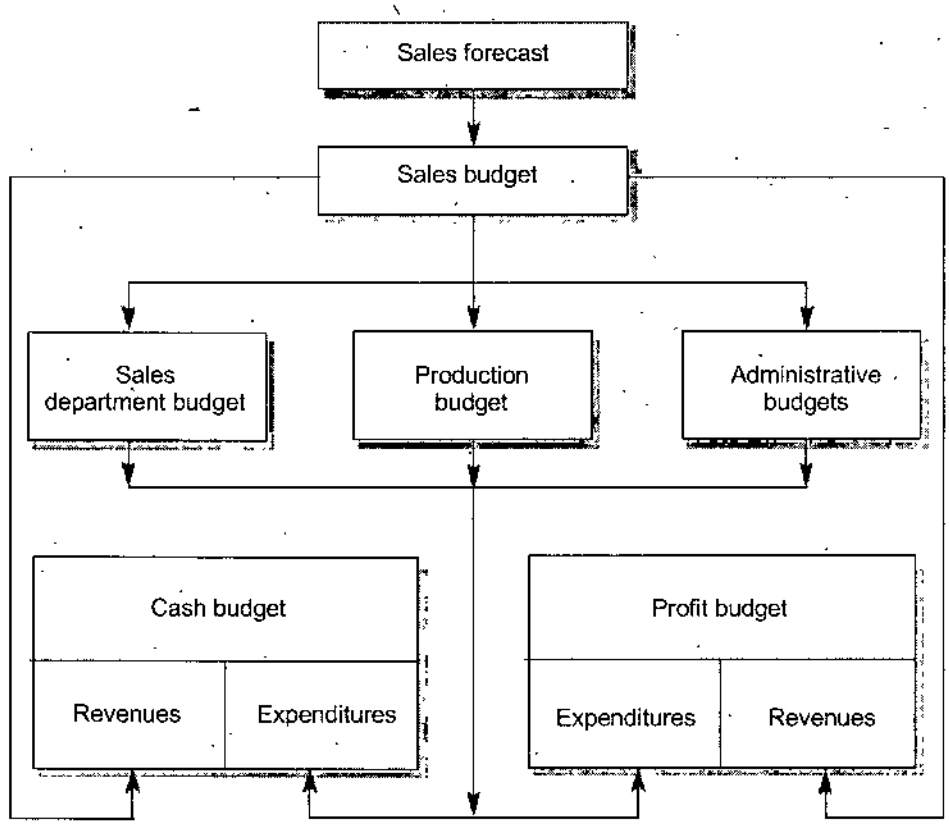

Figure 1.6 The budgetary process

1.21 BUDGET ALLOCATION

The sales budget is a statement of projected sales by individual salespeople. The figure that reaches the individual salesperson is sometimes called the sales quota or sales target and this is the amount that must be sold in order to achieve the forecasted sales. Such quotas or targets are therefore performance targets that must be reached, and quite often incentives are linked to salespeople reaching (and surpassing) such quotas or targets.

Each salesperson knows the individual amount they must sell to achieve their quota, and such quotas are effectively performance targets. Quotas need not necessarily be individually based, but can be group based – say, collectively throughout a region – with everybody from the regional or area manager downwards equally sharing the sales commission. Quotas may also be for much shorter periods than the one year. The entire year's budget may be broken down in the same manner, say, month by

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month. When administered like this the time horizon is more realistic and immediate than one year. Thus, there is more of an incentive for a salesperson to achieve the quota or target.

For established firms the most common practice of budget allocation is simply to increase (or decrease) last year's individual budgets or quotas by an appropriate percentage, depending on the change in the overall sales budget. However, periodically it is sensible to review individual sales quotas to establish if they are reasonable given current market conditions.

The first step in this procedure is to attempt to determine the sales potential of territories. Usually surrogate measures will be employed to give at least relative measures of potential. For consumer products, disposable incomes and number of people in the target market may be used to assess relative potential. For industrial products, the number and size of potential customers may be used. Another factor to be taken into account is workload. Obviously two territories of equal potential may justify different quotas if one is compact while the other is more widespread. By assessing sales potential for territories and allowing for workload, the overall sales budget can be allocated in as fair a manner as possible between salespeople.

The purpose of sales forecasting has been explained and it has been emphasised that this function rests with sales management. Its importance to the planning process has been established; without reasonably accurate forecasting, planning will be in vain. The purpose of forecasting has been considered in the short, medium and long term, and the usefulness of each has been established within the major functions of any manufacturing or service concern.

Forecasting has been considered under the headings of qualitative and quantitative techniques, with the latter being split into time series methods and causal methods. Qualitative techniques and time series methods have been explained in the amount of detail required to give you a working knowledge of their application. However, causal methods depend largely upon the use of the computer, and computation relies to a great extent upon advanced mathematics. As such, the techniques have been described, but not explained in workable detail.

Finally, the importance of the sales budget in motivating and controlling the salesforce was considered. The sales budget, which is determined by the sales forecast, is broken down into sales quotas or targets for individual salespeople and regions. Monetary incentives may be linked to the attainment of quotas and may be used as a yardstick of achievement.

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1.22 SALES TERRITORY AND SALES QUOTA

Since, Sales Planning is an integral part of the overall Sales Department, let us try to understand the concept of Sales Management in brief. The concept and the role of Sales Management has been evolving over the years. There was a time when selling the goods was no problem at all. Orders for goods produced, were always on hand even before the goods were actively produced. The problem was to produce enough goods so as to meet the demand of nereby customers. Maximum time of the management was devoted to manufacturing problems, while selling and marketing were handled on a part-time basis.

With the increase in production and setting-up of large scale organisations, the problems of market expansion started cropping-up. Total production of goods went so high that hereby customers could not absorb the goods produced, but even under such circumstances other departments took precedence over Sales Management. The other departments which were preferred over Sales Management, were manufacturing and financial department. It was after these departments were set-up that the Sales Management came into being.

As the companies, business and market expansion increased, the distance between its customers and the company also went on increasing. It was here that the problem of communication with its customers, on a regular basis came up. This function of communication and other aspects of marketing therefore was also assigned to Sales Management. Interestingly, as more and more goods were produced, the differentiation between the similar goods of different manufacturers started becoming more and more difficult. Thus a need for the specialised job functions of advertising, promotion, marketing research etc., was felt. Though initially all these functions (now assigned to of marketing Management) were assigned to Sales Management, later on separate specialised functional departments for these functions were created and grouped under the Marketing Manager rather than a Sales Manager.

1.23 PRODUCT-WISE SALES PLANNING

Productive Sales Planning entails planning the unit-wise sales for various products of a company. This is done, usually in organisations, on annual, quarterly and monthly bases. Once, the product-wise planning is completed for the organisation, it can then be divided into regional, area and territory-wise planning. An example of the Product-wise Sales Planning for a company having 6 products can be as follows:

S.No.	Product	Unit-wise A Sale Plan	Value Per Unit (₹)	Total Sales Value (₹)
1.	A.	10,000	1,000	1,00,00,000
2.	B.	1,10,000	100	1,10,00,000
3.	C.	20,000	50	10,00,000
4.	D.	75,000	25	18,75,000
5.	E.	1,00,000	35	35,00,000
6.	F.	50,000	80	40,00,000

Company XYZ : Product-wise sales planning for the financial year 1998-99

Once this product-wise sales planning is acceptable to the top management, the same can be divided into regional, area-wise and territory-wise sales planning. While determining the sales plan for each product, the Sales Management has to derive the Market Potential, Sales Potential and the Sales Forecast for their products. Market Potential is the total number of units of a product which can be sold by all the companies in a given market. For example, the market potential of 10 million cars in India, would indicate that combined sales of all the car manufacturers will not be more than 10 million cars in a year in our country. Sales potential, on the other hand, would indicate maximum units of product which a single manufacturer can sell in a given market in a year. For example, the sales potential of 5 million cars for Maruti Udyog Limited would indicate that the company can sell a maximum of 5 million cars in India in a year.

Sales Forecast, indicates the number of units of a product which that single manufacturer actually plans to sell. For example, Sales Forecast of 2.5 million cars of Maruti Udyog Limited would indicate that this company plans to sell 2.5 million cars out of total sales potential of 5 million cars that it can sell. A company goes for a lower sales forecast than its sales potential, because of various reasons like lower production capacity, limited working capital, scarce availability of raw material etc.

While deciding on Sales Forecast, the Sales Management should try and find out the answers to following questions.

1. What is the number of its customers? This should include the present customers as well as the potential or planned or future customers (planned or future customers would be the ones that Sales Management wants to include in the year for which the sales forecast is being made).

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2. What is the size of the customers (The ABC Analysis of the customers in terms of their sales turnover, profit etc.)?
3. What products will they purchase?
4. Why do they buy such products or what are their needs to buy such products?
5. How much quantities do they buy for a particular product?
6. How many times, in a year do they buy such products?
7. Under what conditions do they buy? Whether they buy on cash or credit?
8. What is the competition doing in these product markets or even what the competition is expected to do?

Realistic and factbased answers to all these questions plus the information on what marketing activities our own company is going to perform, will help determine the product-wise sales.

1.24 TERRITORY MANAGEMENT MEANING

A sales territory represents a group of customer accounts, an industry, a market or a specific geographical area. Some of the factors that influence sales volume of a territory are territory size, its market potential, number of customer accounts, firms experience and market share in of the Sales Effort the territory, quality of sales person assigned and the frequency of sales calls made. One of the important function of sales management is to set up sales territories with optional profit potential. The major factors that govern the territory size are number of customers and prospects, call frequency on existing customers, and the number of calls that sales persons makes in a day.

1.25 WHY SALES TERRITORIES?

First of all, let us discuss why sales territories are carved. Sales territories are established for achieving some of the following goals.

Proper market coverage: Systemic mapping of sales territories facilitates sales persons in effectively combing the territory, covering present as well as potential customers. Proper understanding of the market potential helps in establishing an ideal territory which represents a seasonable workload for the sales person while assuring that all potential customers can be followed up as desired.

Effective deployment of sales force: Proper knowledge of the demands of the sales territory results in assignment of the right person for the

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territory. The specificity in job description and responsibility definition paves the way for parity in workload and potential among sales person. Therefore when territories are distributed equitably to the sales persons fewer conflicts arise from calling someone else's customer and on workload carried out.

Efficient customer service: Well designed sales territories improve buyer seller contacts and enable better customer orientation on the part of the sales person. This results in regularity of customers call as provision of more satisfying customer service.

Objective evaluation of sale force: Comparison of the sales persons performance to the potential of the assigned territory results in their adjective evaluation. Territory by territory evaluation of the sales performance in turn, helps spot market condition as well as to make needed adjustments in the strategy.

Improving selling and marketing productivity: A well designed sales territories coordinates territory selling activities with other marketing function of the company. Market planing on a territory basis can be used more effectively and efficiently of the sales quota and developing profits plans. Similarly sales and cost analyses can be done more easily on a territory basis than for the entire market. It has been found that launching advertising campaigns, selling dealers on co-operative advertising, distribution point of purchase display or launching sales promotion schemes, are generally more satisfactory if the work is assigned and managed on a territory by territory basis rather than for the market as a whole.

1.26 STEPS IN TERRITORY PLANNING

Territory Planning is another very important aspect of the total Sales Planning exercise. It should be carried out as systematically and as - scientifically as possible. Various steps to a scientific Territory Planning are as follows:

Salesman's Capacity

A proper analysis should be made as to how many customers / prospects can a salesman meet in a day. The number of customers thus obtained should be multiplied with the number of working days in a month, say 25 working days. The resultant number should determine the territory. For example, a salesman in a consumer product company is expected to call on 40 customers a day. This number when multiplied by 25 (working days in a month) would give us a figure of 1000. Thus, the salesman should be given a territory consisting of 1000 customers.

For a company in pharmaceutical industry the call average is 10 doctors / customers per day, and for a sales man in industrial products the call average is 4 to 5. Their territories can be worked out, accordingly.

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Frequency of Calls Per Month

The Sales Management should also decide the frequency of calls per month to each customer. An A class customer can be visited twice-a-month also, while B and C class customers can be visited once-a-month. The sales man should devote time with individual customers on the basis of the sales potential of each customer. More the potential, more should be the time devoted.

Parity in Sales Potential

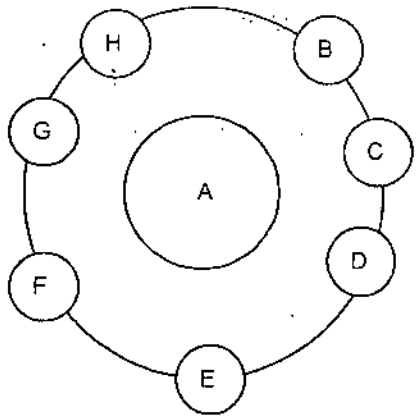
Various territories should have some parity in sales potential. This enables more realistic appraisal of various salesmen though there would be some difference in the capacity of various salesmen to perform. One territory of sales potential of ₹. 1,00,000 can not be compared with the other with potential of ₹. 50,000.

Let us discuss it with the help of some illustrations so as to understand it with clarity. Suppose there are three territories which have to be managed by the sales manager. These territories are A, B and C. The sales potential of each territory is ₹. 10,00,000, ₹. 8,00,000 and ₹. 7,50,000 respectively. The sales manager has three salesmen too with their respective ability index of 1.0, 0.9, and 0.8 respectively. The sales manager will obviously assign territory A to the first salesman, territory B to the second and territory C to the third salesman. This will optimise the actual sales achieved and such a situation will allow for realistic appraisal of all his salesmen also.

Let us now take another example where the sales potential of territories A, B and C is ₹. 10,00,000 ₹. 5,00,0001 and Rs. 4,50,0001 respectively. In this case, the appraisal of all the salesmen can not be a realistic one. Even if the salesman with the lower ability index of 0.9 is assigned to territory A, his achievement (₹. 10,00,000 × 0.9 = ₹. 9,00,000) will be more than the salesmen with the ability index of 1.0, assigned to territory B, his achievement being ₹. 5,00,000 × 1.0 = ₹. 5,00,0001. Though the ability of the second salesman is more than that of first salesman, his achievement will be lower and hence his appraisal will also be lower.

In such a case the sales manager should divide the territory with the sales potential of ₹. 10,00,000 into two territories of ₹. 5,00,000 each and put two salesmen, instead of one. This action would not only be conducive to a realistic

appraisal of all the salesmen but would also help in realising the complete potential of territory A (Sales potential = ₹ 10, 00,000).



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Minimize Travel Time and Expenses

The territory should be planned in such a manner where maximum amount of salesman's time is spent in interacting with the customers rather than in travelling. This would automatically reduce the expenses also.

It will be worthwhile for us to discuss here various alternatives of shapes of a territory which can be of use to optimise the travel time, expenses and results (in terms of sales). There are three general shapes in use. These are the circle shape, the clover leaf shape and the wedge shape.

The circle shape is appropriate for a territory where the concentration of customers is more or less the same throughout the territory. The salesman is based at a town which is near the center of his complete territory. This shape ensures almost equal concentration of the salesmen to all his customers because the time involved in travelling to any area of his territory will be the same. This type of a sales territory is more common in fast moving consumer goods companies and pharmaceutical companies.

The clover leaf shape is desirable for the companies marketing industrial goods. This shape is suitable when the customers are located randomly. In other words, their concentration is riot equal in all areas of a territory. In this shape, the salesman is based at the center of the territory and plans his tour to cover all customers along one leaf. This ensures that the salesman comes to his base town at the weekend, spends sometime to meet his customers here and moves for towns on other leaf, the next week.

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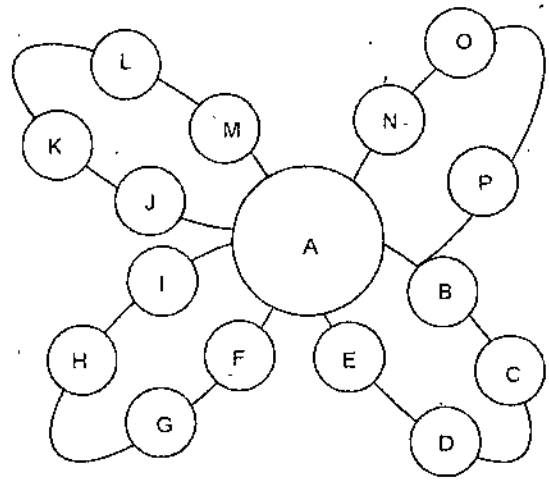
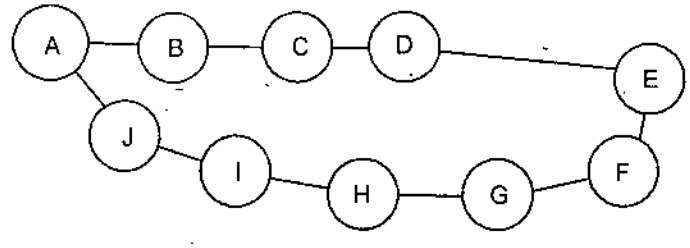


The wedge shape of a territory is suitable when the salesman is based at a town with dense population of customers and has to visit the satellite towns also for small customers or sparsely populated customers, such a shape we is an alternative to circle shape for companies marketing fast moving consumer goods or pharmaceutical products.

Suitably Station the Salesman

The salesman should be based at a, place in his total territory, with the highest concentration of customers. Suppose a territory consists of towns A, B, C, D, E, F, G, H, I and J and most of the customers are located in town F, then the headquarter of the salesman should be town F only. Moreover, other towns should be well connected with town F and distances should be minimum between the towns. This can be graphically represented as follows:



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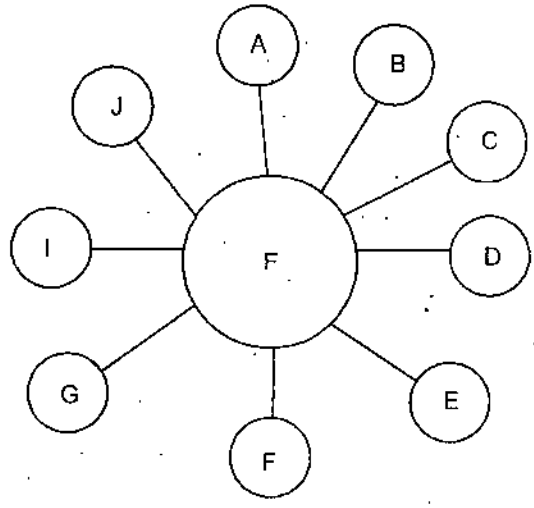
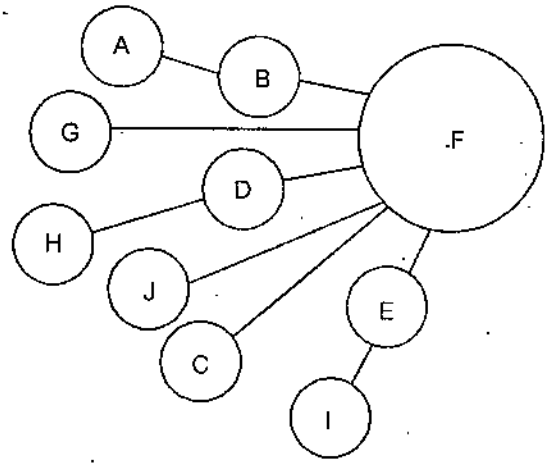


(The dimensions of circle represent the concentration of customers in each town.)



In the graphic illustrated above, where the salesman is based at town A with low customer's concentration, the salesman will have to remain mostly on tour to meet more customers in town F, which will not only put more pressure on the time available to the salesman but will also increase his expenses on tour and travel.

1.27 APPROACHES TO TERRITORY DESIGN

The above discussion so far brings out that the design, assignment and management of sales territory plays a crucial role in the effective management of the sales functions. Given the dynamics of the market place, sales territories once formed to not hold good for ever, instead they evolve and undergo transformation in response to market needs. The two basic approaches commonly used for designing sales territories are discussed below:

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1. The Market build up approach.
2. Workload approach.

The Market Build Up Approach

This approach estimates the present and potential product/service demand by looking as how the market is build up, that is, who are its present/ potential users, and how much do they consume and at what frequency. Unfortunately it is not so easy as it looks.

Its major use is industrial goods companies where complete listing of users is feasible along with approximate consumption norms. Publications such as annual survey of industries, trade directories, state, District and city-wise list of manufacturing establishments *etc.,* come very handy in this regard. Starting with one user industry in an area and then adding up all the relevant industries in that area one can estimate the potential for that area. Aggregating the estimates for all the areas we arrive at on all India market potential for the product. To this we apply the firms market share objective and arrive at its sales potential. This sales potential when divided on territory basis constitutes the territory sales potential and specifies the corresponding level of sales and marketing support requirements for the territory.

For example, if for an ultrasound equipment manufacturer, the market potential for all the areas sums to 3000 and for Maharashtra state 600, *i.e.,* 20% then its might warrant the firm to invest 20% of its marketing and sales effort in Maharashtra. Given the customer wise market potential and the classification of customers into A, B, C etc. categories, number and frequency of sales calls required to tap the sales potential among customer are determined. This leads to estimate of total sales call required per area, and number of sales persons required. Sales territories are then formed in a manner that the sales potential and workload for each territory is nearly equal.

The Workload Approach

W. J. Talley's Workload approach of territory design is based on creation of territories that are equivalent in terms of workload performed by sales persons. The steps involved in the creation of sales territories under this approach are:

1. Customers are grouped into Class Sizes according to the annual Sales Volume that the Company has.
2. Optimum Call frequencies for each Class of customers are estimated *e.g.,* in one case present and potential customers are grouped into volume classes and then theoretical call frequencies are assigned to them.

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3. Present and potential customers are then located geographically and arranged volume and value-wise.
4. The number of present and potential customer in each volume/ value group is then Multiplied by the desired Call frequency to get a total number of planned calls required for each geographical control unit.
5. This is followed by determination of geographical control units in these that the carved out territory is combed to the maximum, giving adequate workload to the sales person as well minimising, if not eliminating the unproductive time spend in covering distance between two calls and post call activities.

The basic weakness of this approach is that, since the call frequency is already established it may not provide for development of mediocre or neutral customer accounts into Super accounts due to lesser number of calls assigned to them. The other shortcoming lies in establishing parity in workload and potential territories, in different markets. In practice no two territories are equal in terms of travel time, current sales or potential. For example territory A may cover only two cities of state and be reasonably compact, whereas territory B might include five cities of a state. These inequities affect such sales persons the most, who are dependent mainly on commission on sales as their income in a specific territory. The workload approach to territory design, therefore would be more suitable in situation where sales persons are employed on fixed salary basis. If may be noted that as the market conditions change sales territories need adjustment and even redesigning. The principle of equating territories on marginal profit values make useful contribution in this regard.

1.28 TERRITORY COVERAGE PLANNING

Territory coverage planning is nothing but a plan to systematically visit the customers as defined in step 2 above (Territory Planning).

Once the customers have been identified, the frequency of visits has been determined, and the potential of each customer (and thus each town) has been determined, the TERRITORY COVERAGE PLAN in now drawn.

Each town is listed on a sheet of paper and it is noted that on which date of the month, the salesman will visit a particular town. Mode of Transport is also indicated on the same sheet and the address of salesman or his contact point in each town is also mentioned. This enables the Sales Manager to contact the salesman in a particular town.

It is appropriate to keep looking at Territory Coverage Plan at frequent intervals and the sales performance from each town in this plan. This analysis helps the Sales Manager to take necessary steps to improve sales in a poor-performing town. It also helps him to take a decision to drop a town from the Territory Coverage Plan, if there are no chances of sales improvement. On the other hand, another town which was not being visited earlier but promises good sales potential, can be added to the Territory Coverage Plan.

Along with the Territory Coverage Plan, Sales Management can also plan for a Standard Customer List with each salesman. This list can also be reviewed periodically so as to find out the sales result from each customer. The individual customers can also be deleted from this list (if sufficient sales are not being generated from the customer) and new customers added (which have better sales potential).

1.29 SALES TERRITORY EXPENSE PLANNING

Once the Sales Manager has completed the Territory Planning and the Territory Coverage Planning, he can take a decision as to how many salesmen will be needed to cover all the customers efficiently and effectively. For example, if there are 10,000 potential customers in a Sales Manager's total area and one salesman can effectively cover 1000 customers every month (as illustrated in Territory Planning Para (I) above), the Sales Manager will require a total of 10 salesmen.

Once the number of salesmen has been decided, the Sales Manager can work out the expenses which will include salesmen's salaries, travelling expenses, bonus, incentives, fares and other administrative expenses. The total of all these expenses would provide the Sales Manager with Sales Territory Expense Planning.

1.30 CONTROL SYSTEMS

What do we mean by control? Control is checking and evaluating the difference between what was planned and what was actually done and achieved? A sales manager has to analyse the qualitative as well as the quantitative data about his salesmen to exercise effective controls the qualitative aspect of controls can be exercise to gauge the salesmen's attitude towards his customers, company and to supervise his territory knowledge, the knowledge, about his customers, the knowledge about his products, and competitors product knowledge, his communication skills, his presentation skills, his leadership qualities etc.

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All these qualitative data about his salesmen can be analysed while working in the field with the salesmen. A sales manager should call-on the customers with the salesmen, should travel with them using the same mode of travel and should interact with his salesmen as much as possible.

The quantitative data is available from the salesman's daily reports and his territory coverage plan. The sales manager can analyse the number of customers being called by the salesmen on day-to-day basis, the value of the business received by the salesmen, the expenses made and the ratio of sales to expanses.

As we can see, the sales manager can have the qualitative and quantitative data about all his salesmen. Thus a sales manager can analyse the difference between what was planned to be achieved and what has actually been achieved in terms of customers calls, business produced, expenses made and proper communication of messages about the product to the customers.

Once the sales manager has analyed all these data, he can take corrective actions. He can ask the salesman to improve his daily average of customers contacted, or to improve value of orders generated or to improve his communication etc. He can also ask his training manager to conduct the salesman's training in a particular aspect where he found the salesman weak.

1.31 IMPROVING TERRITORY PRODUCTIVITY

For obtaining maximum productivity out of 2 sales territories, it is essential that the sales force lay emphasis on its effective management, than on mere coverage. In practice its means that sales territories be mapped and managed on profit oriented basis taking into consideration, the following points:

- profit contribution made by different customers, clarity of approach to account development, as well as to small/marginal customer.
- profit generators and detractors in the territory.
- allocation of sales, marketing and other resources based on territory's profit contribution potential.
- effective utilization of sales force time.

The process of improving territory production, therefore, requires establishment of a system of monitoring and review of the sales territory. The system should focus on:

- Sales territory performance in terms of its market potential, resources deployed and required, and profit contribution potential.

- Sales force itinerary planning, covering call planning, journey planning, appointment scheduling, preparation and usage of sales aids and equipment during sales calls, and post call planning.
- Documentation of customer call records, daily activity reports, cost and time on various activities, market intelligence, etc.
- Individual sales person's productivity.

In brief, attention to every single profit detractor and timely action on all profit generators helps a company to optimise the sales territory; productivity. Superior quality of the sales force facilitates in the attainment of this goal.

1.32 SALES PROGRAMME PLANNING

While undertaking this planning, the Sales Manager plans as to what each of his salesmen should do and when should he do it. All this is planned with the objective of meeting the objectives *i.e.*, the sales targets. Primarily, this planning includes the activities like.

- Putting up point of sales material like danglers, posters, stickers, billboards *etc.*, at retail counters.
- Improving shop window display like arranging product packs attractively in the glass windows at retail shops.
- Conducting outside the shop promotion like distributing gifts to the customers who purchase their product or distributing coupons for some discounts or free goods to customers.
- Conducting demonstrations like demonstrating the actual performance of a product like a Juicer, Mixer Grinder, at a shopping complex.
- Sampling programme like distributing free samples of the product (a new detergent) to some housewives in a colony.
- Presentation on the performance and benefits verbally to a group of potential customers.

1.33 SALES QUOTAS—MEANING AND IMPORTANCE

A sales quota is a quantitative goal assigned to a sales unit relating to a particular time period. A sales unit may be a sales person, territory, branch office, region or distributor. Sales quotas are used to plan, control and evaluate selling activities of a company. They provide a source of motivation, a basis for incentive compensation, standards for performance evaluation of sales person and uncover the strengths and weaknesses in

the selling structure of the firm. For example, a company manufacturing electronic office equipment discovered that it took twice as long as to sell an electronic typewriter than to sell other similar products in the product line. Since the electronic typewriter was considered more important by company, quotas on the electronic typewriter were set for each sales person. The result was that a sales person in a control group having a rigid electronic typewriter quota outsold the uncontrolled quota group. This example shows that generally speaking sales persons are quota achievers and their motivation may fall off if easy or no quotas are set for them to achieve.

1.34 WHY QUOTAS?

Sales quotas serve several purposes. The principal purposes include.

Providing goal and incentives : Quotas provide sales persons, distributive outlets and others engaged in the selling activities, goals and incentives to achieve certain performance level. Many companies use quotas to provide their salesforce the incentives of increasing their compensation through commissions or a bonus if the quota is surpassed and/or recognised for superior performance. Needless to mention, to be true motivators sales quotas, set should be perceived as being realistic and attainable.

Controlling sales persons activities: Quotas provide an opportunity to direct and control the selling activities of sales persons. Sales persons are held responsible for certain activities of customer per day, calling on new accounts, giving a minimum number of demonstrations and realisation of company's account. If the sales person fails to attain these quotas, the company can take corrective action to rectify the mistake.

Evaluating performance: Quotas enable the company to evaluate performance of its sales person, territory or distributive network. Performance against quotas also helps identify the strong and weak points of the sales persons.

Controlling the selling expenses: Quotas are also designed to keep selling expenses within limits. Some companies reimburse sales expenses only upto a certain percentage of sales quota. Other tie expenses to the sales person's compensation in order to curb wasteful spending. Expense quota helps companies to set profit quotas.

Making effective compensation plan: Quotas play an important role in the company's sales compensation plan. Some Indian companies follow the practice that their sales person will get commission only when they exceed their assigned quotas. Companies may also use attainment of the quotas in full or in part as the basis for calculating the bonus.

If the sales person does not reach the minimum desired quota, he/she will not be entitled for any bonus.

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1.35 HOW QUOTAS ARE SET?

Having understood the meaning and usefulness of sales quotas let us now learn how quotas are set. There are four types of quotas:

- Sales volume quota
- Financial quota
- Activities quota
- Combination of the above quotas.

These quotas along with the approach used for their determination are discussed below:

Sales Volume Quotas

The most commonly used quotas are those based on sales volume. This type of quotas are set for an individual sales person geographical areas, product lines or distributive outlets or for any one or more of these in combination. Sales volume quotas are also set to balance the sales of slow moving products and fast moving products or between various categories of customers per sales unit. The sales volume quotas may be set in terms of units of product sales, or rupee sales or both on overall as well as productwise basis. Some companies combine these two and set quota on "Point" basis. Points are awarded on the attainment of a certain specific level of sales in units and rupee terms for each product/customer. For example : A company might consider ₹. 1000 equal to 1 point, ₹. 2000 equal to 2 points and so on. At the same time company may award 3 points for unit sales of Product A and 5 points - for unit sales Product B. Companies use this type of approach generally because of problems faced in implementing either Rupee sales volume or unit sales volume quota. Unit sales volume quotas are found useful in market situations where the prices of the products fluctuate considerably or when the unit price of the product is rather high. Rupee sales volume quotas are found suitable in the case of sales force selling multiple products to one or different types of customers.

Methods for Setting Sales Volume Quotas

Past sales: One of the earliest methods of setting sales volume quotas is to base them solely on past sales experience. The method in this case would be to determine the percentage by which the company's market

share is expected to increase and then add this into last year's quota. For example, if a company expects an increase of 8 per cent this year then the new quota for each marketing unit would be last year's quota plus 8 per cent or 108 per cent of last year's quota. This method assumes that the preceeding year was a typical year, and if not, it suffers from the limitations of being based on unrealistic figures. An improved method is to take the average of say past three years and then add to it to the planned rate of growth.

Total market estimates: The other method is to derive sales quotas from the total market size estimates made by the company for the year. Two approaches are used to arrive at such market estimates. One approach is to estimate the market size in an aggregate manner as per the data available as well as the judgement of the executive at the head office. The other is to build estimates based on projections made by the field staff at each territory office of the companies. In either case the market estimates need moderation to be realistic as well as to match with the company's sales objectives.

Financial Quotas

Financial quotas are determined to attain desired net profit as well as to control the sales expenses incurred.

Net profit quota : Net profit quotas are particularly useful in multiproduct companies where different products contribute varying level of profits. It emphasises on the sales force to make right use of their time. In other words, it should ensure that its sales persons spend their maximum time on more profitable customer. The objective can be achieved by setting a quota on net profit for its salesforce, and thus encouraging them to sell more of high margin products and less the low margin products.

Expense Quota: In order to make the salesforce conscious of the need to keep selling costs within reasonable limits, some companies set quota for expenses linked to different levels of sales attained by their salesforce. And to ensure its conformity they even link compensation incentives to keeping expenses within prescribed limits. Since sales are the result of the selling tasks performed which vary across sales territories, it is not easy to determine expense quotas as percentage of sales in a uniform manner. Also very strict conformity to expense quota norms result in demotivation of salesforce. As such expense quota is generally used as a supplement to other types of quotas.

Activity Quotas

Good performance in competitive markets requires the salesforce to perform the sales as well as market development related activities. The latter activities have long-term implications on the goodwill of the firm.

To ensure that such important activities get performed, some companies set quota for the salesforce in terms of the various selling activities to be performed by them within a given periodicity. Finally the company must set a target level of performance for the sales persons. Some of the common type of activity quotas prevalent in Indian companies are as under:

- Number of prospects called on
- Number of new accounts opened
- Number of calls made for realising company's account
- Number of dealers called on
- Number of service calls made
- Number of demonstrations made.

The chief merit of activity quota lies in its ability to direct the salesforce to perform the "urgent" selling activities and "important" non-selling but market development related activities in a balanced and regular manner.

Combination Quotas

Depending upon the nature of product market selling tasks required to be performed as well as selling challenges facing the company, some companies find it useful to set quotas in combination of the two or three types discussed above. Rupee sales volume and net profit quotas or unit sales volume and activity quota in a combined manner are found in common use in a large number of consumer and industrial products companies in India.

1.36 ATTRIBUTES OF A GOOD SALES QUOTA PLAN

Usually, the sales department is responsible for establishing the sales quota, and no review or approval of a higher executive is needed. Within the sales organisation, the task may rest with any of several executives, depending on the size of the company, the degree of centralization in the sales force management, and the method used to determine the quotas. The chief sales executive may be responsible for setting the total company quota, but the individual breakdown may be delegated down through the

regional and branch district managers. Or territorial sales potentials may be given to the branch or territory managers, and they set the salesmen's quotas. There are several characteristics of a well-designed quota structure. Many of these attributes are the same attributes found in good compensation plans, territorial designs, organisational structures and other aspects of sales management.

Realistic attainability : If a quota is to do its intended job of spurring a man to the efforts management wants, the goal must be realistically attainable. If it is too high or out of reach, the salesmen may loose initiative.

Objective accuracy: Regardless of whether a firm is using volume, profit, expense, or activity quotas, they should be related to potentials. Obviously, executive judgement is also required, but it should not be the sole factor considered. If the men are to have faith in the performance goal, they must be convinced it was set impartially and based on factual, qualitative market assessment.

Ease of understanding and administering: A quota must be simple and easy for both management and the sales force to understand. A complex plan probably will cause friction and make the men resentful and even suspicious. Also, from management's point of view, the system should be economical and cost effective, to administer.

Flexibility: No quota ordinarily is a good one unless there is adequate flexibility in its operation. Particularly if the quota period is as long as one year, management may have to make adjustment because of changes in market conditions. At the same time, caution must be exercised to avoid unlimited flexibility, which may result in confusion and destroy the ease with which the system is understood.

Fairness: A good quota plan is fair to the men involved. As much as possible, the work load imposed by quotas should be comparable, but this does not mean that quotas must necessarily be equal for all men. Differences in potential, competition, and salesmen's abilities exist and, therefore, the performance goals may not be comparable by absolute measures. They can be compared but only in relative terms.

1.37 SALES AND MARKETING PLANNING

To be effective, sales activities need to take place within the context of an overall strategic marketing plan. Only then can we ensure that our sales efforts complement, rather than compete with, other marketing activities. Accordingly, sales strategies and management are afforded a more holistic perspective and tend to cover the whole organisation.

Hence, the current general consensus is that sales strategies and tactics may only be arrived at, implemented and assessed against a framework of company-wide objectives and strategic planning processes. Before discussing sales strategies and tactics, the nature and purpose of strategic market plans and the place of selling in these plans is outlined and discussed.

1.38 THE PLANNING PROCESS

The nature of the **sales planning process** is outlined in Figure 1.7. This process can be likened to that of operating a domestic central heating system. We first determine the temperature required, timing, etc., (setting objectives) and procedures which must be followed to make sure that this is achieved (determining operations). Next we have to implement appropriate procedures, including ensuring that the necessary resources are available (organisation). At this stage we can commence operation of the system (implementation). Finally, we need to check how the system is operating, in particular the temperature level that has been reached (measuring results). Any deviations in required temperature are then reported and corrected through the thermostatic system (re-evaluation and control).

This planning process can be described through the acronym MOST which describes the process from the general to the specific: mission, objective, strategy, tactics.

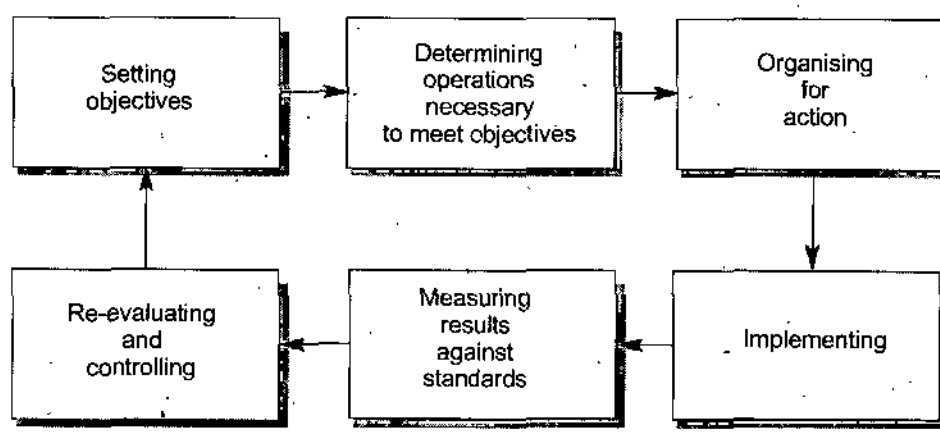

Figure 1.7 The planning process

1.39 ESTABLISHING MARKETING PLANS

There is no universal way of establishing an ideal marketing plan; nor is the process simple in practice because every planning situation is unique. Conceptually, however, the process is straightforward, consisting a series of logical steps. The marketing plan (Figure 1.8) can be portrayed as a hierarchy consisting of three levels:

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- Objectives: where do we intend to go? (*goals*)
- Strategies: how do we intend to get there? (*broadly descriptive*)
- Tactics: the precise route to be taken. (*detailed*)

Business Definition (Corporate Mission or Goal)

As a prerequisite to the determination of marketing plans, careful consideration should be given to defining (or re-defining) the overall role or mission of the business. This issue is best addressed by senior management's asking and answering the question: 'What business are we in?' The definition of the role of a business should be in terms of what customer needs are being served by a business rather than in terms of what products or services are being produced. For example, the manufacturer of microcomputers might define the company as being in the business of rapid problem-solving. In the automobile industry, companies might define their business as being the provision of transport, conferring status, etc., rather than manufacturing cars.

This process of business definition is important. Not only does it ensure that a company thinks in terms of its customers' wants and needs, but also in terms of the planning process, it forms a focusing mechanism for more detailed aspects that follow.

Situation Analysis/Marketing Audit

The precise content of this step in preparing the marketing plan will vary from company to company, but will normally consist of a marketing analysis and an analysis of strengths/weaknesses, opportunities and threats (SWOT).

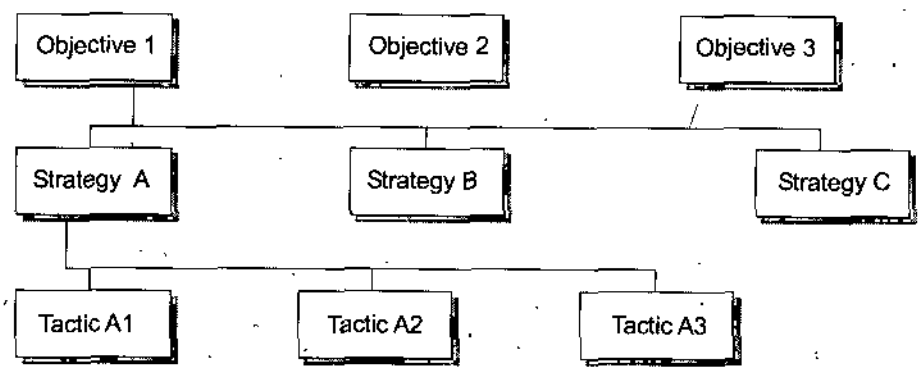

Figure 1.8 Hierarchy of the marketing plan

Market Analysis (or Marketing Audit)

Examples of data and analysis required under the **internal audit** include:

1. Current and recent size and growth of market. In the multi-product company this analysis needs to be made in total, by product/market and by geographical segment.
2. Analysis of customer needs, attitudes and trends in purchasing behaviour.
3. Current marketing mix.
4. Competitor analysis, including an appraisal of:
   - current strategy;
   - current performance, including market share analysis;
   - their strengths and weaknesses;
   - expectations as to their future actions.

As well as analysing existing competition, potential new entrants should be appraised.

The **external audit** consists of an analysis of broad macro-environment trends – Political, Economic, Socio-cultural and Technological (**PEST**) – that might influence the future of the company's products. This original description was first extended to SLEPT with the introduction of Legal factors, and then to **PESTLE** with the introduction of Environmental factors and now to **STEEPLE** with the introduction of Ecological factors. Both internal and external audits are deliberate and detailed coverage of the internal and external elements that have been described. They can be carried out by people within marketing or from other departments and, most importantly, they must have the backing of top management as they are central to both the marketing planning and corporate planning horizons of the company.

Analysis of Strengths/Weaknesses, Opportunities and Threats

Here management must make a realistic and objective appraisal of *internal* company strengths and weaknesses in the context of potential *external* opportunities and threats (**SWOT analysis**). Opportunities for the future of a business and threats to it stem primarily from factors outside the direct control of a company and in particular from trends and changes in those factors which were referred to earlier as the macroenvironment – namely political, economic, socio-cultural and technological factors. It is important to recognise that the determination of what constitutes an opportunity/ threat, and indeed the appraisal of strengths and weaknesses, must be carried out concurrently. An 'apparent' strength, for example, a reputation for quality, becomes a real strength only when it can be capitalised on in the marketplace.

A SWOT analysis is not a lengthy set of statements; it is simply a number

of bullet points under each heading. It should be short and uncomplicated as it is from the SWOT that marketing strategies are generated.

Statement of Objectives

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On the basis of the preceding steps, the company can now determine specific objectives and goals that it wishes to achieve. These objectives, in turn, form the basis for the selection of marketing strategies and tactics.

A company may have several objectives. Although marketing objectives usually tend to support business objectives, business and marketing objectives may also be one and the same. It should be pointed out that there are several types of objectives, such as financial and corporate objectives. Additionally, objectives may be departmental or divisional. However, regardless of the type or format, each objective requires its own strategy.

Objectives are needed in a number of areas – production objectives, financial objectives, etc. In a market-driven company, marketing objectives are the most important as they reflect customer needs and how the company can satisfy these. In a market-driven company, marketing plans come first in the overall corporate planning process. The objectives of other areas must then be consistent with marketing objectives. In addition to this element of consistency, objectives should be expressed unambiguously, preferably quantitatively, and with an indication of the time span within which the objectives are planned to be achieved. The acronym SMART describes the requirement for such objectives: Specific, Measurable, Achievable, Realistic and Time related.

This time span of planned activities often gives rise to some confusion in planning literature. Marketing plans are often categorised as being short range, intermediate range and long range. The confusion arises from the fact that there is no accepted definition of what constitutes the appropriate time horizon for each of these categories. What is felt to comprise long-term planning in one company (say five to ten years) may be considered intermediate in another. It is suggested that the different planning categories are identical in concept, although clearly different in detail. Furthermore, the different planning categories are ultimately related to each other – achieving long-term objectives requires first that intermediate and short-term objectives be met. The following criteria are necessary for setting objectives:

1. *Ensure objectives focus on results:* Because the effects of marketing activity are essentially measurable, sales and marketing strategies should enable the quantification of marketing achievement.

2. *Establish measures against objectives:* Return on investment.

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3. *Where possible have a single theme for each objective:* Imprecise objectives such as 'reduce customer defections by 20 per cent through best-in-class service' are not acceptable. There are at least two objectives here and each should be quantified.

4. *Ensure resources are realistic:* Best practice attempt to answer common marketing problems through the use of test and roll-out plans. Because testing enables roll-out costs to be estimated reasonably accurately, this should ensure that campaign running costs are realistic. (Although overheads or labour cost may not be.)

5. *Ensure marketing objectives are integral to corporate objectives:* This is indisputable, because there will be a serious mismatch if corporate objectives differ from marketing objectives, *e.g.*, general corporate objectives suggest expansion into new member countries of the European Union, and specific marketing objectives only include current member countries.

A most important document in a company is the annual marketing plan, which the sales manager plays a key part in preparing. The remainder of this chapter discusses planning in the context of the preparation of this annual document.

Determine Sales and Market Potential and Forecast Sales

A critical stage in the development of marketing plans is the assessment of market and sales potential followed by the preparation of a detailed **sales forecast**. Market potential is the maximum possible sales available for an entire industry during a stated period of time. Sales potential is the maximum possible portion of that market which a company could reasonably hope to achieve under the most favourable conditions. Finally, the sales forecast is the portion of the sales potential that the company estimates it will achieve. The sales forecast is an important step in the preparation of company plans. Not only are the marketing and sales functions directly affected in their planning considerations by this forecast, but other departments, including production, purchasing and human resource management, will use the sales forecast in their planning activities. Sales forecasting, therefore, is a prerequisite to successful planning.

Generating and Selecting Strategies

Once marketing objectives have been defined and market potential has been assessed, consideration should be given to the generation and selection of strategies. In general terms, strategies encompass the set of approaches that the company will use to achieve its objectives.

This step in the process is complicated by the fact that there are often many alternative ways in which each objective can be achieved. Although

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several strategies may be evaluated, only one strategy can be employed, giving rise to the formula: one strategy per objective. For example, an increase in sales revenue of 10 per cent can be achieved by increasing prices, increasing sales volume at the company level (increasing market share) or increasing industry sales. At this stage it is advisable, if time consuming, to generate as many alternative strategies as possible. In turn, each of these strategies can be further evaluated in terms of their detailed implications for resources and in the light of the market opportunities identified earlier. Finally, each strategy should be examined against the possibility of counter-strategies on the part of competitors.

The example that follows was provided by PR Artistry and concerns one of their clients, MCRL. It provides an illustration of how the planning process is implemented through the application of what the company has termed GOSPA.

Examples of Strategies

We begin by supposing that the objective is to maximise profit from dealings with established customers.

Strategy 1: Targeting to the marketer, targeting is equivalent to segmentation. A segmentation/targeting strategy may be based on any or all of the following:

- value (high or low consumption, value of goods purchased);
- customer preference (telephone/email ordering service, type of products/services purchased);
- lifestage (status of relationship between supplier and customer: active/lapsed/dormant customer/months since last purchase).

At this point it is important to emphasise that:

- segments must be potentially profitable;
- segments are not mutually exclusive;
- segments are not stable.

Hence, a consumer may fall into more than one segment or different segments at different times. If the segment requires a special effort to reach or appeal to it, then it must have sufficient potential purchasing power to justify the effort.

Strategy 2: Pricing in line with the classic marketer's approach, the following pricing strategies may be adopted:

- make short-term tactical reductions;
- establish price premiums;
- elevate perceived quality.

Thus, the classic principle of elevating the perceived quality of a brand so that it can command a higher selling margin may be adopted. Additionally,

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a discount has more value if the worth of what is being discounted is understood. Discounting is of course prevalent in all marketing. In fast moving consumer goods (FMCG) markets it tends to be driven by competitive or retailer pressures. Often, tactical cuts are seen as defensive.

Strategy 3: Customer retention because advanced technology enables suppliers to track the progress of an enquirer or customer, focus is increasingly shifting from mere product profitability to the profitability of customer relationships. However, customer profitability will be determined by:

- the cost of acquisition;
- the losses of customers or would-be customers at various key stages in the relationship.

Key stages in the customer relationship could be revised as:

- enquiry
- conversion to customer
- repeat purchase
- up-trade
- threatened dormancy
- recovery.

The probability of loss usually declines with the length of the relationship In consumer markets (but not in business markets) most often the duratio of a relationship outweighs rate of spending in determining the lifetim value of the relationship. Here, a customer database will not only facilitat measurement of this relationship, but more importantly enable correctiv action to be undertaken more easily. Thus, an offer may be triggered t prevent the customer 'going dormant'. Consequently, if the custome fails to respond and does go dormant, further offers may be made to recover the customer and re-start the relationship/recovery. Additionally, there could be a customer development and retention strategy, which could provide the means to retain customers. There may be a retention strategy based on customer care and a development strategy based on sales promotion. From this list of alternative strategies a choice must be made with regard to the broad marketing approach which the company considers will be the most effective in achieving objectives. This must then be translated into a strategy statement which must be communicated to and agreed with all those managers who will influence its likely degree of success or failure. Once again, the specific contents of such a strategy statement will vary between companies, but as an example a strategy statement might encompass the following areas:

1. A clear statement of marketing objectives.

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2. A description of the choice of strategies for achieving these objectives.
3. An outline of the broad implications of the selected strategies with respect to the following key areas in marketing:
   - target market
   - positioning
   - marketing mix
   - marketing research.

At this stage the strategy statement should give a clear and concise indication of the focus of the major marketing efforts of the company. Once this has been discussed and agreed a detailed plan of action can be prepared. There are many tools available for generating strategic options, the most popular of which are the Boston Matrix and the GE/McKinsey Matrix. A description and application of such tools is more appropriate to corporate strategy and strategic marketing planning texts and does not fall within the sphere of this text. However, analysis using the product life-cycle concept and diffusion of innovations is appropriate in this context. SWOT analysis is a useful method of generating strategies. A number of stages are necessary:

- Evaluate the influence of environmental factors (PESTLE) on the company.
- Make a diagnosis about the future.
- Consider company strengths and weaknesses in relation to all key areas of the company.
- Develop strategic options.

For example, in Figure 1.9 let us consider the case of a specialist, low volume UK sports car producer.

Strengths	Weaknesses
1 Well-established brand name 2 In business since 1920 3 Cult following 4 Low price 5 Consistently good press reviews	1 Production only semi-automated 2 Maximum production 30 units per week 3 Long waiting list 4 Only sold in UK, USA, Germany, Holland, Belgium and Scandinavia
Opportunities	**Threats**
1 USA market can take twice their allocation 2 Other European countries would like to purchase	1 Some purchasers not prepared to wait 2 Other volume manufacturers now producing niche models like this

Figure 1.9 SWOT matrix for a sports car producer

Strategic Possibilities Using SWOT Analysis

As an illustration, here are two strategic possibilities for the sports car producer mentioned in Figure 1.9. Use existing strong, well-established brands to raise production levels through automation to market to other European countries (S1, S2, W1, W2, O2, T2). Raise the basic price (S4, W3, O1, T1, T2).

This is an application of the use of the SWOT matrix which in essence takes elements of SWOT and brings them together to form marketing strategies. It was first proposed by Weihrich in 1982.1.

Preparing the Marketing Programme

The strategy statement prepared in the previous section provides the input for the determination of the detailed programme required to implement these strategies. The first step in the preparation of this programme is the determination of the marketing mix. Detailed decisions must be made with respect to product policy, pricing, promotion and distribution. Care should be exercised to ensure that the various elements of the marketing mix are integrated, *i.e.*, that they work together to achieve company objectives in the most effective manner.

At this stage of the planning process what has previously been an outline plan for guiding decision-making becomes a detailed operational plan and this section is inevitably the lengthiest part of the planning document. It is on the basis of this part of the plan that day-to-day marketing activities and tactics of the company will be organised, implemented and assessed.

Allocating Resources—Budgeting

Having made detailed decisions with respect to the elements of the marketing mix, the next step is to assemble a **budget** for each of these elements. In most companies limited resources ensure that managers from the different functional areas have to compete for these scarce resources. It is likely that much discussion will take place between those responsible for each element of the marketing mix. In addition, it may be found that initial marketing objectives, strategies and detailed plans for the marketing programme to achieve the forecast level of sales may, in the light of financial and other resource constraints, be unrealistic. In this event modifications to the original plan may have to be made.

It should be noted that at this stage an estimate can be made of both costs and revenues and a forecast profit and loss statement prepared.

Implementation

The procedure so far should have resulted in the preparation of a detailed document setting out what is to be done, when it will be done, who is responsible and estimated costs and revenues, as well as agreed time

frames for the various activities in the plan. Once approved, details of the marketing plan should be communicated to everyone involved. This communication is an essential and sometimes neglected aspect of marketing planning. Many companies have elaborate marketing plans that are not implemented because key people have not been informed or have not agreed the proposed plan.

Control

Finally, the plan should contain an outline of the control mechanisms that will be applied. This should include details of major objectives and key parameters in the measurement of the degree of success in achieving the objectives, thereby enabling corrections and modifications to be made as the plan unfolds. This control part of the marketing plan should specify what is to be measured, how it is to be measured and what data are required for measurement. It may also include details of what action is to be taken in the light of deviations from the plan. This contingency planning is a key feature of any planning process, recognising as it does that plans need to be flexible in order to accommodate possible unforeseen or unpredictable changes in the market. The overall marketing planning process is summarised in Figure 1.10.

1.40 THE PLACE OF SELLING IN THE MARKETING PLAN

We have examined how marketing plans are prepared. The sales function has an important role to play in this process and we now look at the nature of this role and, in particular, the contribution that the sales function makes to the preparation of the marketing plan and how the sales function itself is influenced by the marketing plan.

Contribution of the Sales Function

Throughout the planning process alternative courses of action need to be identified and decisions taken as to which of these alternatives is the most appropriate. Contingency planning measures such as these involve identifying alternatives and choosing between them, which requires accurate and timely information. A key role of the sales function in the planning process is the provision of such information. This becomes clearer if we examine some of the stages in the planning process where the sales function can make a valuable contribution:

1. analysis of current market situation (marketing audit)
2. determining sales potential/sales forecasting
3. generating and selecting strategies
4. budgeting, implementation and control.

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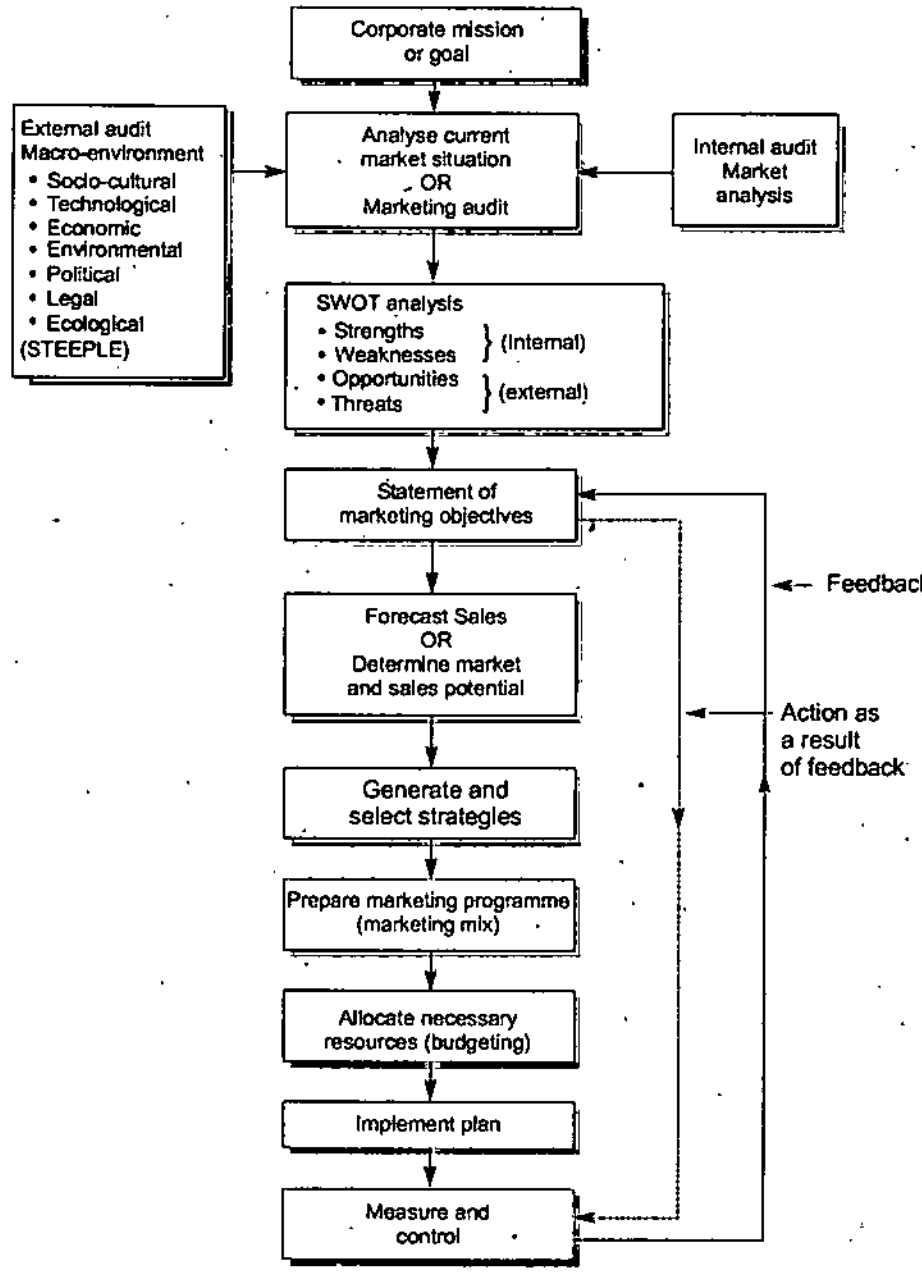

Figure 1.10 An overview of the marketing planning process

Analysis of current market situation (marketing audit)

The proximity of the sales function to the marketplace places it in a unique position to contribute to the analysis of the current market situation facing the company. In particular, sales is often well placed to contribute to the analysis of customer needs and trends in purchasing behaviour. The sales manager can also make a valuable contribution in terms of knowledge about competitors and their standing in the marketplace. This informational role of sales managers should not be ignored because, through the salesforce, they are ideally equipped to provide up-to-date, accurate information based on feedback from customers.

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Determining sales potential/sales forecasting

An important responsibility of the sales manager is the preparation of sales forecasts for use as the starting point for business planning. Short medium- and long-term forecasts by the sales manager form the basis for allocating company resources in order to achieve anticipated sales.

Generating and selecting strategies

Although decisions about appropriate marketing strategies to adopt rest with marketing management, the sales manager must be consulted and should make an input to this decision. Again, the sales function is ideally placed to comment on the appropriateness of any suggested strategies. The sales manager should actively encourage sales staff to comment upon the appropriateness of company marketing strategies. The field salesforce are at the forefront of tactical marketing and can more realistically assess how existing target markets will respond to company marketing initiatives. Indeed, the fact that there are front-line people who benefit from the most contact with customers should not be overlooked.

Budgeting, implementation and control

Preparation of the sales forecast is a necessary precursor to detailed marketing plans. The sales forecast is also used in the preparation of the sales budget. On the basis of the sales forecast, the sales manager must determine what level of expenditure will be required to achieve the forecasted level of sales. The important thing to remember about this budget is that it is the cornerstone of the whole budgeting procedure in a company. Not only the activities of the sales department, but also production, human resource management, finance and research and development will be affected by this budget. At this stage it is sufficient to note that in preparing the sales budget the sales manager must prepare an outline of the essential sales activities required to meet the sales forecast, together with an estimate of their costs.

The precise contents of the annual sales budget will vary between companies, but normally include details of salaries, direct selling expenses, administrative costs and commissions and bonuses. Having agreed the sales budget for the department, the sales manager must assume responsibility for its implementation and control. In preparing future plans, an important input is information on past performance against budget and, in particular, any differences between actual and budgeted results. Such 'budget variances', both favourable and unfavourable, should be analysed and interpreted by the sales manager as an input to the planning process. The reasons for budget variances should be reported, together with details of any remedial actions that were taken and their effects.

Influence of marketing plan on sales activities

Strategies and tactics. Any planning process is effective only to the extent that it influences action. An effective marketing planning system

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influences activities, both strategic and tactical, throughout the company. The classical marketing approach favours the inside-out planning model proposed by Schultz, Tannenbaum and Lauterborn (Figure 1.11). However, the reverse outside-in planning model is becoming increasingly popular. Figure 1.12 shows an outside-in planning sequence, starting with a calculation of the cost per sale to current customers, then to lapsed customers and prospects on the database, and finally to new customers. The cost-per-sale calculations determine the sales target in each case.

This process is followed by a strategy for each discrete segment. A product may not, for example, be offered to each segment at the same price. Similarly, types of communication will be different for each segment.

Monetary objective
⇓
Costs
⇓
Contribution margin
⇓
Marketing funds
⇓
Allocations against prospects
⇓
Communication choices
⇓
Implementation

Figure 1.11 Inside-out planning model

Current Customer sales objective
⇓
Captive files sales objective
⇓
Ex-database sales objective
⇓
Total sales objective
⇓
Segment strategies
⇓
Communications plan
⇓
Test Test Test
⇓
Roll-out

Figure 1.12 Outside-in planning model

Both the segment strategy and the content of communications will, ideally,

be tested against reasonable alternatives. The most successful alternatives on testing will then be rolled out to the remaining population in each segment.

Although the inside-out model is financially driven, it is much less safe than the customer orientated planning model. Perhaps this influence is most clearly seen through decisions relating to the marketing programme or marketing mix. Sales strategies are most directly influenced by planning decisions on the promotional element of the marketing mix. Here we will consider briefly the notion of a 'mix' of promotional tools, outlining the considerations in the choice of an appropriate mix and the implications for sales strategies. In particular, the important and often misunderstood relationship between advertising and selling is explained and discussed. We conclude this section by examining briefly the nature of sales tactics.

The promotional mix

Earlier in this chapter we suggested that an important facet of marketing planning is the preparation of a marketing programme, the most important step in this preparation being the determination of the marketing mix – product, price, distribution and promotion. As selling is only one element in the promotion part of this mix, it is customary to refer to the **promotional mix** (or more correctly the communications mix) of a company. This traditional promotional mix is made up of four major elements:

1. advertising
2. sales promotion
3. publicity/public relations
4. personal selling.

To these traditional elements can now be added:

5. direct marketing
6. interactive/internet marketing.

In most companies all four traditional elements can contribute to company sales, but a decision has to be made on where to place the emphasis. This decision is made at the planning stage. In addition, it is important that the elements of the promotional mix work together to achieve company objectives. An important planning task of management is the co-ordination of promotional activities.

Several factors influence the planning decision on where to place emphasis within the promotional mix. In some firms the emphasis is placed on the salesforce with nearly all the promotional budget being devoted to this element of the mix. In others, advertising or sales promotion is

seen as being much more efficient and productive than personal selling. Perhaps the most striking aspect of the various promotional tools is the extent to which they can be substituted for each other. Companies within the same industry differ markedly in where they place the promotional emphasis, a fact which makes it difficult to be specific about developing the promotional mix within a particular company. As a guide, some of the more important factors influencing this decision are now outlined.

1. *Type of market:* One of the major distinctions between types of markets is that which exists between business and consumer markets and hence B2B and B2C marketing. As we saw, the application of the marketing mix elements will often differ when marketing in each of these markets. For example, we saw that in general, advertising and sales promotion play a more important role in the marketing of consumer products, whereas personal selling plays the major role in marketing to business buyers. But a major reason for differences between B2B and B2C marketing stem from differences between business and consumer buyer behaviour processe. An obvious contrast is the marketing of fast moving consumer goods (FMCG) with the marketing of often highly technical, expensive capital goods to industry. Despite this, it is a mistake to conclude that advertising does not have a role to play in the marketing of industrial products. Indeed, the contribution of advertising is often undervalued by sales personnel and discounted as a waste of company resources. The 'new' promotional mix increasingly involves e-commerce possibilities and this is highlighted through developments in this field and the numbers of companies using this facility. In addition, the use of freephone facilities is also making communication easier and cost-free to the potential customer. These more contemporary issues are highlighted in the two examples that follow.

2. *Stage in the buying process:* It is suggested that for both industrial and consumer products it is useful to consider the stages through which the prospective purchaser passes en route to making a purchase decision. Although there are a number of ways in which this process may be conceptualised, essentially it consists of the potential purchaser moving from a position of being unaware of a company and/or its products, to being convinced that its products or services are the most appropriate to the buyer's needs. The sequential nature of this process is shown in Figure 1.13. For a given outlay, advertising and publicity are more effective in the earlier stages of moving potential purchasers through from unawareness to comprehension. Personal selling is more cost effective than other forms of promotional activity at the conviction and purchase stages. This is not to suggest that 'cold calling' is not an important area of sales activity but, as

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we see later, such cold calling is rendered much more effective if the customer is already aware of the company's products. **'Cold calling'** or **'cold canvassing'** is normally associated with direct selling to the general public. Such sales personnel often rely on a previously prepared sales script, and this has given rise to the term 'canned selling' in that it comes out of a tin can, so to speak. The script comprises a logical set of questions, and when the salesperson meets an obstacle they remember what is in the script and methods of overcoming it. The script covers a range of techniques from opening the sales interview to closing techniques. The major problem lies in making the initial call, and cold canvassing training suggests that this initial call should be about fact finding to gain information and then setting up the next meeting. In so doing, the foundations are being laid for establishing trust and building an alliance, because if the order is requested too early and the answer is 'No', it is subsequently difficult to persuade the customer to change their mind. Better to ask for the order later when the salesperson has ascertained that a 'Yes' answer is a more likely outcome. The Tack School of Sales Training was one of the earliest disseminators of such approaches in the United States after the Second World War and the approach gives practical advice on such matters as:

- the importance of getting the person's name right;
- using open questions to engage the prospective customer;
- asking initial qualifying questions before commencing the sales pitch;
- not requesting irrelevant information;
- not pretending to have knowledge you do not possess;
- not sounding too enthusiastic as it might be interpreted as desperation; and
- confirming appointments in writing.

Cold canvassing is often viewed negatively and adverse publicity is sometimes attached to such techniques. A number of television programmes have highlighted cases where high pressure techniques have been applied to unsuspecting customers.

3. *Push versus pull strategies:* One of the most important determinants in the choice of promotional mix is the extent to which a company decides to concentrate its efforts in terms of its channels of distribution. This can perhaps be best illustrated if we contrast a push strategy with that of a pull strategy. A **push strategy**

is one in which the focus of marketing effort is aimed at pushing the product through the channel of distribution. The emphasis is to ensure that wholesalers and retailers stock the product in question. The idea is that if channel members can be induced to stock a product they in turn will be active in ensuring that your product is brought to the attention of the final customer. In general a push strategy entails a much greater emphasis on personal selling and trade promotion in the promotional mix. **A pull strategy** relies much more heavily on advertising to promote the product to the final consumer. The essence of this approach is based on the notion that if sufficient consumer demand can be generated for a product this will result in final consumers asking retailers for the product. Retailers will then ask wholesalers for the product, who will contact the producer. In this way the product is 'pulled' through the channel by creating consumer demand via assertive advertising.

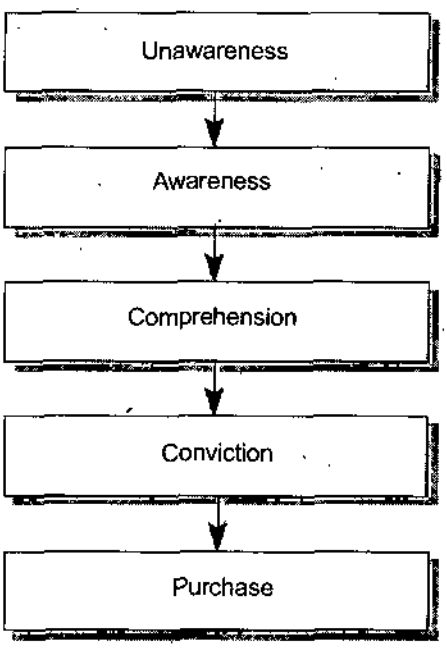

Figure 1.13 Stages in the buying process

4. *Stage in the product life cycle:* Unit 1 introduced the concept of the product life cycle. There is evidence to suggest that different promotional tools vary in their relative effectiveness over the various stages of this cycle. In general, advertising and sales promotion are most effective in the introduction and growth stages of the lifecycle, whereas it is suggested that the emphasis on personal selling needs to increase as the market matures and eventually declines.

SUMMARY

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- Sales and distribution management constitutes one of the most important parts of marketing management.
- The sales management task thus includes analysis, planning, organising, directing and controlling of the company's sales effort.
- Sales managers are entrusted with the task of organising, planning and implementing the sales effort so as to achieve corporate goals related to market share, sales volume and return on investment.
- The qualitative goals generally relate to strengthening dealer relationships, developing good consumer support, nullifying product misinformation, attaining desired corporate image.
- **Geographical basis** which utilizes the existing geographical boundaries and assigns them to the sales personnel.
- **Sales potential basis** which consists of splitting up a company's customer base according to the dispersion of its sales potential.
- What we shall examine in the allocation of the distribution responsibility is the division of responsibility in relation to contacting, prospecting, negotiating and transaction, promotion, physical distribution and information collection.
- 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also.
- Most of the technical purchasing requires approval of several people but only one or two pups with technical knowledge influence decision.
- **Business sense:** He understands that you are in business to make a profit and quickly learns the ins- and -outs of your organisation.
- **Courtesy:** He reveals a sincere desire to help customers and treats them as guests even when he visits their places of business.
- **Curiosity:** He wants to learn all he can about his job, his products and his customers.
- **Health:** Good health generates energy and energy is needed to sell. Poor health prevents many salesmen from fulfilling their potentials.
- **Knowledge:** In some business, an applicant must also have a through knowledge of the highly specialized products or services his employer offers. In some cases, this knowledge can be gained only by years of experience.
- **Originality:** He is constantly searching for new ideas to be used in selling your products and will suggest better ways of doing things.

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- When a candidate wants to be selected as a Marketing Manager in a company, he sells himself to his prospective employers and practices personal selling.
- A company can forecast sales either by forecasting market sales (called **market forecasting**) and then determining what share of this will accrue to the company or by forecasting the company's sales directly.
- *Long-term forecasts*: These are usually for periods of three years and upwards depending on the type of industry being considered.
- **Quantitative forecasting techniques** are sometimes termed objective or mathematical techniques as they rely more upon mathematics and less upon judgement in their computation.
- The **sales budget** may be said to be the total revenue expected from all products that are sold, and as such this affects all other aspects of the business.
- The sales budget is a statement of projected sales by individual salespeople.
- A sales territory represents a group of customer accounts, an industry, a market or a specific geographical area.
- **Efficient customer service:** Well designed sales territories improve buyer seller contacts and enable better customer orientation on the part of the sales person.
- The territory should be planned in such a manner where maximum amount of salesman's time is spent in interacting with the customers rather than in travelling.
- Sales territories are then formed in a manner that the sales potential and workload for each territory is nearly equal.
- Once the Sales Manager has completed the Territory Planning and the Territory Coverage Planning, he can take a decision as to how many salesmen will be needed to cover all the customers efficiently and effectively.
- **Evaluating performance:** Quotas enable the company to evaluate performance of its sales person, territory or distributive network. Performance against quotas also helps identify the strong and weak points of the sales persons.
- **Financial quotas:** Financial quotas are determined to attain desired net profit as well as to control the sales expenses incurred.
- Tactics: the precise route to be taken. (*detailed*)
- The **external audit** consists of an analysis of broad macro-environment trends – Political, Economic, Socio-cultural and Technological (**PEST**) – that might influence the future of the company's products.
- Marketing plans are often categorised as being short range, intermediate range and long range.
- Preparation of the sales forecast is a necessary precursor to detailed marketing plans.

- **'Cold calling'** or **'cold canvassing'** is normally associated with direct selling to the general public.
- **A pull strategy** relies much more heavily on advertising to promote the product to the final consumer.

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REVIEW QUESTIONS

1. Discuss the factors responsible for interdependence of sales and distribution.
2. How do the sales objectives affect the designing of says strategy?
3. Describe the key decision areas in sales and distribution management.
4. Do you agree that a sales job requires a degree of mental, toughness and physical stamina rarely demanded in other types of job? Discuss.
5. To what extent do the nature of the product, target market, company resources influence the sales job? Explain.
6. Discuss the changing role of personal selling.
7. In the changing market situation, it is often referred to that sales persons are in better position than past. Do you agree with this statement? Justify your answer.
8. Personal selling is a two-way communication best suited to a company marketing consumer product with a poor brand loyalty. Discuss.
9. How does personal selling relate to the marketing function of an organisation?
10. What are the various theories of personal selling? Compare and contrast them with each other.
11. What are the various steps involved in the sales process? Discuss brief, the importance of each.
12. What is the place of sales forecasting in the company planning process?
13. Distinguish between qualitative and quantitative forecasting techniques. What are the advantages and disadvantages associated with each approach?
14. Define the differences between a sales forecast and a market forecast.
15. How might a government forecast or a forecast from a trade association be of specific use to a medium-sized company?
16. How does the sales department budget differ from the sales budget?
17. Discuss the importance of the sales budget in the corporate budgetary process.
18. How does sales forecasting help in sales planning suggest?
19. What specific points you would consider while territory planning? Explain each of them, briefly.

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20. Critically examine the workload approach for designing sales territories.
21. What measures can be taken to improve the territory productivity? Explain by taking the samples of (a) Jewellery watches and (b) Agricultural pesticides.
22. Discuss how sales forecasts, and sales quotas relate to each other?
23. What are the distinct advantages of sales forecasting? In your opinion does forecasting helps even when there is a recession in the industry. Discuss.
24. Give a comparative account of various types of sales quotas and identify the attributers of a good sales quota plan.
25. Explain the differences between marketing strategies and sales strategies.
26. What is the relationship between objectives, strategies and tactics?
27. Discuss the component parts of the communications mix.
28. What is the relationship between SWOT analysis and the SWOT matrix?

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UNIT 2 SALESFORCE MANAGEMENT: ORGANISATION AND COMPENSATION

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2.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

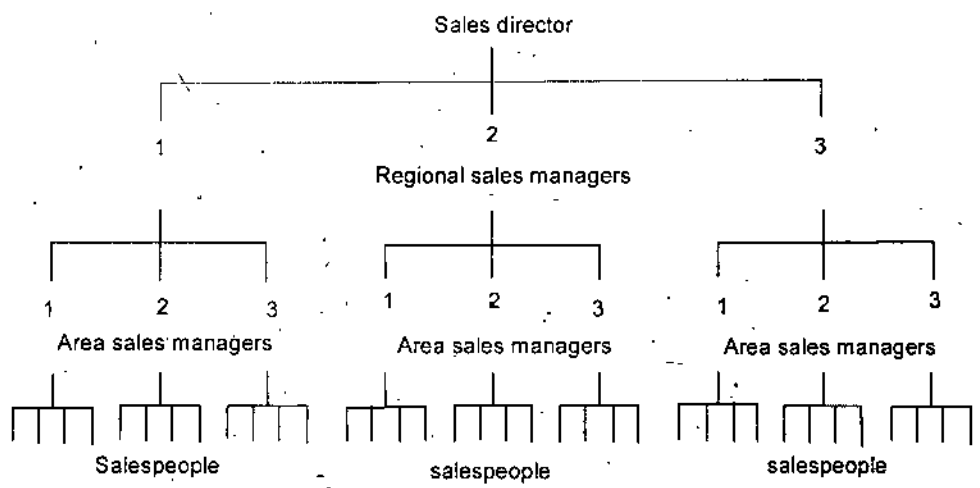
- discuss about the organisation structure.
- know about the motivation and leadership.
- describe all types of training process.
- what is the nature of the sales job?
- detail explain the recruitment and selection.
- describe the salesforce evaluation process.
- explain the measures of performance.

2.1 INTRODUCTION

Changing need of customers, competitive market and advancement in technologies are the driven force. For the companies to review their salesforce structure. Its type, size and design. Apart from it the way of recruitment an selection of sales force and their motivation and training etc. In this unit we will discuss futher them in detail.

2.2 ORGANISATIONAL STRUCTURE

Perhaps the classic form of **organising a salesforce** is along geographical lines, but the changing needs of customers and technological advances have led many companies to reconsider their salesforce organisation. The strengths and weaknesses of each type of organisational structure, as illustrated in Figure 2.1, will now be examined.



(a)

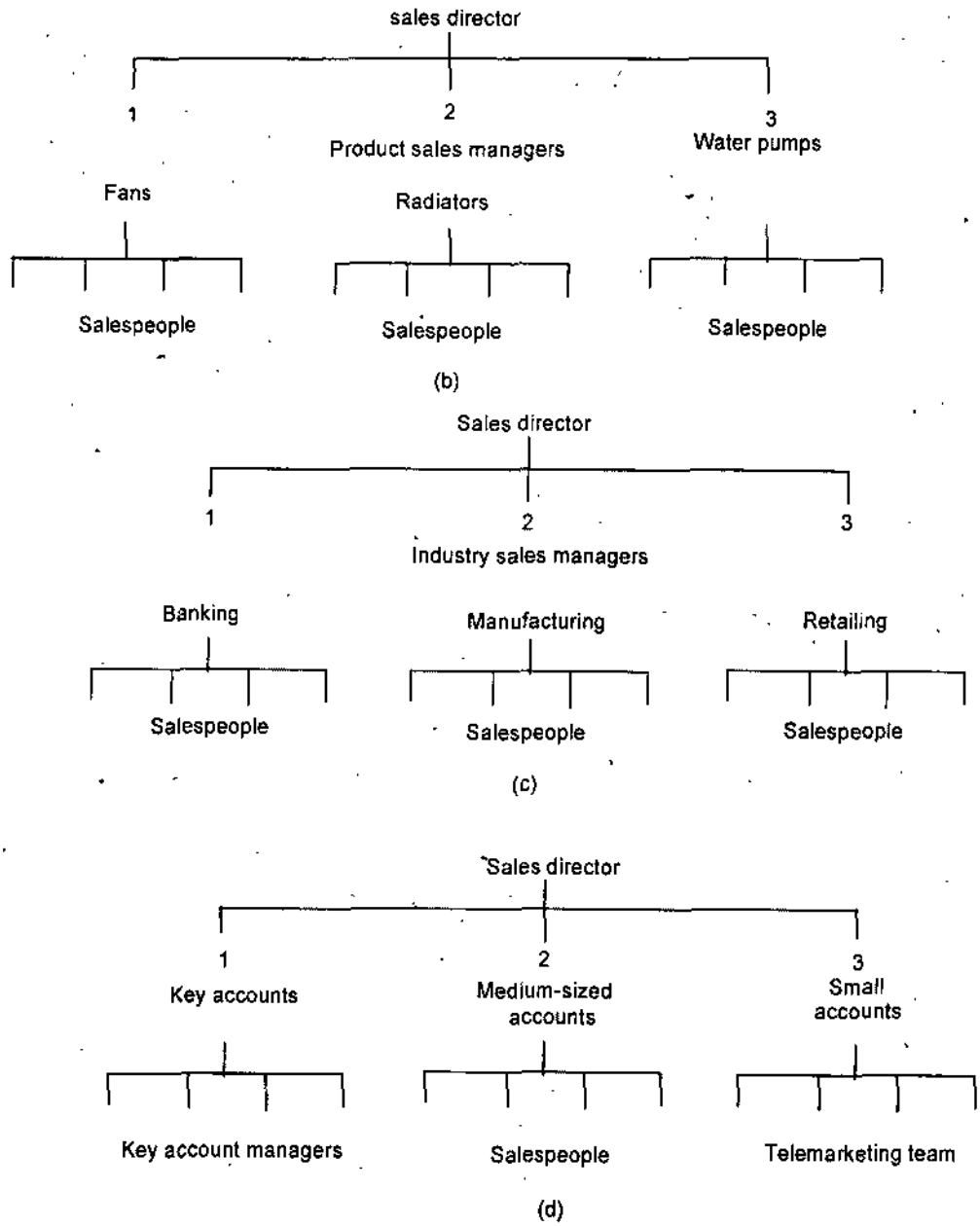


Figure 2.1 Organisation structures: (a) geographical structure – the area sales manager level is optional: where the number of salespeople (span of control) under each regional manager exceeds eight, serious consideration may be given to appointing area managers; (b) product specialisation structure; (c) industry-based structure; (d) account-size structure

Geographical Structure

An advantage of this form of organisation is its simplicity. Each salesperson is assigned a territory over which to have sole responsibility for sales achievement. Their close geographical proximity to customers encourages the development of personal friendships which aids sales effectiveness. Also, compared with other organizational forms, *e.g.*, product or market specialisation, travelling expenses are likely to be lower.

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A potential weakness of the geographical structure is that the salesperson is required to sell the full range of the company's products. They may be very different technically and sell into a number of diverse markets. In such a situation it may be unreasonable to expect the salesperson to have the required depth of technical knowledge for each product and be conversant with the full range of potential applications within each market. This expertise can only be developed if the salesperson is given a more specialised role. A further related disadvantage of this method is that, according to Moss, salespeople in discrete geographical territories, covering all types of customer, are relatively weak in interpreting buyer behaviour patterns and reporting changes in the operational circumstances of customers compared with salespeople organised along more specialised lines.

Product Specialisation Structure

One method of specialisation is along product lines. Conditions that are conducive to this form of organisation are where the company sells a wide range of technically complex and diverse products and key members of the decision-making unit of the buying organisations are different for each product group. However, if the company's products sell essentially to the same customers, problems of route duplication (and hence higher travel costs and customer annoyance can arise.

Inappropriate use of this method can lead to a customer being called upon by different salespeople representing the same company on the same day. When a company contemplates a move from a geographically-based to a product based structure, some customer overlap is inevitable, but if only of a limited extent the problem should be manageable. A move from geographic to a product-based structure raises costs as keeping the same number of salespeople means increased territory size.

A variant on the more common product line specialisation is to divide the salesforce according to new and existing products (sometimes called functional specialisation). In industrial selling, companies sometimes separate their salesforces into development and maintenance sales teams. The development *salespeople are highly trained in handling very technical new products.* They will spend considerable time overcoming commercial, technical and installation problems for new customers.

A major reason why companies have moved to a development/maintenance structure is that belief that one of the causes of new product failure is the inadequacy of the salesforce to introduce the product. Perhaps the cause of this failure is the psychological block each salesperson faces in terms of possible future problems with the buyer–seller relationship if the product does not meet expectations. Because of this, the salesperson is likely to doubt the wisdom of giving an unproven product their unqualified support. Employment of a development sales team can reduce this problem, although it is often only large companies that can afford such a team. This approach

allows salespeople to specialise in the skills needed to sell new products, ensures that new products receive the attention needed to sell them, and eliminates competition for a salesperson's time between the selling of new and existing products providing clarity of purpose. Some pharmaceutical companies use this form of salesforce organisation. Table 2.1 provides a summary of the key strengths and weaknesses of geographic and product specialisation structures.

Table 2.1 Strengths and weaknesses of geographic and product specialisation in organisational structures.

Type of structure	Strengths	Weaknesses
Geographic	• Simplicity	• Difficulty in selling a wide product range • Lower understanding of the complexities of buyer behaviour • Poorer at reporting changes in the market-place
Product specialisation (i) By product line	• Good knowledge of products and applications	• Potential for route duplication (raising travel costs) • Potential to cause customer annoyance if a user is called upon by different representatives of the same seller • For a given salesforce size, territories are bigger than for a geographic structure raising costs
(ii) By new/existing products	• Specialisation of selling skills • Greater attention given to new products • Eliminates copetition between the selling of new and existing products (clarity of purpose)	• Relatively high cost

Customer-based Structures

The problem of the same customer being served by product divisions of the same supplier, the complexity of buyer behaviour, which requires not only input from the sales function but from other functional groups (such as engineering, finance, logistics and marketing), centralisation of purchasing, and the immense value of some customers have led many suppliers to rethink how they organise their salesforce. Companies are increasingly organising around customers and shifting resources from product or regional divisions to customer-focused business units.

Market-centred Structure

Another method of specialisation is by the type of market served. Often in industrial selling the market is defined by industry type. Thus, although the range of products sold is essentially the same, it might be sensible for a computer firm to allocate its salespeople on the basis of the industry served, *e.g.*, banking, manufacturing companies and retailers, given that different industry groups have widely varying needs, problems and potential applications. Specialisation by market served allows salespeople to gain greater insights into these factors for their particular industry, as well as to monitor changes and trends within the industry that might affect demand for their products. The cost of increased customer knowledge is increased travel expenses compared with geographically determined territories.

Magrath looked at the way industrial sales specialists levered up sales by virtue of applications expertise. Because they knew so much about the industry, they were welcomed as 'fraternity brothers' by customers.

Account-size Structure

Some companies structure their salesforce by account size. The importance of a few large customers in many trade and industrial markets has given rise to the establishment of a **key or major account salesforce**. The team comprises senior salespeople who specialise in dealing with large customers that may have different buying habits and demand more sophisticated sales arguments than smaller companies. The team will be conversant with negotiation skills since they are likely to be given a certain amount of discretion in terms of discounts, credit terms, etc., in order to secure large orders.

The range of selling skills required is therefore wider than for the rest of the salesforce, who deal with the smaller accounts. Some organisations adopt a three-tier system, with senior salespeople negotiating with key accounts, ordinary salespeople selling to medium-sized accounts, and a telemarketing team dealing with small accounts. A number of advantages are claimed for a key account salesforce structure as follows:

1. *Close working relationships with the customer*: The salesperson knows who makes what decisions and who influences the various players involved in the decision. Technical specialists from the selling organisation can call on technical people (e.g. engineers) in the buying organisation and salespeople can call upon administrators, buyers and financial people armed with the commercial arguments for buying.

2. *Improved communication and co-ordination*: The customers know that a dedicated salesperson or sales team exists so that they know who to contact when a problem arises.

3. *Better follow-up on sales and service*: The extra resources devoted to the key account mean there is more time to follow up and provide service after a major sale has been made.

4. *More in-depth penetration of the DMU*: There is more time to cultivate relationships within the key account. Salespeople can 'pull' the buying decision through the organisation from the users, deciders and influencers to the buyer, rather than the more difficult task of 'pushing' it through the buyer into the organisation, as is done with more traditional sales approaches.

5. *Higher sales*: Most companies who have adopted **key account selling** claim that sales have risen as a result.

6. *The provision of an opportunity for advancement for career salespeople*: A tiered salesforce system with key (or national) account selling at the top provides promotional opportunities for salespeople who wish to advance within the salesforce rather than enter a traditional sales management position.

The term *national account* is generally considered to refer to large and important customers who may have centralised purchasing departments that buy or co-ordinate buying for decentralised, geographically dispersed branches that transcend sales territory boundaries. Selling to such firms often involves the following:

1. Obtaining acceptance of the company's products at the buyer's headquarters.

2. Negotiating long-term supply contracts.

3. Maintaining favourable buyer–seller relationships at various levels in the buying organisation.

4. Establishing first-class customer service.

The customer or small group of customers is given special attention by one key person (often known as a national account manager) or team headed by this person. This allows greater co-ordination than a

geographically based system where each branch would be called upon by a different salesperson as part of the job of covering their territory. This depth of selling activity frequently calls for the expertise of a range of personnel in the supplying company in addition to the salesperson. It is for this reason that many companies serving national accounts employ **team selling**. Team selling involves the combined efforts of such people as product specialists, engineers, sales managers and even directors if the buyer's decision-making unit includes personnel of equivalent rank. Team selling provides a method of responding to the various commercial, technical and psychological requirements of large buying organisations.

Companies are increasingly structuring both external and internal sales staff on the basis of specific responsibility for accounts. Examples of such companies are those in the electronics industry, where internal desk staff are teamed up with outside staff around 'key' customers. These company salesforces are able, with reasonable accuracy, to forecast future sales levels at these key locations. Further, an in-depth understanding of the buyer's decision-making unit is developed by the salesperson being able to form relationships with a large number of individual decision-makers. In this way, marketing staff can be kept informed of customer requirements, enabling them to improve products and plan effective communications.

New/Existing Account Structure

A further method of sales organisation is to create two teams of salespeople. The first team services existing accounts, while the second concentrates on seeking new accounts. This structure recognises the following:

1. Gaining new customers is a specialised activity demanding prospecting skills, patience, ability to accept higher rejection rates than when calling upon existing customers, and the time to cultivate new relationships.
2. Placing this function in the hands of the regular salesforce may result in its neglect since the salespeople may view it as time which could be better spent with existing customers.
3. Salespeople may prefer to call upon long-established customers whom they know, rather than prospects where they might face rejection and unpleasantness.

Pioneer salespeople were used successfully by trading stamp companies to prospect new customers. Once an account was obtained it was handed over to a maintenance salesperson who serviced the account. This form of salesforce organization is used in the CCTV, freight and copier industries.

New account salespeople have been found to spend more time exploring the prospect's needs and provide more information to management regarding

buyer behaviour and attitudes than salespeople working under a conventional system. The deployment of new account salesforces is feasible for large companies with many customers and where there is a continual turnover of key accounts that have to be replaced. The new account structure allows better planning of this vital function and eliminates competition between prospecting and servicing.

Table 2.2 provides a summary of the key strengths and weaknesses of customer based structures.

Table 2.2 Strengths and weaknesses of customer-based organisational structures

Type of structure	Strengths	Weaknesses
Customer-bassed		
(i) Market-centred	• Good customer knoledge • Good for monitoring changes and trends within markets/industries	• Relatively high cost • Very high cost of servicing key accounts
(ii) Account-size	• Allocation of salesforce resources linked to customer value • A high level of resources being targeted at key accounts means: • close working relationships • improved communication and co-ordination • better service • deeper DMU penetration • higher sales • Provides career opportunities for salespeople • reduces costs of servicing small accounts	

	• specialisation of selling skills	
(iii) New/existing accounts	• Ensures sufficient attention is paid to new accounts • Specialisation of selling skills • Eliminates competition between prospecting and the servicing of existing accounts (clarity of purpose)	• Relatively high cost • Potential discontinuity when new account is passed on to existing account team once account is established

Mixed Organisation

This section has discussed the merits and weaknesses of the major sales organizational structures. In practice a combination may be used. For example, in order to minimise travelling expenses, a company using a two-product group structure may divide the country into geographically based territories with two salespeople operating within each one. Like many selling decisions, the choice of sales organisation is not a black and white affair, which is why many salesforces are a blend of general territory representatives and specialists. Many companies use all forms of selling simultaneously: for very big accounts they use key account specialists; for the balance of small and medium accounts they use general territory representatives, perhaps supplemented by product application specialists who help generalists across several territories. The challenge to any sales manager is to know how to assess the options. Financial, customer coverage and organisational flexibility trade-offs need to be made. The company must balance hard numbers with what the customer wants, which often means some form of specialisation, and what the competition are providing. Increasingly, the customer wants to buy total solutions and demands value-added services rather than one-off transactions. As companies internationalise, consideration of salesforce organisation on a global scale needs to be made.

2.3 DESIGNING THE STRUCTURE AND SIZE OF SALESFORCE

The **workload approach** allows the number of salespeople needed to be calculated, given that the company knows the number of calls per year it wishes its salespeople to make on different classes of customer. Talley showed how the number of salespeople could be calculated by following a series of steps:

1. Customers are grouped into categories according to the value of goods bought and potential for the future.
2. The call frequency (number of calls on an account per year) is assessed for each category of customer.
3. The total required workload per year is calculated by multiplying the call frequency and number of customers in each category and then summing for all categories.
4. The average number of calls per week per salesperson is estimated.
5. The number of working weeks per year is calculated.
6. The average number of calls a salesperson can make per year is calculated by multiplying (4) and (5).
7. The number of salespeople required is determined by dividing the total annual calls required by the average number of calls one salesperson can make per year.

Here is an example of such a calculation. The formula is:

$$\text{Number of salespeople} = \frac{\text{Number of customers} \times \text{Call frequency}}{\text{Average weekly call rate} \times \text{Number of working weeks per year}}$$

Step (4) gives:

Average numver of calls per week per salesperson	=	30
Step (5) gives:		
Number of weeks	=	52
Less:		
Holidays		4
Illness		1
Conferences/meetings		3
Training		1 9
Number of working weeks	=	43
Step (6) gives:		
Average number of calls per salesperson per year	=	43 × 30
	=	1,290

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Step (7) gives:

$$\text{Sales force size} = \frac{47{,}000}{1{,}290} = 37 \text{ salespeople}$$

When prospecting forms an important part of the salesperson's job, potential customers can be included in the customer categories according to potential. Alternatively, separate categories can be formed, with their own call rates, to give an estimation of the workload required to cover prospecting. This is then added to the workload estimate derived from actual customers to produce a total workload figure.

The applicability of this method is largely dependent on the ability of management to assess confidently the number of calls to be made on each category of customer. Where optimum call rates on customers within a particular category vary considerably, management may be reluctant to generalise. However, in a company quoted by Wilson, although call rates varied between one and ten calls per day, for 80 per cent of the days seven or eight calls were made.

The method is of particular relevance to companies who are expanding into new geographical territories. For example, a company expanding its sphere of operation from England to Scotland could use a blend of past experience and judgement to assess feasible call frequencies in Scotland. Market research could be used to identify potential customers. The workload approach could then be used to estimate the number of salespeople needed.

2.4 MOTIVATION

Creating and maintaining a well-motivated salesforce is a challenging task. The confidence and motivation of salespeople are being constantly worn down by the inevitable rejections they suffer from buyers as part of everyday activities. In some fields, notably life insurance and double glazing, rejections may greatly outnumber successes; thus motivation may be a major problem. This is compounded by the fact that salesperson and supervisor are normally geographically separated, so the salesperson may feel isolated or even neglected unless management pays particular attention to motivational strategies which take account of their needs.

It is critical that sales managers appreciate that motivation is far more sophisticated than the view that all salespeople need is a 'kick up the pants'. Effective motivation requires a deep understanding of salespeople as individuals, their personalities and value systems. In a sense, sales managers do not motivate salespeople. What they do is provide the circumstances that will encourage salespeople to motivate themselves?

Improving motivation is important to sales success as research has shown that high levels of motivation lead to:

- increased creativity;
- working smarter and a more adaptive selling approach;
- working harder;
- increased use of win–win negotiation tactics;
- higher self-esteem;
- a more relaxed attitude and a less negative emotional tone;
- enhancement of relationships.

In this UNIT both applied theory and practice will be evaluated in order to identify the means of motivating a salesforce.

Motivational Theories

Motivation has been researched by psychologists and others for many years. A number of theories have evolved that are pertinent to the motivation of salespeople.

Maslow's Hierarchy of Needs

Maslow's classic **hierarchy of needs** model proposed that there are five fundamental needs which are arranged in a 'hierarchy of prepotency'. Table 2.3 shows this hierarchy.

Table 2.3 Maslow's hierarchy of needs

Category	Type	Characteristics
Physical	1 Physiological 2 Safety	The fundamentals of survival. *e.g.*, hunger, thirst. Protection from the unpredictable thirst happenings in life, *e.g.*, accidents, ill health.
Social	3 Belongingness and love	Striving to be accepted by those to whom we feel close (especially family) and to be an important person to them.
	4 Esteem and status	Striving to achieve a high standing relative to other people; a desire for prestige and a high reputation
Self	5 Self-actualisation	The desire for self-fulfilment in achieving what one is capable of for one's own sake–'Actualised in what he is potentially' (Maslow).

Maslow argued that needs form a hierarchy in the sense that, when no

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needs are fulfilled, a person concentrates on their physiological needs. When these needs are fulfilled, safety needs become preponderant and important determinants of behaviour. When these are satisfied, belongingness becomes important – and so on up the hierarchy.

Although Maslow's belief that one set of needs only becomes important after lower order needs have been completely satisfied has been criticised, the theory does have relevance to salesforce motivation. First, it highlights the perhaps obvious point that a satisfied need is not a motivator of behaviour. Thus, a salesperson who already receives a more than adequate level of remuneration may not be motivated by additional payments. Second, the theory implies that what may act as a motivator for one salesperson may not be effective with another. This follows from the likelihood that different salespeople will have different combinations of needs.

Effective motivation results from an accurate assessment of the needs of the individual salespeople under the manager's supervision. The overriding need for one salesperson may be reassurance and the building of confidence; this may act to motivate them. For another, with a great need for esteem, the sales manager may motivate by highlighting outstanding performance at a sales meeting.

Herzberg

Herzberg's dual factor theory distinguished factors which can cause dissatisfaction but cannot motivate (hygiene factors) and factors which can cause positive motivation. Hygiene factors included physical working conditions, security, salary and interpersonal relationships. Directing managerial attention to these factors, postulated Herzberg, would bring motivation up to a 'theoretical zero' but would not result in positive motivation. If this were to be achieved, attention would have to be given to true motivators. These included the nature of the work itself which allows the person to make some concrete achievement, recognition of achievement, the responsibility exercised by the person, and the interest value of the work itself.

The inclusion of salary as a hygiene factor rather than as a motivator was subject to criticisms from sales managers whose experience led them to believe that commission paid to their salespeople was a powerful motivator in practice. Herzberg accommodated their view to some extent by arguing that increased salary through higher commission was a motivator through the automatic recognition it gave to sales achievement.

The salesperson is fortunate that achievement is directly observable in terms of higher sales (except in missionary selling, where orders are not taken, *e.g.*, pharmaceuticals, beer and selling to specifiers). However, the degree of responsibility afforded to salespeople varies a great deal. Opportunities for giving a greater degree of responsibility to (and hence

motivating) salespeople include giving authority to grant credit (up to a certain value), discretion to offer discounts and handing over responsibility for calling frequencies. The results of an experiment with a group of British salespeople by Paul, Robertson and Herzberg showed that greater responsibility given to salespeople by such changes resulted in higher sales success.

Herzberg's theory has been well received in general by practitioners, although academics have criticised it in terms of methodology and oversimplification. The theory has undoubtedly made a substantial contribution to the understanding of motivation at work, particularly in extending Maslow's theory to the work situation and highlighting the importance of job content factors which had hitherto been badly neglected.

Vroom's Expectancy Theory

Basically **Vroom's expectancy theory** assumes that people's motivation to exert effort is dependent upon their expectations for success. Vroom's based his theory on three concepts – expectancy, instrumentality and valence.

1. *Expectancy*: This refers to a person's perceived relationship between effort and performance, *i.e.,* to the extent to which a person believes that increased effort will lead to higher performance.
2. *Instrumentality*: This reflects the person's perception of the relationship between performance and reward; for example, it reflects the extent to which a person believes that higher performance will lead to promotion.
3. *Valence*: This represents the value placed upon a particular reward by a person.

For some individuals promotion may be highly valued; for others it may have little value. Thus, according to the theory, if a salesperson believes that by working harder they will achieve increased sales (high expectancy) and that higher sales will lead to greater commission (high instrumentality) and higher commission is very important (high valence), a high level of motivation should result. The nature of the relationships in the sales setting is depicted in Figure 2.2.

Clearly, different salespeople will have different valences (values) for the same reward. Some might value increased pay very highly, while for others higher pay may have less value. For some the sense of accomplishment and recognition may be very important, for others much less so. Also, Also, different salespeople may view the relationship

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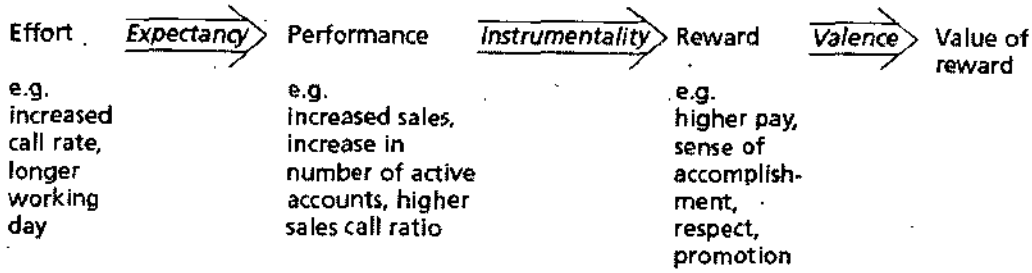

Figure 2.2 The Vroom expectancy theory of motivation

between performance and reward, and between effort and performance, in quite different ways. A task of sales management is to specify and communicate to the salesforce these performance criteria, which are important in helping to achieve company objectives, and to relate rewards to these criteria. Further, this theory supports the notion that for performance targets (*e.g.*, sales quotas) to be effective motivators they should be regarded as attainable (high expectancy) by each salesperson; otherwise the first link in the expectancy model will be severed. Finally, this model provides a diagnostic framework for analysing motivational problems with individual salespeople and an explanation of why certain managerial activities can improve motivation. Training in sales skills, for example, can improve motivation by raising expectancy levels.

Adams's Inequity Theory

Feelings of inequity (unfairness) can arise when an individual's effort or performance on the job exceeds the reward they receive. Salespeople who feel they contribute more than others to the organisation expect to receive proportionately greater rewards. This is the essence of Adams's **inequity theory**. For a salesperson, inequity can be felt in the following areas:

- monetary rewards;
- workload;
- promotion;
- degree of recognition;
- supervisory behaviour;
- targets;
- tasks.

The outcome of a salesperson perceiving significant inequities in any of these areas may be reduced motivation as a result of the feeling of unfairness. A study by Tyagi examined the effect of perceived inequities (rewards and favouritism) on motivation of life insurance salespeople. The results showed that feelings of inequity in all areas investigated (monetary, promotion, recognition, supervisory behaviour and task inequities) had an adverse effect on motivation. Monetary reward inequity had a

particularly strong effect on motivation. The implication is that sales managers must monitor their salesforce to detect any feelings of unfairness. This can be done informally during sales meetings or through the use of questionnaires. Some sales organizations survey their sales representatives periodically to measure their perceptions of inequity and the effectiveness of the company's motivational programme in general. Motivation is often equated with incentives but Adams's work emphasises that the elimination of disincentives (*e.g.*, injustices, unfair treatment) may be an equally powerful influence.

Likert's Sales Management Theory

Unlike Herzberg, Maslow and Vroom, who developed 'general' theories of motivation, Likert based his **sales management theory** on research that looked specifically at the motivation of salespeople. His research related differing characteristics and styles of supervision to performance. One of the hypotheses he tested was that the sales managers' own behaviours provide a set of standards which, in themselves, will affect the behaviour of their salespeople. He found that there was a link. High performing sales teams usually had sales managers who themselves had high performance goals.

His research also investigated the methods used by sales managers in the running of sales meetings. Two alternative styles were compared (see Figure 2.3). Sales managers who used the group method of leading sales meetings encouraged their team both to discuss sales problems that had arisen in the field and to learn from one another. Sales managers who monopolised the meeting discouraged interaction between salespeople and used it as an opportunity to lecture them rather than to stimulate discussion. There was a strong tendency for higher producing sales teams to use the group method.

Several reasons can be put forward to explain this. First, it is likely that a problem faced by one salesperson has been met previously by another who may have found a way of overcoming it; for example, a troublesome objection to one salesperson may have been successfully dealt with by another. The group method of leading a sales meeting encourages problem-solving and stimulates communication. Second, the more open style of meeting enables the sales manager to gain a greater understanding of the needs and problems of the salesforce. Finally, the group method promotes a feeling of group loyalty since it fosters a spirit of co-operation.

Thus, the research conducted by Likert suggests that to produce a highly motivated salesforce, the sales manager should have high performance goals and encourage analysis and discussion of salespeople's performance and problems through the group method of conducting sales meetings.

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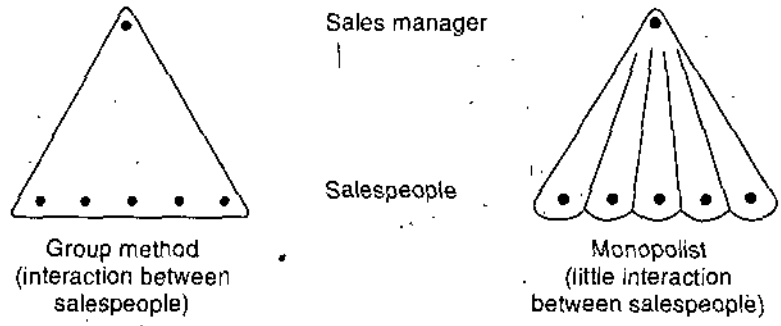

Figure 2.3 Methods of conducting sales meetings

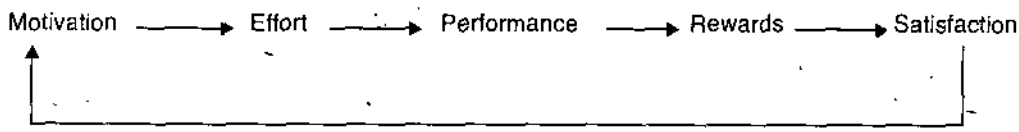

Figure 2.4 Salesforce motivation

The Churchill, Ford and Walker Model of Salesforce Motivation

Churchill *et al.*, developed a model of salesforce motivation that integrated some of the ideas of Herzberg and Vroom (see Figure 2.4). This suggests that the higher the salesperson's motivation, the greater the effort, leading to higher performance. This enhanced performance will lead to greater rewards which will bring about higher job satisfaction. The circle will be completed by the enhanced satisfaction causing still higher motivation. The implications of this model for sales managers are as follows:

1. They should convince salespeople that they will sell more by working harder or by being trained to work 'smarter' (*e.g.*, more efficient call planning, developing selling skills).
2. They should convince salespeople that the rewards for better performance are worth the extra effort. This implies that sales manager should give rewards that are valued and attempt to 'sell' their worth to the salesforce. For example, a sales manager might build up the worth of a holiday prize by stating what a good time they personally had when there.

They also found that the value of rewards differed according to salesperson type. Older salespeople who had large families valued financial rewards more. Younger, better educated salespeople who had no family or small families tended to value higher order rewards (recognition, liking and respect, sense of accomplishment).

2.5 LEADERSHIP

For motivation to be effective it must be channelled in the right direction, which is where leadership is crucial. Motivation provides the movement while leadership supplies the direction that allows both the company and the salesperson to achieve their objectives. Leadership is the process of influencing the behaviour of people toward the accomplishment of objectives. In sales management, leadership usually focuses on the relationships between sales managers and their salespeople. However, it is also relevant for key, national or global account managers who manage account teams. Leaders generate good performance from their sales teams by increasing their personal rewards from achieving objectives and by making the path to these rewards easier to follow through advice, training, reducing or removing obstacles and problems, and by increasing the opportunities for personal satisfaction. A key question is what is required to be a successful leader. An informal survey of sales managers' opinions on the characteristics of a successful leader produced the following comments:

1. *Leaders have a strong, defined sense of purpose.* They know what needs to be done.
2. *Leaders are effective communicators.* They communicate their vision of the future. They provide an invitation to the sales team to link their prosperity to the success of the business. They communicate what is expected of people and how they are doing.
3. *Leaders are persistent and hard working.* They are prepared to invest whatever time and effort is required to achieve results.
4. *Leaders are self-aware.* They recognise their strengths, weaknesses, skills and abilities.
5. *Leaders are learners.* They welcome information, develop new skills and improve on existing ones.
6. *Leaders love their work.* They view work as an adventure and are constantly renewed and stimulated by it.
7. *Leaders inspire others.* They are able to unite people in a consolidated effort.
8. *Leaders establish human relationships* based on trust, respect and caring.
9. *Leaders are risk takers.* They are willing to explore and experiment.
10. *Leaders are keen to help others attain their goals.* They reduce or remove obstacles to the attainment of salespeople's goals and help them succeed in their jobs.

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11. *Leaders have the ability to motivate and inspire salespeople to grow and learn.* Each of their salespeople feels they have control over their own destiny and feels important to their organisation.

Six leadership styles were identified and are summarised in Table 2.4. The research indicated that effective leaders do not rely on one leadership style but use all or most of them, depending on the particular situation. Goleman drew a golfing analogy: over the course of a game a golfer chooses clubs based on the demands of the shot. That is how highly effective leaders also operate.

While coercion and pace-setting have their uses, the study showed that overall these styles can harm 'working atmosphere', reducing, for example, flexibility (how free employees feel to innovate unencumbered by red tape) and commitment to a common purpose. The other four leadership styles have a positive impact on 'working atmosphere' and financial performance. Goleman concludes that the best leaders are those who have mastered four or more styles, especially the positive ones (authoritative, affiliative, democratic, coaching) and have the ability to change styles as the situation demands. Effective leaders have the capability to match behaviour to the situation in an automatic, flexible, fluid and seamless way. Importantly, Goleman argues that the ability to use more than those leadership styles that come naturally can be taught (or coached). Therefore, sales managers who display, for example, only one or two of the necessary styles can be coached to expand their repertoire of styles and, therefore, become more effective leaders. Consistent with these findings, Huczynski and Buchanan conclude that leadership research suggests that effective leadership styles depend on context, with no one style of leadership appearing universally better. However, they argue that a good deal of research suggests that a considerate, participative or democratic style of leadership is generally (if not always) more effective than an autocratic, coercive style. Two reasons are given:

1. It reflects the wider social and political trends towards increased personal freedom and the right to resist manipulation.
2. The need to tap the ideas of people with knowledge and experience and the need to get greater commitment through their involvement in decision-making.

Table 2.4 Six leadership styles and key characteristics

Style	Operational characteristics	Style in a phrase	Underlying competencies	When to use
Coercive	Demands compliance	'Do what I tell you'	Drive to achieve, self-control	In a crisis, with problem people

Authoritative	Mobilises people	'Come with me'	Self-confidence change catalyst	When new vision and direction are needed
Affiliative	Creates harmony	'People come first'	Empathy, communication	To heal wounds, to motivate people under stress
Democratic	Forges consensus	'What do you think?'	Collaboration, team building	To build consensus, to get contributions
Pace-setting	Sets high standards	'Do as I do, now'	Initiative, drive to achieve	To get fast results from a motivated team
Coaching	Develops people	'Try this'	Empathy, self-awareness	To improve performance to develop strengths

Autocratic/coercive management stifles creativity. ignores available expertise and kills motivation and commitment. However, it can be necessary when time is short, the leader is the most knowledgeable person and where potential participants would never agree on a decision?

2.6 TRAINING AND COMPENSATION OF THE SALESFORCE

If you ask any sales person or a sales manager about how did they learn the selling skills, majority of them will answer, 'by experience'. The statement, however is really useful when we learn the correct things by experience and more importantly when we are able to use the lessons successfully. But what happens when we make mistakes? Next time we don't do the same mistake and we say, "I learned it all the hard way." It is suggested that, as training manager, you should be sure to check what he learnt the hard way.

There are salesmen who have never learnt the art of closing their sales. There are others who have talked too much for all the years they were in selling. In fact, there are still many more, who, never discovered the best way to sell or manage their time. Experience alone

is perhaps never sufficient. We all have to learn from the knowledge and experience of the others. This is where the right training can make a difference. Training can help transform a below-average salesman suggested that, as training manager, you should be sure to check what he learnt the hard way.

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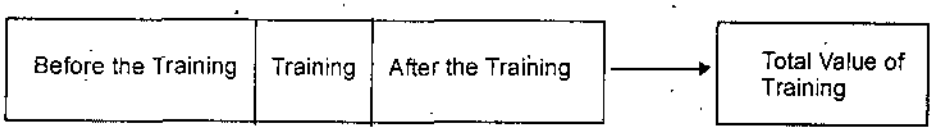
In a competitive market, sales training can bridge the gap between success and failure. Customers generally evaluate a company's product based on the salesman's performance, confidence or lack of confidence, inability to fully explain the product benefits, etc. When the market is competitive the customer may place the order with salesman who performs better than the other in a sales interview.

2.7 LOGIC OF TRAINING

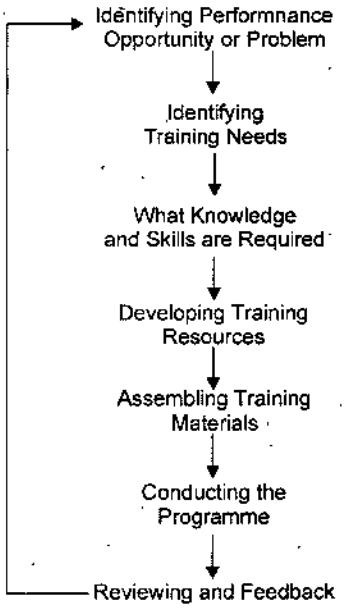
It must be clearly understand that a training programme is just a small portion of the total learning experience of any participant. Before any participant attends a training programme, the trainer must identify specific area of knowledge, skills, or attitude in the participant that needs to be improved. (A detailed account on these points is given in 2.10). After the training programme, it is expected that the participants have gained the required knowledge, skills or attitudinal change.



However, the more important part is when the participant uses this new knowledge, skills and attitude at his work place to get better results, than he was getting prior to training. These results will benefit the organization and will add more value to the organization. Thus to consider the total value of any training, it is important to consider the sequence of training activity in its totality, *i.e.*, before the training, the training event and after the training.

2.8 TRAINING PROCESS

Training can be defined as learning to change the performance of people, doing certain tasks. From this definition we observe that training revolves around helping people to learn so as to improve their performance. The training process can be broken down into four major steps, for easy understanding. These steps are, identifying training need, designing the programme, conducting the programme, training follow up. Apart from the above distinctive steps, a trainer must have knowledge about adult learning styles, so that the programme can be tailored as per requirements. Diagrammatically, the training process can be represented in the following manner:



2.9 AREAS OF SALES TRAINING

The purpose of a sales training programme is to impart training in the following broad areas mentioned below:

- Company's knowledge—nature of industry to which the organisation is related. The organisational place in its industry and industrial practices
- Product knowledge and applications
- Sales techniques—the selling process, negotiation skills, sales presentation, handling complaints, post sales follow-ups, etc.
- Reporting systems.

Depending upon the contents of training programme the training methods or technique are selected.

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2.10 PROCESS OF IDENTIFYING TRAINING NEEDS

A training need can be defined as a gap between the desired level and the actual level of knowledge, skills or performance that can be bridged by training. The starting point for organising and conducting an effective training programme for the salesmen is the careful and precise identification of training needs. Well intentioned, but general sales training may not yield good results. To the salesmen it may not appear to be tailored to their needs, or it failed to take account of the special selling situations they generally face.

Thus it is very important to perceive and identify the individual's training needs and then decide about the objectives and contents of the training programme. The identification the sales training needs is a rational undertaking and it has to be done in proper sequence, which are as follows:

The first step in the identification of the training needs is to define the jobs, to be done, the specific tasks involved and the performance standards required. This involves writing of the jobs description.

Secondly, specifying what knowledge, skills and attitudes are needed to achieve the standards set for the job. Based on the job description, a training needs analysis can be done setting out the knowledge, skills and attitudes.

Thirdly, define what knowledge, skills and attitudes each salesman has, how and what performance standards each is achieving. The collection of this information requires the setting up and constant use of an effective salesman performance appraisal system. It also involves agreement on measurement standards and techniques. Fourthly identifying the training gaps in each areas of knowledge, skills and attitudes.

Fifthly, define what additional training needs arise as a result of changes external to the salesman's past achievements and standards. This necessitates checking on a systematic and continuous basis the directions and future plans for the company's marketing planning, sales planning and recruitment functions. For example; a decision to add a couple of products to the existing product line could involve every salesman in revising his method of working, route planning and scheduling, thus giving rise to a new training need in the field. It is therefore, necessary to relate the company's future plans to its current sales force needs.

Lastly, define the training priorities for the current period, *i.e.*, to identify what are the training needs in the immediate future, in the mid-term and in the long term, and accordingly prioritise the training activity.

2.11 METHODS OF IDENTIFYING TRAINING NEED

For the success of any training it is of utmost importance that the training needs are identified, objectively and correctly. Training need analysis will help in identifying employees who need training and also *you can set specific criteria's to measure the results of training.* Some of the methods used for identifying training needs are:

Self Observation

Observations can work only when a salesman is observed doing his job, continuously for a specific period, by an observer.

Advantages: Observation gives you an idea about the actual working of a salesman. It is a low cost technique with minimum disruption to the work. Also, in this technique you yourself observe the salesman and thus the bias is avoided , in the observations.

Disadvantages: The major disadvantage of this technique is that the salesperson may not act normally when someone is with him as lat feeis scrutinized. Also you may not observe all the attributes due to infrequency of occurrence of some attributes. Another disadvantage of this technique is that sometimes it is difficult to record the observation data.

Reports

Any organization will have number of reports that record different aspects of job performance regularly, like, work records, sales output, sales trend, etc. A careful study of these reports can help in identifying training needs.

Advantages: You have a long track record of performance which can be used. The salesman is not aware that you are watching him. In this method, you do not incur any additional cost.

Disadvantages: As the quantum of information available through the sales reports is large, his method is time consuming.

Surveys and Questionnaires

These are the written forms that are completed and returned either by the Salesperson himself or by his manager, after filling them up.

Advantages: These forms bring out opinions and facts about a current situation by questioning the people involved. These are useful in getting information from a large or geographically dispersed people. The respondents can complete them at their convenience, without any distraction.

Disadvantages: If the questions are not framed in a simple language, the respondents may not understand the questions. Secondly, only those people who are interested, will generally send their reply to a survey.

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Face to Face Interviews

A face to face interview is the process of meeting a salesperson individually to discuss issues that concerns him the most.

Advantages: These interviews are helpful when you are dealing with sensitive issues that require explanatory answers. Another advantage of this process is that you can clarify things by asking questions and also you can observe the non-verbal clues.

Disadvantages: The salesperson may not like such interviews where you are making notes. Face to face interview is also a time consuming process.

Focus Groups

In a focus group, 10–15 salespersons meet to discuss a topic and exchange views, attitudes to give suggestions. Such discussions are useful when handling an undefined issue.

Advantages: Focus groups offer valuable but general data. With the help of focus group discussions you can identify questions and issues that can be used to conduct specific surveys.

Disadvantages: A focus group has to be followed by other hypes of surveys for getting specific information. A focus group is time consuming and in such studies it is difficult to quantify results.

As you must have observed, you can use any or all of the above methods for identifying training needs. Once the data is collected, you need to analyze data for prioritizing different needs that may emerge. One important point that should be kept in mind is that during these surveys certain needs can emerge that cannot be handled by training. These may include pay increases, incentives, work conditions, etc. Therefore, the suggestion is that when you are analyzing data you must focus only on those needs that can be addressed by training.

2.12 LEARNING STYLES

When you are designing a training programme, you must keep in mind that different people, learn easily from different learning styles. Therefore, you should be able to identify the best learning style. Broadly speaking any person has one of the following as dominant learning style: Activist, Reflector, Theorist or Pragmatist. You must appreciate the fact that these are the learning styles and need not reflect the personality of any individual.

Activist: An activist involves himself fully and without bias in new experiences. He is open minded, riot skeptical and is enthusiastic about anything new. He is happy to take problems by brainstorming. Thus, if you are designing a programme for an activist, be sure to include situations of his participation's like, games, simulation exercises, etc.

Reflector: He likes to stand back to ponder experiences and observe them from varied perspectives. He will collect data, himself and from others, and prefer to think it thoroughly before coming to any conclusion. He prefers to take a back seat in meetings and discussions and enjoys observing other people in action. He tends to adopt a low profile. While designing a programme for a reflector, be sure to include actual case studies and experiences and guide him to make his own decisions.

Theorist: He integrates observations into complex but logically sound theories. He thinks problems through in a step by step way. He likes to analyze and synthesize. He tends to be detached, analytical and dedicated to rational objectives rather than anything subjective or ambiguous. His approach to problems is consistently logical.

Pragmatists: He is keen on trying out ideas, theories and techniques to see if they work in practice. He is the sort of person who will return from training brimming with new ideas that he wants to try out in practice.

2.13 DESIGNING AND CONDUCTING THE PROGRAMME

For training of sales force, you can use one of the three major types of programmes. These methods are self study modules, classroom training, on the job training. However for all the programmes, the planning must be done comprehensively to ensure effectiveness of the training.

Self Learning Modules

In this programme, the participants are given the course material which they are required to study themselves. Written totes can be sent, and if needed audio and video cassettes can be used. This kind of training is useful when you want the participants' to revise some material or you want to send some pre-conference study material. The major disadvantage of this method is that you cannot be sure whether the participants have actually studied the material. Also, in this method, there is no feedback.

Classroom Training

Each training programme needs to be individually planned based on the pre-decided objectives decided for the programme. However the following are the important areas that can be covered in a typical sales related programme:

- Company knowledge—history and future plans
- Product information
- Marketing strategies for various products
- Learning the features, advantages, benefits of products
- How to obtain interview with prospective customers
- The sales presentation
- Different ways of finding customer's needs
- Answering objections
- Closing the sales presentation
- Planning geographical territory and planning each day
- Time management
- Administrative responsibilities
- Communication abilities
- Writing reports.

The objective of a classroom based refresher course is to reinforce some aspects in the salesmen which they are likely to forget and also to add new knowledge and skills to the salesmen. Thus, as the name suggests a refresher and development course must refresh the memory and develop the true potential of the salesmen. To truly meet its objective, a refresher course must be based on factual information. Thus complete information on salesmen's behaviour, weaknesses and general morale must be available before designing any refresher course. Some of the questions that need to be answered for running an effective refresher course are:

Planning	Does a salesman prepare and work his plan Does he keep up to date records Does he call regularly on his customers
Appearance	Is his appearance professional Does he keep his presentation material neat and clean
Attitude	Does he have a positive or a negative attitude How is his response to official communication How much is he influenced by outside influences
Selling Skills	How good is his product knowledge How updated are his selling skills Does he have knowledge of any special techniques

Once all the information is gathered, the trainer can plan different session of refresher course which can include case studies, role plays, syndicate presentations, simulations etc.

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On the Job Training

One of the very important ways of teaching new skills to sales people is through on the job field training. The important advantage of this method offers is that the skills are demonstrated to the salesmen in the real life situation and thus the impact on the salesmen is expected to be much stronger. Also the individual salesman's needs can be identified and attended to. In on the job or field training, the trainer can either make a sales call himself which the salesman observes and learns. In the other method of on the job training the trainer gives feedback to the salesman after observing him during his sales call. The salesman, thereafter, practices the recommendations in the future calls.

2.14 TRAINER'S ABILITIES

A successful trainer needs to posses various skills to do a good job of training. Some of the basic things without which a trainer cannot be successful are, thorough job knowledge and an ability to relate to the actual situations the salesman experiences. The other main abilities which a trainer must posses are:

Analytical Ability

A good trainer is able to analyze the situations and identify the exact training needs for salespersons. The analytical ability will help the trainer to focus on issues of prime importance rather than touching superficial issues.

Basic Educational Abilities

A trainer needs to have the knowledge about the jobs the salespersons perform. He should also know the principles of communication. It would be still better if the trainer has some knowledge about the adult learning.

Training Techniques

A successful trainer needs to understand what makes people learn and accept new things. He should have clear knowledge about the different techniques of training. He should be able to employ such techniques, for maximum results.

Ensuring Participants' Participation

To ensure effective learning, the training session must be interactive where participants freely participate. Some of the methods employed for ensuring trainee participation are:

- **Discussion groups:** Trainees are divided into groups and given various topics, issues etc., which they have to discuss amongst themselves and come up with probable solutions.
- Questions and answers period, after each session.
- Decision-making exercises, *e.g.*, finding product benefits and converting them into sales presentations for various types of customers.
- **Demonstrations:** These can be either trainees acting out certain role plays or video demonstrations or demonstrations by the trainer.
- **Case studies:** Participate attempt to find the best possible solution for a real life problem.

Course Organization

Once the total written material for a course is ready, the session can be put into practice. A good trainer will always keep in mind some basic rules of organizing a training session, like:

- Punctuality is essential.
- All material related to training like, slides, demonstration pieces, samples, etc., must be carefully checked before the programme.
- The room where the training is to be held must be checked for adequate lighting and seating arrangements.

2.15 TRAINING FOLLOW UP

Training follow up refers to the time immediately following the training. This may vary from, the time when learners are still a captive audience, to possibly months or years after the training. What happens after training is vital to any training session. After any training session you must gather and analyze feedback to review training. Measure and analyze results specially in relation to job performance. Provide additional inputs, if these has been a shortfall, of similar training programmes are organised in future.

2.16 JOB ANALYSIS, RECRUITMENT AND SELECTION

Attracting and selecting new sales personnel is an important aspect of the sales manager's job. This unit on job analysis, recruitment and selection will tell you about the procedures used for obtaining sales recruits with

the potential capability of becoming good sales people. Once this pool of talent has been generated, it becomes feasible to select the individuals who match the needs of the organisation. Selection is a step-by-step procedure that the sales managers go through to staff the sales organisation. Selection which follows recruitment, requires that the sales manager must reverse the roles and become a buyer instead—a buyer of sales talent and potential.

2.17 NATURE OF THE SALES JOB

All sales related jobs, irrespective of the type of industry, have very distinctive characteristics. Some of the characteristics are as follows:

1. As sales personnel works in the field, away from the head offices, they are responsible for managing their territories or accounts. Therefore, sales personnel are expected to take their own decisions for planning and executing their individual activities.
2. Most sales persons, while on their journey cycle, get fewer opportunities for interactions in person with their supervisors. Most of the time they provide feedback or receive instructions, telephonically or through fax in their hotel.
3. The third characteristics of the field sales job is that the sales personnel remain away from their home and family for days together. This is a regular feature. In some consumer product companies sales people travel for as many as 21 days in a month.
4. Another important aspect of the sales job is the job monotony. Each sales person is doing the same work, repetitively with different customers. For example, a medical representative, makes the same presentation to all the medical doctors, day-after-day.
5. Lastly, success in a sales call doesn't depend on an individual's effort. It may so happen that the customer doesn't need your product or the customer was not happy with his previous experience, on delivery or after sales service or spares. All field sales job create, therefore, a normal tendency to get disheartened or discouraged.

Each of the above characteristics have specific implications for recruitment and selection, and therefore, it is recommended while you are developing your recruitment and selection policies, you should not overlook the above points. Accordingly, job specifications should be decided.

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2.18 SALES JOB ANALYSIS

Sales force management is the personnel function in the marketing department of an organisation. The issues in sales force management are, therefore, the same as that of the personnel management. However, these issues relate to only, those personnel who work in the sales department. The starting point of all sales force management activities is the Job Analysis, as shown in Figure 2.5.

In fact, the job analysis relates to the identification of job objectives, duties and responsibilities, analysis of working conditions, performance norms and the position in the organisation hierarchy to identify the reporting relations.

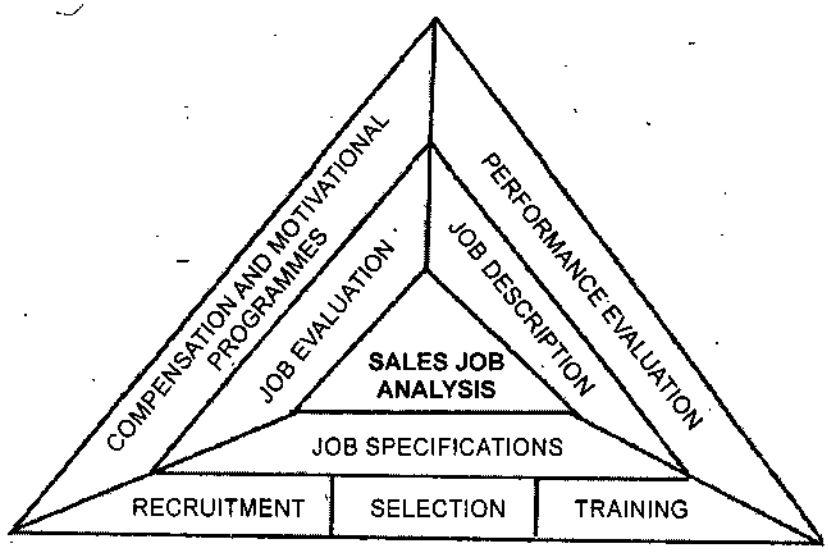

Figure 2.5 Activities involved in managing the sales force

Typically, a job analysis helps in three distinct ways. Most importantly, it helps in the Job Description, *i.e.*, in identifying various activities—major and trivial, to be performed under the job. It also helps in identifying the qualifications, and individuals characteristics, in relation to the job, which is called job specifications.

A good approach to developing job description is to use a checklist of various activities relating to a sales personnel job. Some of these responsibilities are as follows:

S.No.	Sales Responsibilities	Specific Activities
1 .	Direct Selling	a. Locating prospects b. Determining prospects' needs c. Planning selling strategy

		d. Interviewing e. Creating desire f. Handling objectives g. Completing sales
2.	Customer Relations	a. Helping customers by solving their problems and providing special services b. Training customers to use their purchases c. Arranging displays and promotions. d. Keeping customers up-to-date on new developments e. Settling complaints f. Establishing and maintaining good personal relations with customers.
3.	Product Knowledge	a. Knowing products and their applications b. Looking for new products c. Keepingup-to-data on merchandise style and price changes d. Keeping up-do-date on competing products
4.	General Administration	a. Maintaining call records b. Carrying on routine correspondences c. Checking customer's credit d. Follow-up on inquiries e. Maintenance expense-account records
5.	Management Relations	a. Making required reports b. Reporting competitors' activities c. Working with other departments

Figure 2.6 Basic responsibility of a sales man

A detailed account of basic responsibilities of a sales person help in the identification of qualifications and individual characteristics, with relation to the job. The process by which qualifications and personality characteristics are identified, is called Job Specifications which the person may have at the time of joining or they are imparted to the sales person, through training.

Once the job specifications are laid down, it becomes easier for a company to initiate the process of recruitment and selection. Also training can help a sales person to fulfill job responsibilities more effectively. Non the less, it is generally believed that recruitment and selection process should be such, that it should help you to handpick those sales persons with 'just right' kind of personality, since it is difficult to develop personality through the training programmes. Job Analysis also helps in clearly identifying the job performance norms based on which the job evaluation can be done. Such an exercise provides a good bases for compensation management.

2.19 RECRUITMENT

Once a company has determined the number and kind of salesmen it requires, the next step in the selection is to get the right applications, in sufficient number, for the positions. All the activities involved in securing the applications for the sales positions are referred to as Recruitment. It does not include, but is followed by the selection process to evaluate and screen the applicants. The nature of recruitment effort for sales personnel differs from one company to another, mainly with respect to their recruitment sources. The recruitment policy of a company is influenced by its selling style, products, customers, financial resources and sales management policies. Different companies call for individuals with widely varying abilities, skills, education, training and experience. The scope of recruitment effort is influenced by the number of recruits desired, which in turn, is influenced by the size of sales organisation, rate of turnover, the forecasted sales volume distribution channels and promotional strategy.

2.20 RECRUITMENT SOURCES

Frequently used sources of salesmen are as follows.

Advertisements

Advertisements are both a source of recruits and a method of reaching them. Newspapers, magazines and trade journals are the most widely used media for advertisements. Advertisements ordinarily produce large number of applicants in a very short time and at a low cost. However, this factor may be offset by the increased expense of carefully screening the large number of prospects and the average quality of applicants may be of questionable character.

Recruitment advertisements usually include information about the company, nature of the job, specific qualifications required and compensation.

The specific details in the advertisement vary with the company and its situation. The quality of prospects recruited by advertisement may be increased by careful selection of media and by proper statements of information in the advertisement. For example, by advertising in a trade journal rather than in a daily newspaper, a firm is being more selective in its search. An advertisement in trade journal assures reponses from people who are already in the profession and would be interested in selling. The amount and type of information given in the advertisement affects the quality and quantity of the applicants. The more the information given in the advertisement, the more it serves as a qualitative screening device. A firm, by stating minimum qualifications rather than optimum requirements can generate large number of applications, requiring more careful screening. There is no simple answer to the question of whether a company should place its name in its recruiting advertisement. The company name, if well-known, is prominently featured, whereas small companies often follow the policy of giving a 'box no.' in the advertisement. Further, on the mechanics of advertising, management must decide on such points as the day of the week to insert the advertisement, where to locate it in the medium and what size it should be. For instance, Sunday papers are read more leisurely and thoroughly, but-in a week-day edition, a company's advertisement stands out more because these are fewer such other advertisements.

Employment Agencies

Many companies use employment agencies to get the recruits for the sales positions. To use this source effectively, sales manager must ensure that the agency understands the company and its needs thoroughly. Whenever an agency is used, it should have the clear understanding of the job's objective, job specifications and the literature about the company. Also agencies need time to learn about an employing firm and its unique requirements-thus considerable gains accrue from continuing relationships with agencies that perform satisfactorily. If the agency is selected carefully and good long-term relations are established with it, the dividends can be satisfying.

Educational Institutions

This source includes colleges, universities, technical and vocational institutes. This source is, tapped for getting qualified people for entry level positions in sales. Students from technical/vocational institutes or with specific subjects like Physics, Biology, Hotel Management are recruited by the companies, where selling requires specialised knowledge and skills for that particular industry. College graduates are generally taken by the companies having formal sales training programme or for

simple selling jobs. Recruits from educational institutions are more easily adaptable than their more experienced counterparts. They have no developed loyalties for a firm or industry and they probably have not acquired any bad work habits. Usually, they have acquired certain social graces, are more poised and mature. They are supposed to have developed their ability to think, to reason logically and to express themselves reasonably well. Ordinarily, they do a good job of budgeting their time and managing their daily activities. Their main limitation is lack of selling experience. Men recruited from this source need training and thus take time for reaching the desired productivity level. To use this source effectively, it is important for the company to develop and maintain good relations with suitable educational institutions.

Salesmen of Non-competing Companies

Individuals currently employed as salesmen for non-competing companies are often the attractive recruiting prospects. Such people already have selling experience, some of which may be readily transferable. For those, who have worked for companies in related industries-there is additional attraction of knowing something about the product and the market. Recruits from this source presumably have some selling skills and thus reduce the amount of training required. A firm that hires salesmen from other companies should be especially careful to determine, why the man is interested in changing jobs and why he wants to work for the hiring company. People hired from other companies may not have the same degree of loyalty, that recruits possess when promoted from within.

Salesmen of Competing Companies

The question of whether to hire competitors' salesmen is argued on ethical grounds and from an economic standpoint. It is considered unethical to recruit the competitors' salesmen actively, after he has spent the money on hiring and training them. Furthermore, these salesmen may be able to divulge company secrets to the competitors. It is also seen as an attempt to take away competitors' customers. From an economic point of view, these are mixed feelings regarding this source. On one hand, they know the product, customers and competitors. They also are experienced sellers and, therefore, no money is required to be spent for their training. On the other hand, it is a costly source as generally, higher pay must be offered to them to leave their organisations. Some sales managers, as a matter of policy, refrain from hiring competitors' salespersons, as their loyalty towards company is questionable. They feel that an individual hired away from one organisation for higher pay or other enticements may be similarly tempted in future.

In considering the recruitment of individuals currently working for competitors, a key question to answer is why does this person want to

leave his present position? When the new job will not improve the applicant's pay, status or future prospects, the desire to change the company may be traced to personality conflicts or instability. But the dissatisfaction with the present job does not always mean that the fault is that of an applicant. If the applicant has sound reasons for switching companies, the opportunity maybe presented to obtain a promising person, who is ready for productive work almost immediately.

Internal Transfers

The persons working in other departments of the company maybe transferred as salesmen to the sales department. This is generally used along with the other recruitment sources. Transfers are good prospects for sales positions, whenever product knowledge makes up a substantial portion of sales training. They are also familiar with company's objectives, policies and programmes. The accuracy of evaluating these men is more, as the management is able to observe their and evaluate their potential as salesperson before they are transferred to sales department. Factory and office employees may consider the transfer to sales department as promotion, which helps in increasing their moral and loyalty.

Recommendations of Present Salesmen

A company's sales force is a good source of leads to new recruits. Salesmen typically have wide circles of acquaintances, since both on and off the job, they continually meet new people and generally have many friends with similar interests. Their contacts may yield good sales people because of their understanding of the job and the kind of salesmen required by the company. However, management faces the risk that the salesmen may recommend friends or business associates on the basis of personal feelings rather than on an impartial evaluation of prospects' qualifications. The firm should be able to weed them out through its selection process. When an applicant recommended by a salesmen is to be turned down, management should explain clearly but diplomatically to the salesman why his recruit is not being accepted. Sales people are valuable source of recommendations, when job must be filled in remote territories because sales personnel in the same or adjacent areas may know considerably more about unique territorial requirements and local sources of personnel than home-office' executives.

2.21 SELECTION

After a company has determined the type and number of salesmen it needs and the applications for the job have been received, the management is ready for the third and the final stage of the selection system, *i.e.*, selection process. It involves processing the applicants to select the

individuals who best fit the needs of a particular company. The sales force selection process refers to the steps, the sales management goes through to staff the sales organisation. Specifically the process involves:

1. Critical analysis and evaluation of each tool and procedure.
2. Development of a system for measuring the applicants against the predetermined requirements.

The basic objectives of the selection process is to gather information about the applicants for sales job, which is used for predicting their success/failure probabilities. A selection system can be visualised as a set of successive screens at any of which an applicant may be dropped from further consideration. It can range from simple one step system consisting perhaps of nothing more than an informal personal interview to a complex multiple step system. The Figure 2.7 shows an example of a selection system consisting of seven steps.

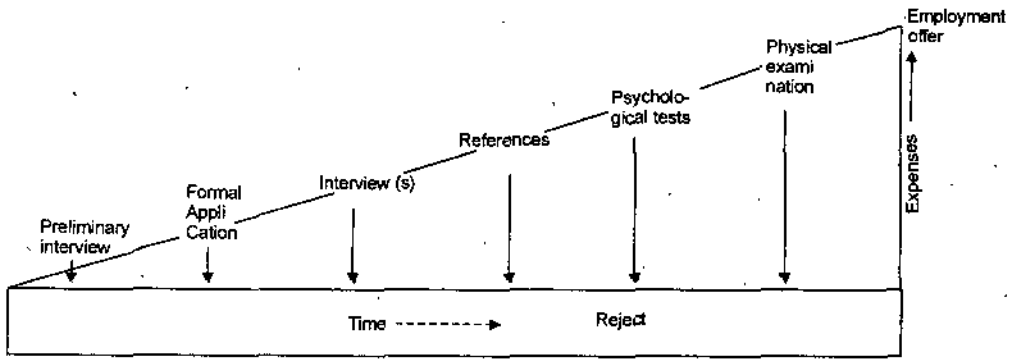

Figure 2.7 A seven step selection system

Selection Policy Decision

- Which tools should be used?
- In what order should the tools be used?

The type of selection tools and their order of arrangement varies from company to company. Each company must design its own selection system to fit its information needs and budgetary limitations. The factors like the size of company, type of industry, the type of selling job, the financial condition of the company, affect the selection policy decisions of the firm. Management must compare the cost of each tool with its ability to predict success/failure probability (*i.e.*, its helpfulness in hiring decisions) for deciding the type of tools to be used for selection process. For sequencing the tools, the principle that is generally followed is to use inexpensive and brief tools like short application form, brief interview or a simple test, in the initial stages of the selection process. The purpose of initial screens is to eliminate, as soon as possible, the obviously unqualified/ undesirable recruits at the least cost. The more expensive and time consuming tools are used in the later stages of the selection process.

2.22 SELECTION TOOLS

The commonly used tools for selecting the salesmen are as follows.

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Application Form

It is one of the two most widely used selection tools (the other is the interview). Generally, the application forms used by most of the companies fall under two categories: Short Application Form and Detailed Application Form.

Short application form is ordinarily used as an initial screening device. It asks for the factual information about the candidate in brief, so as to serve its purpose of eliminating the obviously unqualified applicants at the least cost and quickly. It includes items such as personal background, education and experience. This form can either be provided by the company or in the alternate, the applicants are asked to apply by sending their biodata in brief.

Detailed application form is more extensive and covers each topic in depth. It is designed by each company according to its own information requirements. It varies widely from one company to another, for the designing depends upon the detailed description of the sales job. For example; a detailed application for sales engineer will be quite different from the detailed application form for medical representative. This form may be used as the only application form or alongwith the short application form. A longer form may be used as an initial screen if it is used to the exclusion of the short form. The facts stated on the form can be the basis for probing in an interview, for instance, by asking several questions related to the job experience as stated on the form. Also, if the applicant passes through the initial screens, management may need to refer, many times to the information stated on the form. This form is also used as a source of information to study the backgrounds of its good and poor salesmen and to establish scores and weights on specific requirements.

Information on the application form: Some of be factors that affect the type and amount of information requested on an application form, may be.

1. The objective, the company has in using the application form—if it serves as an initial screen, it is shorter than one that will be used for complete personal history record.
2. The other selection tools and records used, often influence the design of the application form. Use of patterned interview, for instance, may enable a concern to shorten its form. On the other hand, a firm may want to duplicate its questions in order to

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check on a recruit's honesty, by seeing, if his answers on the form coincide with those obtained from other sources.

3. The nature of the job is another factor that influences the questions asked on the application form, because different sales jobs call for different qualifications. A firm trying to hire men with 5–10 years of sales experience, for example, is not so concerned about a recruit's activities in school and college. The information required on the application form, for hiring a salesman, for sales engineer's job to sell the technical product will be different from the information for hiring door-to-door salesman for selling low priced consumer product.
4. Another factor is the degree to which the selection function is decentralised. If home executives take part in the hiring of salesmen, the application form, probably, is detailed. But if territorial managers do the hiring, the form may be short because the other tools, especially the interviews, can be used more extensively.

Interview

The interview is the most widely used selection tool and in some companies, it comprises the entire selection system. This tool may be used as preliminary interview for initial screening of applicants and plays an important part in the subsequent stages of the hiring process as final interview. This is the most satisfactory tool to find out something about conversational ability, general appearance, personal impact on others and certain behavioural aspects. Personality traits like initiative, imagination, aggressiveness, tactfulness; enthusiasm can come out, when an applicant is talking.

Techniques of Interviewing

- **Patterned/structured interview:** It is totally guided and highly standardised technique of interviewing. The interviewers are given a specific list of questions or an outline of questions, designed to elicit a basic core of information. Each man interviewed is asked these questions and answers are recorded on standardised form. Since all the applicants are queried on the same points, different persons can do the interviewing at different places and the results will still be comparable. The reasons for using this technique of interviewing can be attributed to the situations, where the interviewing is to be done at different regions/branches simultaneously or where the interviewers may not know in detail about what the job entails and what are the necessary qualifications, or, they may know what qualifications are necessary for the job but they may not know what questions will bring forth the information about the applicant's possession of these characteristics, or interviewers may be unable to interpret the answers in non-structured type of interviews.

- **Non-directed/non-structured interview:** This method does not follow a set format; instead it involves a relaxed discussion. The candidate is urged to talk freely about his business experiences, home life, school activities, future plans and on certain outwardly irrelevant topics. The interviewer asks few questions and says only enough to keep the conversation rolling along the desired line. The theory for this type of interview is that it produces truthful answers and thus draws out the real person. This technique yields maximum insight into an individual's attitudes, interests and personality traits. The interviewer is allowed maximum freedom in determining what will be discussed during the interview to probe an individual's personality in depth. Obviously, the major problem is that it requires skilled and experienced people for administering and interpreting it. Also the value of standardisation is lost in the non-structured type.

- **Semi-structured interview:** Most firms today use interview that falls somewhere between the two extremes discussed above. Usually the interviewer has in mind a prepared outline of topics to be covered during the interview and also has the freedom to deviate from the plan and to determine the depth to which a topic will be pursued for each candidate, at the time of interview itself.

- **Stress interview:** It is a more complex and sophisticated technique of interviewing. The interviewers create stressful environment for the candidate through interruptions, criticism, by asking him for solutions for tricky situations, by rapidly firing questions. While interviewing, the interviewer may hand the applicant an object and say, "Here, sell this to me," and may then raise unreasonable objections during his sales presentation. This technique is used for selecting the sales personnel who are supposed to work under stressful conditions in actual selling situations. The stress interview needs to be planned, administered and interpreted by well trained interviewers.

- **Rating scales:** One shortcoming of the interview is its tendency to lack objectivity, a defect that can be reduced through rating scales. These are so constructed that interviewer's ratings are channelled into limited choice of responses. For instance, in evaluating an applicant's general appearance, an interviewer is forced to choose one of the three answers nicely dressed, presentable, untidy. It results in more comparable ratings of the same individual by different interviewers. One drawback of the rating scale is the lack of precise description of many personal qualities. It is

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a good practice, therefore, to encourage interviewers to explain ratings in writing whenever they feel that the comments are needed. Examples:

- **Enthusiasm :** Bored, somewhat indifferent, normal enthusiasm, sparkling effervescence.
- **Judgement:** Jumps to conclusions, less than sound reasons for opinions; sound opinions and reasons, excellent judgement and uses reasons as problem solving device.
- **Sales drive:** Low, normal, above average, pushes himself.
- **Attitude:** Negative and complaining, pessimistic, positive and healthy, strong loyalty.

Psychological Tests

Use of psychological tests as selection tool, though still in its infancy, is increasing for the reasons like-greater importance being given to selection as the sales management is becoming more formalised, rising cost of selection and training, increased size of sales force and increased knowledge of psychological tests and their applications. Psychological testing refers to having the recruit answer a series of written questions, the proper answers to which have been previously determined. The major purpose of testing is to identify and measure more accurately, the various aspects of person's behaviour such as intelligence, achievements, interests aptitude, personality traits, etc. It requires trained specialists for designing, administering and interpreting the psychological tests.

Factors conducive to successful testing: The existence of following conditions are conducive to, a successful testing programme:

- The firm hires a relatively large number of men and its cost of training per person is quite high.
- The firm is hiring young inexperienced men about whom little is known.
- The persons being selected are not likely to be test wise, *i.e.*, danger of faking is minimised.
- The executives responsible for interviewing the recruits are not adept at discovering personality traits and selling aptitude.
- In companies, where the cost of a man's future development is

high, the expense of testing may be a small insurance premium, just to be more accurate in judging a candidate.

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Types of Psychological Tests

(i) Tests of Ability	Tests of mental ability
	Tests of special abilities
(ii) Tests of Habitual	Attitute tests
	Personality tests
	Interest tests

Evaluation of Psychological Tests

Tests to be used for selection of salesmen are evaluated on the basis of following criteria:

- **Validity:** A test is valid if it actually measures what it is supposed to measure. Following are the three ways to check the validity of a test : (a) A test is given to the present salesforce and test score of successful salesmen is compared with the score of unsuccessful salesmen. If there is close correlation between the score and job performance, the test is a valid test. (b) A test is given to all the applicants, but the test scores are withheld from the persons matting the selection decision. After the new salesman have begun work, their performance is compared with their test scores. Again the degree of correlation will reveal the validity of test. Another way to validate a test is through the use of control groups. One group of salesman is chosen by making, use of tests along with other tools in the selection process. The job performance of both the groups is compared, after a period of time to determine the validity of test.
- **Test reliability:** It refers to the consistency of test results. A test has reliability, if an individual gets approximately the same score on subsequent retesting in the same type of tests. Perfect reliability is given the maximum score of I. The tests having the reliability near one, are considered as reliable tests for use in selection process.
- **Test objectivity:** If the scorer's opinion does not affect the test score, it is an objective test. For a good test, it is important to have high objectivity.
- **Time effort and cost:** Of administering the tests must be compared with their benefits.

2.23 THE SALESFORCE EVALUATION PROCESS

Salesforce evaluation is the comparison of salesforce objectives with results. A model of the evaluation process is shown in Figure 2.8. It begins with the setting of salesforce objectives which may be financial, such as sales revenues, profits and expenses; market-orientated, such as market share; or customer-based such as customer satisfaction and service levels. Then, the sales strategy must be decided to show how the objectives are to be achieved. Next, performance standards should be set for the overall company, regions, products, salespeople and accounts. Results are then measured and compared with performance standards. Reasons for differences are assessed and action taken to improve performance.

2.24 THE PURPOSE OF EVALUATION

The prime reason for evaluation is to attempt to attain company objectives. By measuring actual performance against objectives, shortfalls can be identified and appropriate action taken to improve performance. However, evaluation has other benefits. Evaluation can help improve an individual's motivation and skills. Motivation is affected since an evaluation programme will identify what is expected and what is considered good performance. Second, it provides the opportunity for the recognition of above-average standards of work performance, which improves confidence and motivation. Skills are affected since carefully constructed evaluation allows areas of weakness to be identified and effort to be directed to the improvement of skills in those areas.

Thus, evaluation is an important ingredient in an effective training programme. Further, evaluation may show weaknesses, perhaps in not devoting enough attention to selling certain product lines, which span most or all of the sales team. This information may lead to the development of a compensation plan designed to encourage salespeople to sell those products by means of higher commission rates.

Evaluation provides information that affects key decision areas within the sales management function. Training, compensation, motivation and objective setting are dependent on the information derived from evaluation, as illustrated in Figure 2.9. It is important, then, that sales management develops a system of information collection which allows fair and accurate evaluation to occur. The level and type of control exercised over international salesforces will depend upon the culture of the company and its host nations.

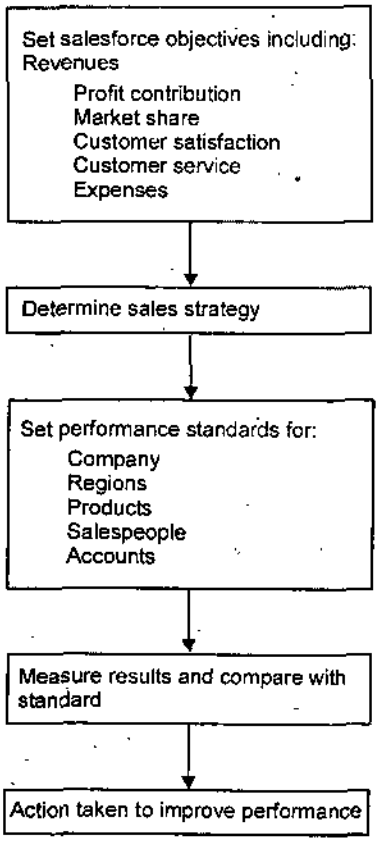

Figure 2.8 The salesforce evaluation process.

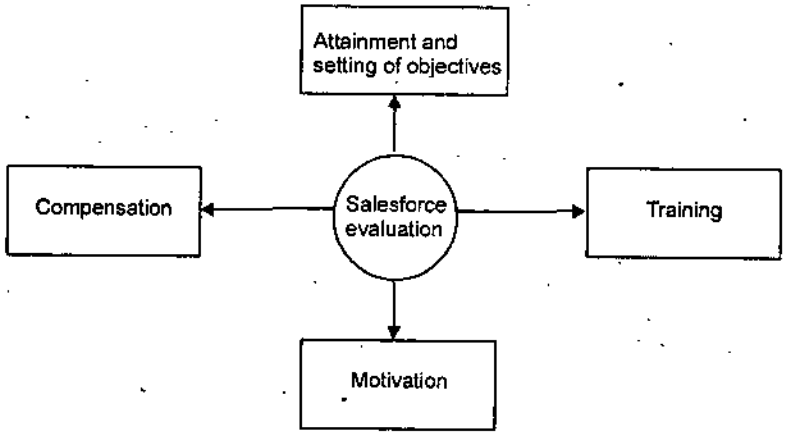

Figure 2.9 The central role of evaluation in sales management

2.25 SETTING STANDARDS OF PERFORMANCE

Evaluation implies the setting of standards of performance along certain lines that are believed to be important for sales success. The control process is based upon the collection of information on performance so that actual results can be compared against those standards. For the sales team as a whole, the sales budget will be the standard against which actual

performance will be evaluated. This measure will be used to evaluate sales management as well as individual salespeople. For each salesperson, their sales quota will be a prime standard of sales success.

Standards provide a method of fairly assessing and comparing individual salespeople. Simply comparing levels of sales achieved by individual salespeople is unlikely to be fair since territories often have differing levels of sales potential and varying degrees of workload.

2.26 GATHERING INFORMATION

The individual salesperson will provide much of the information upon which evaluation will take place. They will provide head office with data relating to sales achieved by product/brand and customer, a daily or weekly report of the names of customers called on and problems and opportunities revealed, together with expense claims.

Such information will be supplemented by sales management during field visits. These are important in providing more qualitative information on how the salesperson performs in front of customers, as well as giving indications of general attitudes, work habits and degree of organisational ability, all of which supplement the more quantitative information provided by the salesperson.

Market research projects can also provide information on the sales team from customers themselves. A specific project, or a more general one which focuses on the full range of customer-seller relationships, *e.g.*, delivery, product reliability, etc., can provide information on salespeople's performance. A market research study commissioned by Perkins Engines found that salespeople with technical backgrounds were basing their sales presentation on features which were not properly understood by their audience.

This led Perkins Engines to retrain their salesforce so that their sales presentation focused upon a simple presentation of features and the customer benefits which arose from those features. Finally, company records provide a rich source of information for evaluation. Records of past sales levels, calls achieved, expense levels, *etc.*, can provide bases for comparison and indications of trends that can be used both for evaluation and objective setting.

2.27 MEASURES OF PERFORMANCE

Quantitative Measures of Performance

Assessment using **qualitative performance measures** falls into two groups. For both groups, management may wish to set targets for their

sales team. One group is a set of input measures which are essentially diagnostic in nature—they help to provide indications of why performance is below standard. Key output measures relate to sales and profit performance. Most companies use a combination of input (behavioural) and output measures to evaluate their salesforces. Specific output measures for individual salespeople include the following:

- sales revenue achieved
- profits generated
- percentage gross profit margin achieved
- sales per potential account
- sales per active account
- sales revenue as a percentage of sales potential
- number of orders
- sales to new customers
- number of new customers.

All of these measures relate to output. The second group of measures relates to input and includes:

- number of calls made
- calls per potential account
- calls per active account
- number of quotations (in part, an output measure also)
- number of calls on prospects.

By combining output and input measures a number of hybrid ratios can be determined. For example:

1. $\text{Strike rate} = \dfrac{\text{Number of orders}}{\text{Number of quotations}}$
2. Sales revenue per call ratio
3. Profit per call ratio (call effectiveness)
4. Order per call ratio
5. $\text{Average order value} = \dfrac{\text{Sales revenue}}{\text{Number of orders}}$
6. $\text{Prospecting success ratio} = \dfrac{\text{Number of new customers}}{\text{Number of prospects visited}}$
7. $\text{Average profit contribution per order} = \dfrac{\text{Profits generated}}{\text{Number of orders}}$

All of these ratios can be applied to individual product and customer types and help to answer the following questions:

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a. Is the salesperson achieving a satisfactory level of sales?

b. Is sales success reflected in profit achievement?

c. Is the salesperson 'buying' sales by giving excessive discounts?

d. Is the salesperson devoting sufficient time to prospecting?

e. Is time spent prospecting being rewarded by orders?

f. Does the salesperson appear to be making a satisfactory number of calls per week?

g. Are they making enough repeat calls on different customer categories?

h. Are they making too many calls on low-potential customers?

i. Are calls being reflected in sales success?

j. Are the number of quotations being made reflected in orders taken?

k. How are sales being achieved—a large number of small orders or a few large orders?

l. Are the profits generated per order sufficient to justify calling upon the account?

Many of these measures are clearly diagnostic. They provide pointers to possible reasons why a salesperson may not be reaching their sales quota. Perhaps they are lazy—not making enough calls. Perhaps call rate is satisfactory but call effectiveness, *e.g.*, sales per call, is low, indicating a lack of sales skill. Maybe the salesperson is calling on too many established accounts and not enough new prospects.

Ratios also provide clues to problem areas that require further investigation. Alow strike rate (order to quotations) suggests the need for an analysis of why orders are not following quotations. Poor call effectiveness suggests a close examination of sales technique to identify specific areas of weakness so that training can be applied more effectively. A further group of quantitative measures will explore the remuneration which each salesperson receives. The focus will be on expenses and compensation. With respect to expenses, comparisons will be made between salespeople and between current year and last year. Ratios which may be used include the following:

- expenses/sales revenue generated
- expenses/profit generated
- expenses per call
- expenses per square mile of territory.

Such measures should give an indication of when the level of expenses is becoming excessive. Compensation analysis is particularly valuable when:

- a large part of salary is fixed;
- salespeople are on different levels of fixed salary.

The latter situation will be found in companies which pay according to the number of years at the firm or according to age. Unfairness, in terms of sales results, can be exposed by calculating for each salesperson the following two ratios:

- total salary (including commission)/sales revenue
- total salary (including commission)/profits.

These ratios will reveal when a compensation plan has gone out of control and allow changes to be made before lower paid higher achievers leave for jobs which more closely relate pay to sales success. A study by Jobber, Hooley and Shipley surveyed a sample of 450 industrial products organisations (*i.e.*, firms manufacturing and selling repeat industrial goods such as components and capital goods such as machinery). The objective was to discover the extent of usage of sales evaluation criteria among small (less than £3 million sales turnover) and large (greater than ≤3 million sales turnover) firms.

The growth in the penetration of personal computers is mirrored by the development of software packages that provide the facilities for the simple compilation and analysis of salesforce evaluation measures. The creation of a databank of quantitative measures over time allows a rich source of information about how the salesforce is performing. Alone, these quantitative measures cannot produce a complete evaluation of salespeople. In order to provide a wider perspective, qualitative measures will also be employed.

Qualitative Measures of Performance

Assessment along qualitative lines will necessarily be more subjective and take place in the main during field visits. The usual dimensions applied are given in the following list:

1. *Sales skills.* These may be rated using a number of sub-factors:
   - Handling the opening and developing rapport.
   - Identification of customer needs, questioning ability.
   - Quality of sales presentation.
   - Use of visual aids.
   - Ability to overcome objections.
   - Ability to close the sale.
2. *Customer relationships.*
   - How well received is the salesperson?

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- Are customers well satisfied with the service, advice, reliability of the salesperson, or are there frequent grumbles and complaints?

3. *Self-organisation.* How well does the salesperson carry out the following?
   - Prepare calls.
   - Organise routing to minimise unproductive travelling.
   - Keep customer records up to date.
   - Provide market information to headquarters.
   - Conduct self-analysis of performance in order to improve weaknesses.
4. *Product knowledge.* How well informed is the salesperson regarding the following?
   - Their own products and their customer benefits and applications.
   - Competitive products and their benefits and applications.
   - Relative strengths and weaknesses between their own and competitive offerings.
5. *Co-operation and attitudes.* To what extent will the salesperson do the following?
   - Respond to the objectives determined by management in order to improve performance, *e.g.*, increase prospecting rate.
   - Co-operate with suggestions made during field training for improved sales technique.
   - Use their own initiative.
   - What are their attitudes towards the following?
   - The company and its products.
   - Hard work.

An increasing number of companies are measuring their salespeople on the basis of the achievement of customer satisfaction. As Richard Harrison, a senior sales manager at IBM, states: 'Our sales team is compensated based on how quickly and how efficiently they achieve customer satisfaction'.

The study by Jobber, Hooley and Shipley also investigated the use of qualitative evaluative measures by industrial goods companies.

As mentioned earlier, the use of quantitative and qualitative measures is interrelated. A poor sales per call ratio will inevitably result in close scrutiny of sales skills, customer relationships and degree of product knowledge in order to discover why performance is poor.

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Quantitatively measured results / Qualitatively measured results	Good	Average / Bad
Good	– Praise – Reward – Promote	– Limited praise – Guide – Train
Average / Bad	– Limited praise – Advise – Educate	– Discuss – Train – Punish – Remove

Figure 2.10 Salesperson evaluation matrix

Sales management response to the results of carrying out salesforce evaluation is shown in Figure 2.10. Lynch suggests four scenarios with varying implications:

1. **Good quantitative/good qualitative evaluation:** The appropriate response would be praise and monetary reward. For suitable candidates promotion would follow.
2. **Good quantitative/poor qualitative evaluation:** The good quantitative results suggest that performance in front of customers is good, but certain aspects of qualitative evaluation, *e.g.*, attitudes, report writing and market feedback, may warrant advice and education regarding company standards and requirements.
3. **Poor quantitative/good qualitative evaluation:** Good qualitative input is failing to be reflected in quantitative success. The specific causes need to be identified and training and guidance provided. Lack of persistence, poor closing technique or too many/too few calls might be possible causes of poor sales results.
4. **Poor quantitative/poor qualitative evaluation:** Critical discussion is required to agree problem areas. Training is required to improve standards. In other situations, punishment may be required or even dismissal.

SUMMARY

- A potential weakness of the geographical structure is that the salesperson is required to sell the full range of the company's products.
- The range of selling skills required is therefore wider than for the rest of the salesforce, who deal with the smaller accounts.

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- **Higher sales:** Most companies who have adopted key account selling claim that sales have risen as a result.
- The term *national account* is generally considered to refer to large and important customers who may have centralised purchasing departments that buy or co-ordinate buying for decentralised, geographically dispersed branches that transcend sales territory boundaries.
- Creating and maintaining a well-motivated salesforce is a challenging task.
- Herzberg's dual factor theory distinguished factors which can cause dissatisfaction but cannot motivate (hygiene factors) and factors which can cause positive motivation.
- Basically Vroom's expectancy theory assumes that people's motivation to exert effort is dependent upon their expectations for success.
- **Valence:** This represents the value placed upon a particular reward by a person.
- For motivation to be effective it must be channelled in the right direction, which is where leadership is crucial. Motivation provides the movement while leadership supplies the direction that allows both the company and the salesperson to achieve their objectives.
- A training need can be defined as a gap between the desired level and the actual level of knowledge, skills or performance that can be bridged by training.
- A face to face interview is the process of meeting a salesperson individually to discuss issues that concerns him the most.
- One of the very important ways of teaching new skills to sales people is through on the job field training.
- A good trainer is able to analyze the situations and identify the exact training needs for salespersons.
- Advertisements are both a source of recruits and a method of reaching them.
- **Rating scales:** One shortcoming of the interview is its tendency to lack objectivity, a defect that can be reduced through rating scales.
- **Judgement:** Jumps to conclusions, less than sound reasons for opinions; sound opinions and reasons, excellent judgement and uses reasons as problem solving device.
- **Validity:** A test is valid if it actually measures what it is supposed to measure.
- Salesforce evaluation is the comparison of salesforce objectives with results.

- Evaluation implies the setting of standards of performance along certain lines that are believed to be important for sales success.

REVIEW QUESTIONS

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1. The only sensible way to organise a salesforce is by geographical region. All other methods are not cost efficient. Discuss.
2. How practical is the workload approach to salesforce size determination?
3. What do you understand by motivation?
4. Discuss Maslow's hierarchy of needs.
5. Discuss Herzberg's dual factor theory.
6. Discuss Vroom's expectancy theory.
7. Discuss Adams's inequity theory.
8. Discuss the leadership.
9. What are key characteristics of leadership?
10. How an applicant, before accepting a job, could appraise himself quality of training that will be provided to him?
11. Why is sales training a continual managerial activity?
12. Why is product knowledge also considered to be a sales related training need?
13. Why do sales trainers rely so much on role-play in teaching sales techniques? Discuss its advantages over other training methods.
14. One sale executive claims he knows a good man when he sees one, and therefore, he does not like to be bothered by so called scientific selection process, what can you offer to refute this claim? Would your answer be any different if you knew that the sales manager who made the statement had a low rate of turnover in his salesforce and was running a highly profitable operation?
15. "Careful selection is important, but not essential, in building an effective salesforce. Improper selection of sales people can be overcome by a good training programme, sound supervision and an excellent compensation programme." Do you agree? Discuss.
16. When selecting salesmen many companies have adopted a policy of hiring only experienced salesmen and preferably men, who have had experience of selling similar or directly competitive products? What are the merits or demerits of such a system?
17. The following firms want to hire salesmen, and as recruiting sources, the executives are considering-other departments of the company, competitors salesmen and educational institutions. Evaluate each of these three as sources of salesmen for each company:

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a. Manufacturer of paper and paper products

b. Manufacturer of office furniture and equipment

c. Manufacturer of breakfast cereal.

18. Quantitative measures of the performance of sales representatives are more likely to mislead than guide evaluation. Do you agree?

19. Produce a balanced argument that looks at the differences between qualitative and quantitative measures of sales performance.

20. If a company loses a potential major order what should sales management do to alleviate the risk of this happening again?

UNIT 3 INTRODUCTION TO DISTRIBUTION MANAGEMENT

NOTES

★ STRUCTURE ★

3.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about the direct or indirect distribution.
- discuss about the implications of using intermediaries channel levels.
- understand distribution planning.
- describe about the distribution planning for foreign markets.

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3.1 INTRODUCTION

As a manufacturer of value added food products, you need to make your products available to the customers who can then decide to buy and consume them. In the previous unit, you have gone through the processes through which manufacturers promote their goods and create demand for their products. In order to be able to consume the products, the consumers require the product to be made accessible at places near them. As the consumers of your products are scattered in large geographical areas it may not be possible for them to approach you directly. Similarly, it may be difficult for you to reach the individual consumers on a direct basis. The decisions that you need to take in order to make your products available for consumption to the final customer are referred to as distribution decisions and form the fourth "P" of the marketing mix for products and services. We will explore the various options that you may like to consider in order to make your value added food products available to the final customers of your products. This unit enables you to identify and select between channel options, evaluate whether direct or indirect distribution is a viable option for you and explore the various tasks that are required to be undertaken to enable the physical transfer of goods from the point of production to the point of consumption.

3.2 CONCEPT OF DISTRIBUTION CHANNEL: DIRECT OR INDIRECT DISTRIBUTION

As a manufacturer of value added food products, you are aware that the conversion of these products into revenue for you would not take place unless customers buy these products and continue to do so. For them to be able to do so, it is important that the Products are made accessible to them at places that are convenient to them. Consumption does not take place unless the goods are available at the right place, at the right time, in the right quantity and at an appropriate price. The term distribution refers to the process of moving the products from the point of production to the point of consumption so that the products become accessible to the people who may like to consume them. When a manufacturer establishes direct linkages with his consumers and sells directly to them without using any intermediaries, this option is called direct distribution. This option is usually possible when the customers are few in number and an individual customer is large enough to give you sufficient sales volume, as in the case of organizational customers. As a producer of value added food products, for example, if you are able to secure large orders from restaurants, canteens or hotels; you can easily supply the products directly to these customers as this will enable you to economize on your distribution

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margins and establish a direct rapport with your clients. Direct distribution as an option offers several advantages. Direct distribution would involve using your own sales force and arranging the delivery of goods through your own resources. Alternatively, direct selling can also be done by obtaining your orders through direct mail or telephone.

- It allows you to save on distribution margins of commission which are required to be paid to the intermediaries like retailers and wholesalers.
- This saving can be often utilized to offer very competitive prices to your customers; The low selling price can give you a competitive advantage vis-à-vis your competitors
- Your direct contact with your important clients can enable you to customize our value added food products in accordance with the needs, tastes and requirements of the customers.
- You can have a greater control on the final price and the terms of sale offered to your customers.

There are, however, certain disadvantages of using direct distribution. Your initial investment in creating facilities for storage, warehousing, transportation and handling of material becomes substantial. When you use direct distribution as an option your working capital requirements on account of salaries to the sales force as well as delivery related expenditures are higher. The geographical area that you can cover on your own is often limited and therefore, your market becomes limited to local markets or a few large organizational customers. In such cases, your dependence on a single or over a few organizations is so high that discontinuance of orders from any one of them could seriously affect the profitability of the business. On the other hand, if your customers are individual household consumers, the economics of direct distribution does not work out. Individual consumers may be scattered geographically, and the individual order size per household will be small. In such cases it is difficult, if not impossible for you to reach all your customers on your own. To reach a large number of individual customers, producers use intermediaries like wholesalers and retailers. These intermediaries are independent organizations that enable you to reach your final customers by providing distribution related services to you for an agreed trade margin. When you use intermediaries to reach your final customers, the mode of distribution is called indirect distribution. The advantages of using indirect distribution include the following:

- Low initial investment in distribution facilities.
- Relatively lower working capital requirement in relation to the distribution function.

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- Large coverage and access provided to a far larger number of customers.
- Benefits of specialization accruing from the intermediaries.

Your choice of direct vs. indirect distribution is determined by the composition of your customers. As mentioned above, if your customer base is composed of organizational customers direct distribution is a better option. Indirect distribution is a more viable option when your customer base is composed of individual households. These are choices that you need to make at the beginning of setting up of your business and selecting your target customers. You may like to work with a few organizational customers or may like to address the needs of individual households. This decision in turn will determine your choice of direct or indirect distribution.

3.3 TYPES OF CHANNELS

The set of organizations, outside your own firm, selected by you to enable your final customers to access your products is known as channel of distribution. A channel of distribution essentially enables the movement of products from the point of production to the point of consumption as well as the transfer of title from the manufacturer to the ultimate consumer. Looking at the market and the type of organizations engaged in the distribution of products, you would find that there are a wide variety of such organizations performing different kinds of distribution related functions, with varying terms of trade. Let us look at different types of intermediaries that if you may need to consider in order to to form your own channel of distribution.

Broadly, all intermediaries can be divided into two categories: Agent middlemen and Merchant middlemen. The agent middlemen are brokers and commission agents who negotiate purchase and sale of goods on behalf of other parties for a certain percentage of commission. Because agent middlemen work on behalf of other parties they do not take title to goods. Quite a few new entrepreneurs find it useful to appoint agents when they first get into the business of producing value added food products to help them find appropriate clients and avenues of selling their products. If you are starting with a small operation and your production is not too large, agent middleman may not find it profitable to act on your behalf.

Merchant middlemen, on the other hand, are those intermediaries who buy the goods from the producers and then sell them on their own behalf. In other words, they take title and possession of goods in order to resell them further. The merchant middlemen can be of several types viz. wholesalers, retailers, cooperatives and supermarkets, multiple shops or chain stores

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and department stores. In order to establish your channel of distribution, you will need to decide a specific combination of these intermediaries. Let us look at the main functions performed by these intermediaries so that you can accordingly take your channel decision.

Wholesalers: The term wholesalers includes all establishments and businesses engaged in purchase of goods from the producers for the purpose of reselling them to retailers or industrial, commercial, institutional or professional users or to other wholesalers. The principal business of wholesalers is buying goods in bulk and reselling them for a profit to (a) retailers who then resell the goods to the final customers or (b) utilize the goods in the course of operating an enterprise or business. In performing the distribution related activities, the wholesalers perform the following functions:

1. Taking possession of goods, maintaining storage facilities and maintaining adequate stocks in terms of both variety and quantity on a regular basis.
2. Delivering goods to customers (You must appreciate that the customers of wholesalers are retailers, industrial or professional enterprises and other, smaller wholesalers).
3. Taking ownership or title of goods from the producer and passing it on to the customer when the sale is made.
4. Participating in promotional activities for trade promotion initiated by the producer.
5. Negotiating on prices, terms of trade and terms of sale with both the producer and the customer.
6. *Taking risks:* Risk taking is a major function performed by the wholesalers. By taking the ownership of the goods, they assume the risk of obsolescence, pilferage and damage to the goods as the goods are now owned by them. In the case of new untried products or unknown products they also take the risk of being left with stocks of unsold goods, if the goods are not accepted in the market.
7. *Ordering:* The flow of ordering moves from the final consumers via retailers and wholesalers to the manufacturers. Wholesalers, order the supplies of goods from various manufacturers in anticipation of the order flow from the retailers and final customers.
8. *Financing:* Wholesalers, by selling the goods on credit to the retailers and collecting the payment after an agreed time period, provide a vital financing support to the retailers.

Retailers: The term retailer includes all establishments and businesses

engaged in selling goods for personal or household consumption. The distinction between the wholesalers and retailers is that the retailers sell primarily for ultimate use by the final consumer. You will find a variety of retail establishments existing in our country, ranging from consumer stores, multipurpose retail stores to sophisticated departmental stores. In terms of distribution activities, retailers perform the following functions:

1. Taking possession of goods from wholesalers, maintaining storage and desired stocks in order to fulfil the requirements of the final consumer.
2. Passing the delivery of the goods to the final consumer for price.
3. Taking ownership from the wholesaler to retailer and passing it on to the final consumer.
4. Participating in the promotion programmes of the manufacturer by organizing store displays and acting as final deliverers of sales promotion schemes directed at the final consumers.
5. *Risk taking:* Like wholesalers, retailers also take the risk associated with ownership. Their risk in the case of unsold merchandise may be partially offset if the wholesaler or manufacturer agrees to accept the returned unsold stocks.
6. *Information flow:* As they are in touch with the final consumer, retailers are a source of valuable information about the consumers' tastes and preferences, buying habits and paying capacities. Retailers participate in information flows backwards to the manufacturer so as to improve services to the final customer.

You would by now have noticed that the functions performed by the wholesalers and retailers are quite similar except for the fact that the scale of operations by wholesalers is much larger as they buy and sell in bulk for the purpose of reselling. The retailers, on the other hand, sell for the purpose of consumption by the final consumer. Their distribution related activities are directed mainly towards the ultimate consumer. There can be several types of retail establishments as we have noted earlier, some of the common ones being departmental stores, cooperative stores and chain stores.

Departmental stores usually located at a central location, provide a great shopping convenience to the modern customer who is short of time, by providing them a range of products under one roof. Being able to attract a large number of customers they are able to manage a large turnover even though their margins maybe small. Their large size enables them to buy directly from the manufacturers and avail bulk discounts thereby saving the wholesalers' margins and passing the benefit on to the consumer in the form of lower prices. As a producer of value added

products, you may consider departmental stores as an option because your products can get a large exposure to your target customers in such locations.

Cooperative stores or consumer cooperatives are run by societies formed by consumers themselves. The basic purpose of the cooperative store is to eliminate the middlemen and obtain the goods for their members at a low price. Like departmental stores, cooperative stores also obtain their supplies in bulk and enable the consumers to get the benefit of low selling prices. Some of the common examples of consumer cooperative stores are super bazaar and the Central Government Employees' Consumer Cooperatives.

Chain stores or multiple shop systems represent a concept where a number of stores are managed by one common ownership and management. The various stores can be located in different cities or at different locations in one large city. The chain stores usually deal in similar types of goods for example the Bata Shop, and the Philips appliances shop. Food based chain stores are becoming very common in metropolitan cities, named as food bazaars or food courts. They have become a good outlet for the introduction of new food products and availing a larger variety of food products in one location. Such food bazaars may be a good outlet for the value added food products for you to consider.

Haats and weekly markets: Rural consumers, on account of the absence of organized markets in the villages, carry out a lot of their buying activity at haats and weekly markets held around their villages. As the purchasing power of the rural customers has grown, marketers have found that these weekly markets provide a lot of access to a large number of customers in the non-urban markets. You must realize that the rural market in India is a large one, with high potential for development. Though the market for value added food products may at present be very limited, the potential for developing this market cannot be ignored.

3.4 PRIMARY DISTRIBUTORS AND OTHER CHANNEL LEVELS

By selecting an appropriate channel, you as a producer of value added products are trying to bridge the gap between you and your final consumers. Now that you have looked at different types of intermediaries operating in the market place, you can decide in terms of the levels or the number of channel intermediaries you want to mobilize to reach the final customers. Your choice would be strongly dependent on the market

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coverage you want and the scale at which you want to operate. Since you are a producer of consumer goods, the following channel options are available to you as diagrammatically shown in Figure 3.1 below:

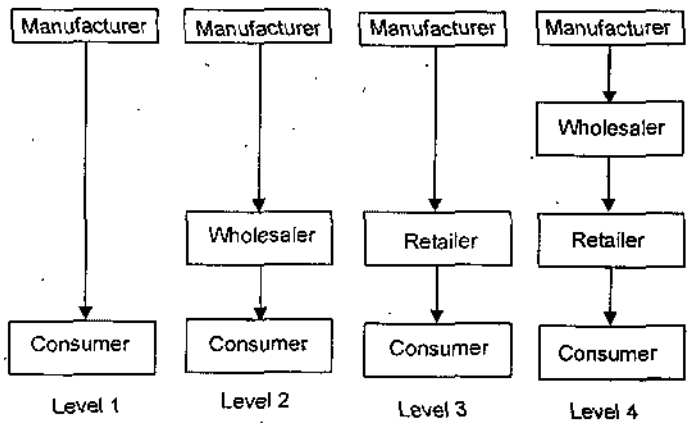

Figure.3.1 Levels of intermediaries.

Level 1 represents the direct distribution situation explained earlier in section 3.2 where you choose to sell directly to your customers without using any intermediaries. **Levels 2** and **3** represent situations where the manufacturer chooses to sell through wholesalers or retailers directly to a large number of consumers. **Level 4** represents multilevel distribution situation where owing to the large market coverage desired, the manufacturer accesses the market through a network of wholesalers who then sell to their respective network of retailers. The retailers then reach out to the final consumers in their respective areas.

3.5 SELECTION AND IMPORTANCE OF A CHANNEL

The channel selection decision is one of the most important decisions that you would be required to take. This is on account of two reasons. One, channel decisions bind you in relatively long-term commitments which are usually difficult to undo. Secondly, the costs involved in distribution affect the final price the customers are to pay and therefore, has a bearing on the type of market you will be able to attract at that price. The channel decisions also strongly affect your promotion, pricing and product line extension decisions. These decisions therefore, are taken after a lot of deliberation and consideration. The selection of an appropriate channel design would depend upon:

(a) *The market coverage desired:* Your choice of channel design is strongly dependent upon whether you want to operate in the local market only or you desire to operate in regional and national markets as well. As your intended coverage grows, it is difficult and uneconomical to operate only through your own direct channels. Level 3 or Level 4 channel systems become more prevalent as the

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market coverage desired by an entrepreneur grows to regional or national markets.

(b) *The resources available at your disposal for production and marketing:* In the initial years, your capacity and resources to produce large quantities of value added products and to market them effectively is rather limited. Direct distribution or shorter channel systems (Level 1 or Levels 2) to distribute the limited lot sizes being produced by you are more suitable in such circumstances. As the market acceptance grows, entrepreneurs find it more economical to use longer and multilevel channel systems.

(c) *The cost of distribution:* In respect of each of the channel systems that you want to use is an important criterion of selection between channel alternatives. As distribution costs form a large percentage of the total cost of goods sold, comparison of different combination of participants in channel systems and the total cost each alternative system should be carried out once you have decided to use intermediaries for the distribution of your value added products.

(d) *The type of services that the intermediaries are able to provide to you:* Intermediaries differ in the extent and types of services they are willing to offer to the entrepreneurs. These services range from promotional support to favourable shelf space, refrigeration facilities, cold storage facilities, warehousing, credit support to retailers by wholesalers etc. Depending upon the requirements of your product and marketing effort, you may like to select the channel alternative that best complements your product and marketing needs.

(e) *The nature of the product and its shelf life:* Product characteristics often become the starting point in your search for suitable channel alternatives. The nature of the product in terms of its perishability, packaging requirements, shelf life, type of handling required etc are important determinants of what kind of channels or intermediary partners would be most suitable to you. For example, if your value added products are jams or jellies which need to be sold in glass bottles and have a shelf life of about three months, you can afford to be more flexible in your choice of intermediaries but if you are dealing in fruit juices packaged in tetra packs, your choice would be restricted to channel members who can provide refrigeration facilities to ensure that the product to reach the customers in an unspoiled and fresh condition. Similarly, in the cases of products which are equally substitutable by similar competitive products, and have low brand loyalty, entrepreneurs have to resort to intensive distribution to ensure

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that the consumer does not switch to a competitive product on account of non-availability to their brands.

(f) *Buying habits of the customers:* Every marketer needs to study the buying habits of the customers in terms of their shopping preferences, store selection, volume of purchase and frequency of buying. Preferred store choices for food products would be a key input in your choice of the retail level outlets because a new product would get maximum exposure to consumers if it is placed in the outlets frequented by them.

(g) *The trade practices followed by your competitors:* When you are in a competitive business like marketing of value added food products, you cannot afford not to be present where your competitor is present in the store outlets, neighbourhood shops, or periodic markets like haats and weekly bazaars. On the other hand, if there are some markets which are overly occupied by a competition, as a new entrant you may find it easier to access other markets where the intensity of competition is lower. In either case, your choice of intermediaries is dictated by the trade practices followed by your competitors.

Typically as new organizations, small firms begin to sell through getting themselves accepted by the existing intermediaries in the local markets; beginning from a limited market access, and by gradually capturing larger markets by diversifying their channel options. You may find that as a new entrepreneur, your problem is often not of selecting appropriate channels but that of being selected by existing intermediaries. Wholesalers and retailers also take the risk when they agree to stock and sell products from unknown new manufacturers especially when the products are eatables like value added food products. You may find that in the initial years you may not have too much of a choice in the selection of your intermediaries. As you get established in the market and your brand starts getting accepted by the consumers, your discretion and flexibility in choosing your own intermediaries will increase.

3.6 PHYSICAL DISTRIBUTION TASKS: SPECIALIZED DISTRIBUTORS AND PARTICIPANTS

The physical movement of finished products from the point of production to the point of consumption and the associated decisions of maintenance and movement of stocks, handling of material and transportation are included in the physical distribution function, is often called the market logistics function. Physical distribution is an important area of decision

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making for entrepreneurs who are shocked to often find that it can amount to 30 to 40 percent of the total product cost. Poor functioning of physical distribution activities can lead you to lose customers if you fail to supply goods on time, and create situations where your money is tied up in unsold stocks. The various decisions that you will need to take as a manufacturer of value added food products within the Physical distribution function are the following:

- *Order processing decisions:* The order processing system defines the way your order- to- payment cycle is planned *i.e.,* what is the processing system you would like to put in place once an order is received to the stage where payment for the supply of the order is received. This process may include several steps, from receiving in order to filing it, checking it against available inventory, putting a production schedule in operation if it is a large order, order and invoice shipment, information to the customer for and collection of payment. In case you are selling through the intermediaries, your orders would be received from the intermediaries and the payments in turn would be received from them. Computerization of inventory processes and an order tracking system help in cutting down the order- to- payment cycle considerably and help in saving costs as well as improving the efficiency of the system.

- *Warehousing decisions:* You will find that as a manufacturer of value added products, because of the gap between the time of production and the time of consumption you would need to store finished goods until they are sold. Depending upon whether you are selling only in the local markets or in regional or national markets, you will need to decide on the number and location of warehouses or stocking places where finished goods can be stocked till they are ordered and sold. Small entrepreneurs usually hire space in public warehouses rather than building up their own warehouses. While on one hand more stocking locations mean that the delivery time to customers will be shorter, it also means that the inventory costs and the warehousing costs would be higher. You could alternatively choose to have a single warehousing location centrally and use quicker transportation modes to deliver the shipments to your various customers.

- *Inventory decisions:* Inventory decisions are important because they represent major cost component of the total cost of distribution. Your inventory decisions include decisions on when to stock and how much to stock of each item. The manufacturers would like the distributors or stocking locations to hold enough stocks of all their value added food products so that the customer

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orders can be promptly fulfilled. If it is, however, found that holding sufficient stocks of all the items in the product line at all locations is not cost effective. Depending upon the different levels of demand for different items of the product line at different locations in the market, economic order quantities and reorder points are worked out so that overall inventory costs can be minimized.

- *Transportation decisions:* Since goods need to be physically transferred from the point of production to the point of consumption or demand, one of the important physical distribution decisions is that of selecting the mode of transport. In trying to transport your value added food products to your warehouses, your dealers or large customers, if you will be faced with a variety of options like trucks, railways, container services, waterways and airways. The criteria used to selection include cost, speed, reliability, availability and possibility of tracking in- transit information, depending upon their own product based needs, requirements of timeliness of delivery and the weightage they wish to assign to the other criteria, entrepreneurs make their transportation mode selections.

3.7 UNDERSTANDING DISTRIBUTION POLICY PLANNING

Distribution policy planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer. In this unit, we address only transfer of ownership concerns. Distribution decisions affect a firm's marketing program. Some of the major considerations are the use of multiple channels, control versus costs, intensity of distribution desired, and involvement in e-commerce.

Multiple Channels

A producer uses multiple channels when its product fits the needs of both industrial and consumer markets. J & J Snack Foods sells its pretzels, drinks, and cookies to supermarkets, movie theaters, stadiums, and other sports arenas. It also sells to schools, colleges, and hospitals. The producer must identify the best channel for each market.

Control Versus Costs

All manufacturers and producers must weigh the control they want to keep over the distribution of their products against costs and profitability.

Who Does the Selling?

A manufacturer must decide how much control it wants over its sales function.

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It can use its own sales force or hire agents to do the selling. A direct sales force is costly. In-house sales representatives are on the company payroll, receive employee benefits, and are reimbursed for expenses. The manufacturer, though, has complete control over them. It can establish sales quotas and easily monitor each sales representative's performance.

With an agent, a manufacturer loses some of its control over how sales are made. This is because agents work independently, running their own businesses. However, the relative cost of using agents can be lower than hiring an in-house sales staff. No employee benefits or expenses must be paid because agents are independent businesspeople. Another benefit is that agents are paid a set percentage of sales, assuring that the cost of sales is always the same in relation to the sales generated.

Distribution Intensity

Distribution intensity has to do with how widely a product will be distributed. There are three levels of distribution intensity: exclusive,, selective, and intensive.

Exclusive Distribution

Exclusive distribution involves protected territories for distribution of a product in a given geographic area. Dealers are assured that they are the only ones within a certain geographic radius that have the right to sell the manufacturer's or wholesaler's products. Prestige, image, channel control, and a high profit margin for both the manufacturer and intermediaries are characteristic of this distribution strategy. Franchised operations are examples of exclusive distribution planning.

Wholesalers may also sponsor voluntary groups in which a retailer agrees to buy and maintain a minimum inventory of the wholesaler's products. One example of a voluntary group sponsored by a wholesaler is the National Auto Parts Association (NAPA). Retailers affiliated with NAPA buy most of their stock from NAPA and participate in its promotions. Some manufacturers own and run their own retail operations. This variation on exclusive distribution is **integrated distribution**.

The manufacturer acts as wholesaler and retailer for its own products. The Gap sells its clothing in company-owned retail stores.

Selective Distribution

Selective distribution means that a limited number of outlets in a given geographic area are used to sell the product. The goal is to select channel members that can maintain the image of the product and are good credit risks, aggressive marketers, and good inventory planners.

Intermediaries are selected for their ability to cater to the final users that the manufacturer wants to attract. Dana Buchman sells its clothing only through top department stores that appeal to the affluent customers who buy its merchandise. It does not sell its goods in a chain megastore or a variety store with a very different target market.

Intensive Distribution

Intensive distribution involves the use of all suitable outlets to sell a product. The objective is complete market coverage, and the ultimate goal is to sell to as many customers as possible, wherever they choose to shop. Motor oil is marketed in quick-lube shops, farm stores, auto parts retailers, supermarkets, drugstores, hardware stores, warehouse clubs, and other mass merchandisers to reach the maximum number of customers.

E-Commerce

E-commerce is the means by which products are sold to customers and industrial buyers through the Internet. You already learned that e-tailing is retail selling over the Internet. This online shopping location is called the **e-marketplace**.

In 2004, Internet travel bookings were estimated at $54 billion, which was 23 percent of the travel industry's revenues. Consumers have also become accustomed to buying books, toys, and other goods online. E-marketplaces for B2B operations provide one-stop shopping and substantial savings for industrial buyers. Online catalogs of products supplied by different companies make it easier for corporate buyers to compare prices and get the best deal. E-marketplaces provide smaller businesses with the exposure that they could not get elsewhere.

In each of the past five years, a greater proportion of B2B trade has taken place via the Internet. This trend is expected to continue for some time.

3.8 LEGAL AND ETHICAL CONSIDERATIONS IN DISTRIBUTION

In most cases, businesses may use whatever channel arrangement they desire. Laws affecting channels generally prevent exclusionary tactics that might keep other companies from using a desired channel. The Clayton Antitrust Act of 1914 prevents exclusive arrangements that substantially lessen competition, create a monopoly, or in which one party did not commit to the agreement voluntarily.

Some distribution practices meet legal requirements but may be ethically questionable. The American Marketing Association (AMA) Code of Ethics lists the following responsibilities in the area of distribution:

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- Not manipulating the availability of a product for purpose of exploitation.
- Not using coercion in the marketing channel.
- Not exerting undue influence over the reseller's decision whether to handle the product.

3.9 DISTRIBUTION PLANNING FOR FOREIGN MARKETS

Foreign market environments require that businesses adjust their distribution systems. They also give businesses a chance to experiment with different distribution strategies. For example, in the United States, General Motors distributes automobiles through franchised retail car dealerships. However, in Taiwan, GM owns its own retail dealerships and sells cars directly to consumers. In Taiwan, GM is free from franchise dealer constraints and has been able to test systems for selling cars to consumers directly over the Internet.

Cultural considerations should also be weighed when planning distribution in foreign markets. For example, when Reebok wanted to sell its athletic shoes in Europe, it studied European culture and found that Europeans visit sporting goods stores far less often than Americans. The company decided to distribute Reebok's shoes through hundreds of traditional retail shoe outlets. Within one year of adopting this distribution strategy, Reebok's sales in France doubled.

3.10 THE NATURE AND SCOPE OF PHYSICAL DISTRIBUTION

After a company decides on its channels of distribution, it must plan for actually moving its products through those channels. Physical distribution is the key link between a business and its customers. **Physical distribution** comprises all the activities that help to ensure that the right amount of product is delivered to the right place at the right time.

Physical distribution is also known as logistics. It involves order processing, transporting, storing, stock handling, and inventory control of materials and products. Physical distribution is the third-largest expense for most businesses. It is surpassed only by the costs of material and labor.

Businesses need to make the physical distribution system as efficient and cost effective as possible. At the same time, physical distribution needs to be coordinated with other business functions, such as purchasing,

finance, production, packaging, and promotion. Suppose a business has planned to launch promotional ads for a new product available on a certain date. If the distribution system is unreliable, the product may not arrive at stores in time. This error will cost the business customers and cause the business to lose credibility.

3.11 TYPES OF TRANSPORTATION SYSTEMS

Transportation is the marketing function of moving a product from the place where it is made to the place where it is sold. Transportation costs are a significant part of each sale; therefore, manufacturers, wholesalers, and retailers look for the most costeffective delivery methods. There are five major transportation systems, or modes, which move products, including trucks, railroads, waterways, pipelines, and air carriers.

Trucking

On certain U.S. highways, such as the Ohio Turnpike, about 30 percent of the miles driven are driven by commercial vehicles. Trucks, or motor carriers, are the most frequently used transportation mode. They carry highervalued products that are expensive for a business to keep in inventory. They also carry products such as produce that have very limited shelf life. Lightweight shipments transported over moderate distances are generally handled by trucks—nearly 80 percent of those shipments weigh less than 1,000 pounds each. Businesses use trucks for virtually all intracity (within a city) shipping and for 26 percent of the intercity (between cities) freight traffic in the United States. State and federal transportation agencies regulate motor carriers used for interstate (between states) commerce. For example, they regulate the number of hours motor carrier operators can drive without stopping and the length of their rest periods. State transportation agencies regulate fuel taxes, safety issues, and rates charged for intrastate (within a state) trucking.

Types of Carriers

Businesses that use trucks to move their products have several different options. They can use for-hire carriers, private carriers, or a combination of both. For-hire carriers include common carriers and contract carriers. **Common carriers** provide transportation services to any business in their operating area for a fee. Carriers can change their rates or geographical areas, as long as they do not charge rates that are different from their published rates. More than one-third of all motor freight is handled by common carriers. Less than truckload carriers provide shipments in which freight from multiple shippers are consolidated into a single truckload.

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Contract carriers are for-hire carriers that provide equipment and drivers for specific routes, according to agreements between the carrier and the shipper. A contract carrier can provide services on a one-time basis or on a continuing basis.

Contract carriers usually transport goods for more than one business, and they can charge different rates to each business. However, they must file their contracts with the appropriate state or federal regulatory agency. A major advantage of using for-hire carriers is that the business does not need to invest in transportation equipment. However, for-hire carriers offer less flexibility for special pickups or handling, rush deliveries, and direct shipments.

Private Carriers

Private carriers transport goods for an individual business. The transportation equipment can be owned or leased to meet the specific transportation needs of the business. Significant capital investment is required, however, if a business decides to own and maintain its own private fleet.

Cost is a major factor in selecting transportation. Starting a private carrier operation requires a large investment in equipment and facilities. However, private carriers let a business maintain total control over equipment, maintenance, availability, routes, delivery times, and handling procedures. This also allows a business to rapidly change schedules, routes, and delivery times to meet customers' needs. Many businesses use a combination of private and for-hire carriers. They may use their own trucks for local deliveries and common or contract carriers for shipments beyond their local service areas.

Exempt carriers are free from direct regulation of rates and operating procedures. In most cases, they carry agricultural products. Their rates are lower than those charged by common carriers because of their exempt status. Local transportation firms may also receive exempt status if they make shortdistance deliveries within specified trading areas in cities. Some disadvantages of trucks are that they cost more than rail and water carriers, and they are susceptible to delays due to traffic jams and road conditions. Trucks are also subject to size and weight restrictions, which can vary state-to-state.

Intermodal Transportation

Intermodal transportation combines two or more transportation modes to maximize the advantages of each. Piggyback service is carrying loaded truck trailers over land on railroad flatcars. Trucks will then take the trailers to their destinations. Fishyback service is shipping loaded truck trailers over water on ships and barges. Piggyback and fishyback

services combine advantages of truck transportation with the lower costs of rail and marine transportation.

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Railroads

Railroads are another major form of transportation in the United States. Trains transport nearly six percent of the total intercity tonmiles of freight. A **ton-mile** is the movement of one ton (2,000 lbs) of freight one mile. Trains are important for moving heavy and bulky freight, such as coal, steel, lumber, chemicals, grain, farm equipment, and automobiles over long distances. Refrigerated cars keep perishable products such as milk or fresh vegetables from spoiling over long distances. Other specially designed freight cars haul combustible or hazardous materials, such as chemicals.

Pricing and Delivery Services

Shippers pay lower rail transportation rates if they fill an entire boxcar. A **carload** is the minimum number of pounds of freight needed to fill a boxcar. Carload weights are established for different classifications of goods. Once a shipment reaches the minimum weight, the shipper pays the lower rate, regardless of the physical size of the shipment. Rates charged for less-than-carload shipments are more expensive because partial carloads have to be unloaded at each destination.

Advantages and Disadvantages of Railroad Transportation

Railroads are one of the lowest cost transportation modes because trains carry large quantities at relatively low per unit costs. Trains need 50 to 70 percent less energy than a motor carrier to transport freight, and they are seldom slowed or stopped by bad weather. This makes trains one of the safest modes of transportation. The biggest disadvantage of rail transport is the lack of flexibility. Trains can pick up and deliver goods only at stations along designated rail lines.

Marine Shipping

Barges and container ships transport merchandise within the United States and around the world. Container ships carry their loads in either 20- or 40-foot-long standardized trucksize containers. The United States Maritime Commission regulates U.S. marine shipping.

Waterways

Inland shipping is shipping from one port to another on connecting rivers and lakes. The St. Lawrence Seaway, which is a combination of rivers,

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canals, and lakes, and the Mississippi and Ohio Rivers are all internal shipping routes that give ocean-going vessels access to the heartland of America.

Intracoastal shipping is the shipping of goods on inland and coastal waterways between ports along the same coast. For example, shipments can be sent from Virginia to North Carolina through the Great Dismal Swamp Canal. International waterways are the oceans and rivers that connect continents and countries. Almost all overseas nonperishable freight is transported by container ships and barges because of the low cost. Products commonly shipped by international waterways include heavy equipment, steel, ore, forest products, grain, and petroleum.

Advantages and Disadvantages of Marine Shipping

The biggest advantage of marine transportation is the low cost: container ships and barges are the cheapest form of freight transportation. However, they are also the slowest form of transportation.

Marine shipping has other disadvantages. Buyers that are located far from the port city must have products off-loaded from container ships onto railroad cars or motor carriers to reach their destination. This added cost of distribution reduces some of the cost advantages of marine shipping.

Marine shipping is affected by bad weather and seasonal conditions. Great Lakes shipping, for example, is closed for two to three months in the winter.

Pipelines

Pipelines are usually owned by the company using them, and in these instances, they are considered private carriers. There are more than 200,000 miles of pipelines in the United States.

Pipelines are most frequently used to transport oil and natural gas. They move crude oil from oil fields to refineries, where it is processed. The refined products, such as gasoline, are then trucked to retail outlets such as your local gasoline station.

Advantages and Disadvantages of Pipelines

The construction of pipelines requires a high initial investment, but operational costs are relatively small. Pipeline transportation has the best safety record among all major transportation systems. Products carried through pipelines move slowly but continuously, suffer minimal product damage or theft, and are not subject to delivery delays due to bad weather. The risk of a pipeline leak is low, but when a leak does occur, the damage to the environment can be extensive.

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Air Cargo Services

Currently, air cargo services are less than one percent of the total ton-miles of freight shipped. High-value, low-weight, time-critical items such as overnight mail are often shipped by air. Certain high-value products, such as emergency parts, instruments, and medicines may also be shipped by air. Air cargo has space restraints, so products transported in smaller containers are well suited to this form of shipment. Air cargo service carriers offer such things as wide-bodied jets that can ship more goods and specialized packaging designed to help prevent damage.

Advantages and Disadvantages of Air Transportation

The greatest advantage for air transportation is its speed. This fast delivery time allows businesses to satisfy customers who need something quickly. It also reduces inventory expenses and storage costs.

The greatest disadvantage of air transportation is its cost. It is by far the most expensive form of distribution. Air cargo rates are at least twice as costly as truck rates. Other disadvantages of air cargo services include mechanical breakdowns and delays in delivery caused by bad weather.

Transportation Service Companies

Transportation service companies handle small- and medium-size packages. Some examples of these companies are the Indian Postal Service, express delivery services, bus package carriers, and freight forwarders.

Indian Postal Service

The Indian Postal Service ships small packages by parcel post or first-class mail. For an extra fee, parcel post can be insured against loss or damage. Parcel post can also be express-mailed at higher rates to guarantee next day delivery.

Express Delivery Services

Express delivery services specialize in delivering small, lightweight packages and high priority mail usually weighing less than 150 pounds. It can deliver nationally or internationally by airplane, truck, bus, or train. Rates are based on speed of delivery, size and weight of package, distance to be sent, and type of service used. Regular service usually takes from two to three days; more expensive, next-day service is also available.

SUMMARY

- Broadly, all intermediaries can be divided into two categories: Agent middlemen and Merchant middlemen.
- **Taking risks**: Risk taking is a major function performed by the wholesalers.
- **Ordering:** The flow of ordering moves from the final consumers via retailers and wholesalers to the manufacturers.
- **Retailers:** The term retailer includes all establishments and businesses engaged in selling goods for personal or household consumption.
- Distribution policy planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer.
- Distribution intensity has to do with how widely a product will be distributed. There are three levels of distribution intensity: exclusive, selective, and intensive.
- **Selective distribution** means that a limited number of outlets in a given geographic area are used to sell the product.
- **Intensive distribution** involves the use of all suitable outlets to sell a product.
- E-commerce is the means by which products are sold to customers and industrial buyers through the Internet.
- Foreign market environments require that businesses adjust their distribution systems.

REVIEW QUESTIONS

1. For the list of products given below, suggest whether direct or indirect distribution channels would be appropriate. Give reasons for your answer.
   (a) Fresh fruit juice
   (b) Packaged or tinned fruit juice
   (c) Jams, jellies or marmalade
   (d) Vegetables preserves
   (e) Pickles
   (f) Packaged ready to eat vegetables
   (g) Soup powders.
2. As an entrepreneur you have developed a line of fruit based products to suit the health requirements of the present generation. These include a complete range of fruit juices, preserves, jams and jellies without artificial

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sweeteners or extra sugar. As chemical preservatives have not been used the products have a relatively short shelf life. What are the criteria that you would apply to select appropriate channels for your product line?

3. What are the important decisions within the physical distribution function that an entrepreneur dealing in value added food products will need to take? Explain with the help of suitable examples.
4. Discuss distributors planning and strategy.
5. Who does the Selling?
6. Explain
   - Exclusive Distribution
   - Integrated Distribution.
   - Selective Distribution
   - Intensive Distribution
   - E-Commerce.
7. Discuss Legal and Ethical Considerations in Distribution
8. What are different types of transportation systems?

UNIT 4 CHANNEL MANAGEMENT: FORCES OF DISTRIBUTION SYSTEMS

★ STRUCTURE ★

4.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about channel functions and distribution efficiency.
- explain new business environment.
- discuss general impact of environmental changes on business.
- describe managing the channel member and resolving channel conflicts.

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4.1 INTRODUCTION

Channel Management is the process by which a producer or supplier directs marketing activity by involving and motivating the entities comprising its channel of distribution.

The distribution channel is defined as a chain of intermediaries, each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This proces is know as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user.

In present unit we will discuss about the channel management in detail.

4.2 CHANNEL FUNCTIONS

The following are some of the channel functions.

- Provide distribution efficiency
- Provide salesmanship
- Help in price mechanism
- Look after a part of physical distribution and financing
- Assist in merchandising
- Provide market intelligence
- Act as change agent and generate demand
- Take care of flows involved in distribution.

Provide Distribution Efficiency

In the first place, the channel brings together the manufacturer and the user in an economic manner and thereby provide distribution efficiency to the manufacturer.

Minimize the number of contacts needed for reaching consumers in most cases, it will be impractical for the manufacturing firm to sell its entire production directly to the consumers. Resource constraint is the first hurdle in this regard. Even assuming that the required resources can be found, the question arises whether it will be advantageous for the firm to sell its products directly and all by itself, totally avoiding external. Marketing channels analysis shows that in most cases, using external marketing channels/intermediaries is more advantageous to the firm than performing the distribution function all by itself. When channels are dispensed with, the number of contacts a manufacturer will have to establish for reaching out to the consumers are far too many; Channels minimise the number of contacts.

Break the bulk and cater to tiny requirements channels break the bulk and meet the small-size needs of individual consumers.

Supply Products in Suitable Assortments

Channels also combine products and components manufactured by different firms and offer them in assortments that are convenient to users. The users normally need an assortment of items. They will shop at only those outlets, which supply such assortments. But, a manufacturer cannot meet the need for such assortments, since it will not be feasible for him to take up distribution of other products required by the customers. The channels thus render the vital service of assembling the products of different manufacturers and offering them to customers in suitable assortments. In other words, the channels help in 'matching segments of supply with segments of demand'.

Provide Salesmanship

Marketing channels also provide salesmanship. In particular, they help in introducing and establishing new products in the market. In many cases, buyers go by the recommendations of the dealers. The dealers establish the products in the market through their persuasive selling and person-to-person communication. They also provide pre-sale and after-sale service to the buyers.

Help in Price Mechanism

In many cases, the channels also help implement the price mechanism. They conduct price negotiations with buyers on behalf of the principals and assist in arriving at the right price the price that is acceptable to the maker as well as the user. This is vital for the consummation of the marketing process. The manufacturer would find it difficult to complete this step without the help of the channels.

Look after a Part of Physical Distribution and Financing

Channels also look after a part of the physical distribution functions like transportation, handling, warehousing, subdistribution, order processing and inventory management.

Channels also share the financial burden of the manufacturer by financing the goods flowing through the marketing pipeline. Often, they pay cash and lift the products; in the process, the manufacturer gets his money long before the products reach the ultimate users. In some cases, the channels provide substantive deposits to the principals. In several cases, the channels also extend credit to the subordinate levels in the channel and to the consumers. This also relieves the principals'

financial strain to an extent. More than everything else, the channels place the products close to potential consumers and thereby enhance the chance of its sale.

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Assist in Merchandising

Merchandising is another important function performed by marketing channels. Through merchandising, they help reinforce the awareness about the product among customers. When a customer visits a retail shop, his attention can be all urged by an attractive display of the product brand increasing his awareness and interest. Merchandising, especially display complements the selling efforts of the company and acts as a silent salesman at the retail outlet.

Provide Market Intelligence

Channels provide market intelligence and feedback to the principal. In the nature of things, channels are in a good position to perform this task, since they are in constant and direct contact with the customers. They feel the pulse of the market all the time.

Act as Change Agents and Generate Demand

In certain cases, the marketing task involves diffusion of some innovation among consumers. In such cases, the channels go much beyond the conventional functions of distribution aid act as 'change agents' among consumers and generate demand for the product.

Take Care of the Flows Involved in Distribution

The distribution process can be viewed as a series of flows: the physical flow of products, the title/ownership flow, risk flow, the negotiation flow, the financing/payment flow, the information flow and promotion flow. Marketing channels handle and take care of all these flows.

4.3 FUNCTIONS PERFORMED BY MARKETING CHANNELS

- Facilitate selling by being physically close to customers.
- Provide distributional efficiency by bridging the manufacturer with the user, efficiently and economically.
- Break the bulk and cater to the tiny requirements of buyers
- Assemble products into assortments to meet buyer's needs; match 'segments of supply' with 'segments of demand'.
- Look after a part of physical distribution/marketing logistics

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- Sub-distribution
  - (a) Reselling
  - (b) Transport
  - (c) Handling
  - (d) Accounting.
- Stock holding
  - (a) Providing warehouse space
  - (b) Storing the stocks
  - (c) Bearing risks
  - (d) Transforming static stocks into operational stocks, thereby aiding the sale process.
- Share the financial burden of the principal; provide deposits; finance the stocks till they are sold to the ultimate consumers; extend credit to retailers/consumer.
- Provide salesmanship
- Provide pre-sale and after-sale service
- Assist in sales promotion
- Assist in merchandising
- Assist in introducing new products
- Assist in implementing the pricemechanism; assist in price negotiations
- Assist in developing sales forecasts/salesplans for the territory
- Provide market intelligence and feedback
- Maintain records
- Take care of liaison requirements
- Help diffuse innovations among consumers, act as 'change agents' and generate demand. Some of these flows are forward, some backward and the others take place as a two-way process.

Normally, the flow takes place sequentially through different levels in the distribution chain. In some cases, however, the flow may bypass a particular level in the chain.

Channels Acquire

Their importance by their functions. The foregoing elaborations not only explain the importance of marketing channels, but also clarify the fact that the channels acquire their importance by virtue of the functions they perform.

Channel Functions cannot be Eliminated

Sometimes, firms tend to think that channels could be easily dispensed with and that the firm would be better off doing so. The firms assume that by eliminating the channels, they can eliminate the channel costs, this is erroneous thinking.

The inherent assumption in this thinking is that by eliminating the channels, they can escape the functions that the channels perform. The fact is that even where channels are eliminated, the channel functions as such are not eliminated; they are merely transferred from the channels to the manufacturer; and the costs thereof are also just transferred, not eliminated. Sometimes, the firms assume that while channels as a whole cannot be eliminated, a particular tier in the channel can be readily eliminated and the firm would be ipso facto better off with such elimination. Here too, if the assumption is based on the logic that with the elimination of the particular tier, the functions performed by that tier can be eliminated, then the firm will soon realize that it has committed a mistake. For here too, the alternative arrangement may not eliminate the functions performed by that particular tier. What is likely to happen is a transfer of the functions from the given tier to another one in the channel, backward or forward. So, it will be wrong to assume that the elimination of the tier will ipso facto result in savings to the firm. It depends on the circumstances.

4.4 THE NEW BUSINESS ENVIRONMENT

Conditions are changing simultaneously in different fields, social, political, economic and technological, and they are often in conflict. It is difficult to forecast the area where changes will most affect business. For each specific business, it is important to keep in touch with the key changes in each area of the business environment and to update the forecast.

Technological Environment

This is probably the easiest to identify:

- Accumulated technical knowledge (general exponential curve)
- Worldwide communications system (transport, satellites, etc.)
- Data processing (mini-computers, data banks, office systems, electronic mail (E-mail))
- New processes aimed at lower energy consumption and higher feed/raw material utilization, new energy sources.
- High investment cost.
- New technology for basic human needs (biotechnology, synthetic food, genetic engineering).

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Economic Environment

These changes in the following areas:

- Obsolescence of all past theories
- Irrelevance of past extrapolation
- Worldwide population growth, but concentrated in certain areas
- High energy/raw material costs
- Inflation coupled with lower economic growth (stagflation).
- Monetary instability and disparity between developed countries
- (DC)/Organization of Petroleum-Exporting Countries (OPEC) and LDC.
- Shortage of capital, credit squeeze, very selective investments
- Shortage of people able to understand the new environment
- Potential shortage of food worldwide.

Social Environment

Changes occur in:

- Collapse of tradition and structures
- New education, new expectations, new motivations.
- New lifestyles, mobility, quality of life, health care.
- Consumerism/ecology/anti-business attitudes, unemployment and shorter working time
- Crime/terrorism
- Participate working conditions.

Political Environment

The political environment is subject to:

- Nationalism versus grouping of industries
- Higher government intervention/trade and job protection.
- Price control and income equalization
- Political instability/wars.

Relative Importance of the External Factors

Generally speaking, the changes in social environment and to some extent the political factors will play a much larger part in shaping the business environment than they did in the past.

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4.5 GENERAL IMPACT OF ENVIRONMENTAL CHANGES ON BUSINESS

Coping with the changing environment is already a difficult task; the difficulty appears larger when it is realized that not only is the number of changes high, but the difference in 'quality' is even more striking. Most conditions show fundamental differences with past history and knowledge, as well as the past and even the current approach to business theories and management. Things are not only drastically different; they change quickly, much faster than they did in the industrial revolution during the 19th century. These fast changes are therefore very difficult, if not impossible, to foresee; they create business turbulence and unexpected crises at short notice; instability, discontinuity and uncertainty seem to characterize the present years and this situation will continue until the world reaches a new period of stability in all these respects.

Evaluation

All these changes can be frightening and leave one wondering whether the ordinary business executive can cope with them; whether the 'human gap' is not too great. However, there is no choice, so one might as well adopt a responsible and positive attitude instead of a passive and negative one. The 'Serenity Prayer' says: *In most businesses, a change in environment can be considered either as a threat or as a new opportunity depending on the point of view.* A newly industrialized nation can be considered as a threat (cheap competition) or an opportunity (new market).

While excessive inflation is a nightmare for most governments, it is viewed as an opportunity by many businesses. Increasing crime is a frightening trend to most people; but security companies consider it as an opportunity for more business. It is important to conduct a rational and systematic analysis of the future impact of each environmental factor on a specific business; and to avoid being trapped in a last minute crisis, under the pressure of events, when it may be too late to adjust to them. This analysis can be set out in the following manner.

1. Environmental Factor: Technological
   (a) Degree of change: high/low
   (b) Probability of occurrence: high/low
   (c) Implication: opportunity or threat
2. Environmental Factor: Economic etc.

The probability level associated with each factor is a basic ingredient of any potential 'environment scenario' and concerns the risk evaluation of each future business strategy. Thus the systematic evaluation of opportunities and threats is a key part of the overall process of strategic business planning.

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The Importance of SWOT Analyses

Answers to the following five essential questions, asked periodically, will provide clues to gaining advantage over competitors:

- What are our company's unique strengths or aspects?
- Which give us competitive advantage over our close competitors'?
- What are our relative strengths in comparison to our nearest competitors?
- What are our weak flanks which we have to guard?
- What are the weak points of our competitors which we can attack?
- What ideas do the foregoing give us in terms of opportunities?

To do this, it is necessary to make an analysis of the strengths, weaknesses, opportunities and threats (SWOTs) faced by the company and the distributor. Since the market-place, the conditions and the competitors may be different as far as each distributor is concerned, it is important to start afresh in each case. This analysis must be undertaken at least once a year.

Marketing and Channel Flows

The above analysis of a company's SWOTs must be augmented by similar analyses of the other channel members. The number of members in a particular channel can vary according to the length and width of the channel strategy a company adopts.

A Checklist for Selecting the Most Appropriate Distributors 'or' Channels: Product Factors

Four product variables must be weighed in channel selection.

1. *Physical nature*: The variations that influence the decision are:
   (a) Perish ability of the product, whether physical or due to fashion;
   (b) Seasonal variation, causing inventory problems;
   (c) Unit value of the product;
   (d) Inventory investment required; and
   (e) Customer service requirements.
2. *Technical nature:* whether
   (a) A simple or complex product;
   (b) Advice is needed on product use;

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(c) Installation is needed and

(d) Special training is needed.

3. *Length of product line:* This consists of a group of products related either from a production or a marketing standpoint. Intermediaries are preferable own sales force when the line is short. Decisions must be made whether' to use a single channel for the entire line or split the line and use multiple channels.

4. *Market position:* An established product made and promoted by a reputable manufacturer may have a high degree of market acceptance and can be readily sold through more channels than a lesser known product.

Market Factors

1. *Existing market structure:* This includes traditional modes of operation, geographical factors, size and placement of the population, etc.

2. *Nature of the purchase deliberation:* The amount of deliberation by the buyer before purchase differs from product to product. Frequent purchases need more buyerseller contacts and intermediaries are indicated. Formal specifications and competitive bids may be used in purchasing certain industrial products.

3. *Availability of the channel:* Existing channels may not be interested in new products. The promoter can either persuade them or use aggressive promotion to stimulate consumer demand on the theory that this will force the intermediaries to carry the product in order to satisfy the customers.

Institutional Factors

1. *Financial ability of channel members:* Manufacturers may find it necessary to aid their retailers through direct financing; willingness to extend credit can influence channel acceptance. Conversely, mass retailers sometimes finance their suppliers.

2. *Promotional ability of channel members:* Wholesalers cannot aggressively promote particular products, but exclusive distributors usually join the manufacturer in doing so. Manufacturers assume this function in the case of national brands, while the promotion of private brands usually rests on the mass retailer or wholesaler who establishes the brand name.

3. *Post-sales service ability:* The after-sales service, with or without a warranty, may be performed by the manufacturer, the retail distributor or an independent service organization. This ability affects channel selection.

The Channel Decision

This is made by a combination of intuition and analysis, and the exercise of judgment. The decision is complicated by the interdependencies existing between relevant factors. While it is difficult to quantify the many trade-offs associated with channel decisions, certain tools can be applied to them. Cost analysis techniques will give reasonable estimates of each channel cost. System analysis involves trade-offs in time, service and costs in order to maximize profits in the long run. Quantitative comparisons are made between alternative production runs, inventory holding levels, transport modes, customer service standards, order transmission, processing systems, etc. This must involve computer-oriented modeling techniques owing to the large number of variables to be considered. In recent years; significant environmental changes have taken place:

1. Trend towards a short-order economy—the increase in inventory has meant that the best decision is to order frequently, forcing the primary supplier to carry the necessary inventory.
2. Rapid expansion of product lines—this generates obsolescence and stock availability problems as well as inventory imbalance.
3. Price differentials and discounts—legally speaking, these have to be cost-justified.
4. Competitive strategies—at one time they centered on product features and price; now the emphasis is on indirect competition such as outperforming competitors on logistic planning and customer service.

The members of a marketing channel are interconnected by several different factors:

- The product line from manufacturer to end-user.
- The flow of ownership from member to member.
- The cash flow as payments are made by one member to another.
- The exchange of information between channel members.
- The advertising and sales promotion directed by channel members. towards other members or end-users.

4.6 ATTRIBUTES TO BE LOOKED FOR IN PROSPECTIVE DEALERS

The following are some of the attributes of dealers.

- Business reputation/standing
- Business capacity

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- Salesmanship
- Expertise/experience in the line
- Financial capacity and willingness to invest in the line
- Creditworthiness
- Capacity to offer assortments of products and services required by the customers.
- Capacity and willingness to extend credit to customers.
- Capacity to provide storage facilities, showrooms, shops, service workshops, salesmen and service personnel commensurate with the business.
- Positive attitude towards the company.
- *Good relations with:* Consumers Opinion leaders in the area Government officials and others (as applicable, depending on the nature of the business.

Dealer Selection

Dealer selection is the first task in the process of dealer management. It is obvious that a firm has to be very careful in selecting its dealers. It has to ensure that those selected for dealership possess certain essential qualifications. Some of these qualifications are common ones, irrespective of the product lines involved; others are product specific. Financial strength, business capacity, creditworthiness and salesmanship form part of the common qualifications.

Attributes to be Looked

A detailed checklist of the qualifications/attributes to be looked into while selecting dealers is furnished in above chart. The criteria can be modified appropriately, depending on the product characteristics, the marketing environment and the objectives of the firm. In practice, however, it is difficult for any firm to locate dealers possessing all the qualifications and attributes enumerated in the chart. Obviously, one has to compromise. Out of the available candidates, the firm has to select those who have the potential to be a good dealer. Then, it should build them into effective and strong dealers through a sustained process of development. If the product requires a specialized distributor, as in the case of industrial products, the choice must be made accordingly. Firms which are well established in the market and those that which possess certain unique

strengths in terms of product, brand, service, etc., will enjoy a wider choice when they set out to appoint dealers. Their reputation and brand equity will pull-in a large number of applicants who are above average in the required attributes. In contrast, for firms yet to be established, the choice base will be small. Such firms may have to initially accept those who prepared to take up the dealership and build a good network over a period of time.

The Net must be Cast Intelligently

Effective dealer recruitment depends in the first place on the firm's ability to attract applications from the right candidates. Advertisements will no doubt be of help in this regard. But they must be developed carefully. The companies and ad agencies must have the expertise needed for developing effective dealer recruitment ads.

'Dealer Wanted' Ads

The first test of a good 'dealer wanted' ad is no doubt its 'attention grabbing' strength among the prospects. The second test is the ad's ability to coax the stronger ones among them to respond to the proposition being made. In the present times, with more brands crowding the marketplace, the premium on dealers' shelf space is increasing exponentially; It needs a well thought out and well-written dealer ad to bring in the right response. The communication must put across the proposition forcefully; while many companies give 'dealer wanted' ads, only a few do a good job of it.

Evaluating the Alternatives and Selecting the Best

With the completion of the foregoing steps, the number of alternatives would have narrowed down considerably. The firm must evaluate these alternative designs and choose the best among them. Actually, two distinct evaluations an economic evaluation and a conceptual evaluation-may be necessary.

Economic Evaluation; Balancing Cost, Efficiency and Risk

Cost and efficiency are the two main parameters in economic evaluation. Often, though not necessarily, the two are directly proportional. The firm has to rate the risk associated with the different alternatives. The firm's choice is a compromise among the three parameters. The first step here is the determination of the sales volume that can be obtained through each alternative design. Second, the costs of selling that volume through that alternative have to be assessed. In other

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words, the firm determines the unit cost of selling in each of the alternatives. The firm chooses the one, which is attractive from the cost sufficiency angle and is also relatively less risky.

Conceptual Evaluation; Flexibility and Controllability

Conceptual evaluation is also equally important. It has to be used for assessing the flexibility and controllability of the alternative. It is possible that economic evaluation points to one particular alternative as superior, while conceptual evaluation gives it a low rating. For example, a marketer-oriented channel design may show merit in terms of unit cost of selling, but may show severe limitations from the standpoints of controllability/flow of market feedback as well as requirements of long-term market development. With conceptual evaluation, the firm can also check out whether the alternative is compatible with its business objectives.

4.7 SOME VITAL ASPECTS IN FINALISING THE CHANNEL

The job is not over with the selection of the basic channel design. Within a given design, different arrangements are possible. It means that further decisions are needed. The important aspects to be decided are:

- Channel intensity
- Number of tiers

Choosing the Channel Intensity

While two firms may go for the same channel design, they may need different intensities. It depends on the position of the firm its objectives and strategies, its sales, profits, and market coverage, present and projected, and its resources. For example, Maruti and Mitsubishi India, being passenger car firms operating in the same market, may opt for similar channel design. But they may settle for different channel intensity; Maruti has a massive network consisting of 144 sales outlets, 175 dealer workshops and 750 authorized service stations across India. Mitsubishi has not gone in for similar intensity. In fact, a firm would be ill-advised to adopt without question the channel intensity of another firm, even if the latter were the industry leader. What suits one may not suit the other. Blindly following another firm's channel pattern and intensity will land the firm in trouble. Recent experience of some well-known MNC FMCG firms in India will clearly amplify this point.

Choosing the Number of Tiers Correctly

The second decision concerns the number of tiers. How many tiers should

the channel have? This issue is related in a way to channel intensity; In a majority of cases, the choice will be between single tier and two tiers, while in a few cases, firms may find it necessary to go in for a three-tier channel. When a firm opts for a sole-selling agency or marketer, the latter will be have their own channel arrangement and the tiers that operate under them automatically become a part of the firm's channel. The decision depends on a number of factors. In a given business, a particular channel pattern might have taken roots and there may be some advantage in going along with the established trade pattern. The product characteristics are perhaps the most important consideration. For example, for selling passenger cars, a firm need have only a single-tier distribution channel. Here, the intermediaries at one level can effectively link the maker buyer. In a product like toothpastes, or cosmetics, or cigarettes it may be necessary to have a two or three-tier channel pattern in view of the mass nature of the product. It may be difficult to achieve adequacy of market coverage in such products, with just a single tier of marketing intermediaries.

Comparative Merits of Single-tier and Two-tier Channel

The single-tier and two tier channel patterns have their associated advantages and disadvantages. The single-tier pattern provides better motivation to each member in the channel, as in such a pattern, the trade discount is available in full measure to the retailer. The pattern also brings in savings to the firm by the avoidance of multiple transport and handling. The firm can also service all the outlets directly in this pattern. But, the pattern involves greater administrative burden for the firm. It will have to perform many functions that could otherwise be passed onto the channel. It will have to increase the number of field storage points and the size of sales force to make up for the absence of the wholesale middlemen. The pattern may also sometimes result in inadequate market coverage. The two tier pattern helps quicker outflow of stocks and more intensive coverage of the market. But, it results in lower profits to retailers as the available trade margin has to be shared between two tiers. It also weakens the principal's control over the outfit compared with a single-tier pattern.

The governing principle is that the chosen channel must have the capability to sell the product and to provide the required market coverage. It should also ensure that the user gets the products with the minimum of effort or strain on his part. And it must be cost-effective. The channel must also be amenable to the control of the company to the extent required for operating the marketing system. In recent years, as a general trend, the number of tiers in the distribution channels is getting shorter. Businesses that used to have a three-tier structure earlier

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now have a two-tier structure and those with a two-tier structure earlier are now trying to manage with a single-tier channel. And often, the axe falls on the stockiest. Asian Paints, again, is an example. It chooses, as matter of conscious policy, a single-tier channel-going directly to the retail trade.

4.8 MANAGING THE CHANNEL MEMBER

Developing the channel design, recruiting intermediaries' and inducting them into company are not everyday tasks in channel management. It is the administration and management of the distribution network that constitutes the everyday task here. We shall examine task in detail.

Determining the Trade Relations Mix

Evidently, developing the trade relations mix is the first task in distribution management. As shown in the chart A the trade relations mix or relations between a firm (principal) and its members revolve largely around the following four factors:

- Territory of operation
- Trade margin
- Functions which the channel member have to perform
- Functions which the firm has to perform

Territory of Operation

The firm must settle the issue of territory in a fair manner. Territory has significance at wholesale as well as retail levels. Different businesses have different requirements and different practices in this regard. FMCG businesses, for example, supply their products to practically all retail outlets; they do not assign any territory as such to any retailer; they assign territories only to distributors, redistribution stockists, and C&F agents.

Durables marketers on the contrary, operate through a limited number of dealers in each town. Usually in these lines, territories are assigned to the dealers; evenwhere territories are not exclusively assigned, an understanding is often worked out.

Chart – A Component Tasks in Managing the Network

The following are some of the channel managing network functions.

- Fixing the trade relations mix
- Territory of operation

- Trade margin
- Functions which the dealers have to perform
- Functions which the firm has to perform
- Servicing the dealer
- Securing shelf space and merchandising support from dealers
- Dealer motivation
- Performance appraisal of dealers
- Dealer training and development
- Resolving channel conflicts.

In some cases, manufacturers supply their products directly to certain specialised channels select consumers bypassing the appointed wholesale functionaries in the territory. Such buyers usually prefer, as a matter of policy, to deal with the principal rather than the wholesaler of the area. The wholesaler of the area often expects some compensation for such sales that take place in his territory. The manufacturers sometimes cover the wholesalers with an overriding commission for such sales.

At other times, they do not provide any compensation whatsoever. The important point is that the firm must have settled in advance the policy in this regard with their wholesalers.

The agreement between the firm and the wholesaler must specify whether and to what extent the wholesaler will be covered on such sales.

Trade Margin

Trade margin is the No.1 element in trade relations mix. Channel member invariably look for whole-some, juicy margin. The principals invariably try to peg it as modest as possible. The point to be noted here is that the margin must be sufficient to enable the dealer to gain a reasonable return on his investment.

Present-day Dealers as a Rule, Expect Larger Margin

In the earlier days, dealers managed to operate their outlets with modest trade margins. First, their investment in infrastructure was relatively low and they were able to make a profit even with a modest margin. Second, their expectation of profit was also relatively low. In recent years, the position has been changing rapidly. First, the new generation dealers adopt a more contemporary approach to retailing. Accordingly, their investment in the business infrastructure is much larger. They go in for attractive shops/showrooms; they periodically renovate and redecorate the premises; they also employ skilled and better trained salesmen. All this naturally

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pushes up their investment in infrastructure and their overheads. Running costs too have been going up. Added to this, the expectation of the new generation dealers in the matter of profit is also considerably higher compared to the earlier day dealers.

Paradigm Shift from 'Gross Margin' to 'Retained Earning'

Thus, in the contemporary scene, in most cases, the manufacturers have to willy-nilly settle for a higher outflow towards dealer margin. It also becomes necessary for them to accept a paradigm shift in this matter-from 'gross margin' to 'retained earning'. They are required to hike the dealer margin to a level that would fetch the dealer a reasonable 'retained earning' after meeting all his normal expenses. They are also required to collaborate with their dealers and help them achieve a larger turnover and greater retailing productivity, so that at a given level of trade margin, their retained earning is higher. In the matter of margins, the way it is structured and allocated among the different tiers/levels in the channel is as important as the total quantum. There are several instances where firms have suffered in their marketing endeavour on account of defective structuring and improper allocation of the margin among the different levels of the channel.

4.9 TRAINING AND DEVELOPMENT

Training is another important part of channel management. The primary purpose of training is to improve the performance of the channel members through a sharpening of their sales skills and product knowledge. Upon the channel members rests the responsibility of sensing, serving and satisfying the needs of the customers. The intermediary cannot fulfill this role unless they are equipped with the requisite knowledge, skills, techniques and attitudes. Any progressive firm will, therefore, make training an integral part of its channel management endeavour. The content and methodology of training should be framed so as to suit the background of the channel member and the contextual requirements. The prime purpose of the training is to impart to the channel member knowledge about customers, about products, about competition, and about merchandising and sales techniques. In addition, essentials of inventory management, credit management and sales promotion can also form part of the training content. When competing companies match each other in the marketplace in every aspect, it is the training provided to the channel member that makes them different. And that's why most companies are now concentrating their energies on training. They now consider it a necessary investment. Hyundai Motors India, for example, took all its 70 dealers to Korea a before the launch of its Accent model. Daewoo and

Hyundai both conduct regular in-house training programmes for their dealers. Concorde, a Telco-Jardine Matheson JV created for setting up the dealer network for Indica, conducts in-house training for Indica dealers. And Maruti has tied up with National Institute of Sales for training its dealers.

4.10 RESOLVING CHANNEL CONFLICTS

Sometimes, there may be unhealthy competition and conflicts among the different channels/channel tiers employed by a firm. There may also be conflicts among the channel members within a given channel type/channel tier. These conflicts must be handled with tact and fairness. In managing marketing channels, firms will usually encounter some 'bottom-up pressure'. The retailers would exert pressure on the wholesalers/ stockists, and the latter would pass it on to the firm. Sometimes, the wholesalers/stockists may have their own problems with the firm. Wise firms anticipate the pressures that can emerge from the different layers of the channels and formulate appropriate channel policies. Tackling dealer conflicts- Wipro-Infotech: Wise firms follow a sound policy with regard to dealer conflicts. Wipro-Infotech Group (WIG) can be cited as an example. In the first place, it makes a conscious effort to reduce the scope for conflicts among dealers through dealer/product class/ marketing segment alignment. It has reduced the scope for conflicts among dealers, by explicitly defining the territories of operation of each. Often, there is stiff competition among WIG dealers and they frequently under-cut each other. The under-cutting is compounded by the fact that different dealer categories have varying margins. For example, an A + category dealer will be able to easily under-cut a B category dealer. This demotivates the smaller dealers. So, the company strictly enforces the sales territories. The scope for cannibalization is also removed. And when conflicts do occur, WIG tries to resolve them in a fair and firm manner. When overlapping does occur, then it negotiates with both the dealers, evaluates as to which of them is capable of satisfying the needs of the particular customer more efficiently. and entrusts the customer with him. And while doing this, it takes care to protect the sentiments of the losing dealer.

In practice, the job of channel management is quite exacting. Firms usually have a large number of channel member spread over a large territory. Administering them, communicating with them and keeping them happy and well motivated, involves a great deal of effort on the part of the firm. In fact, in a sense, channel management is more difficult than employee management. While, employees of a firm are under its direct control the channel members are not.

Accordingly, administration and motivation becomes far more difficult in the case of intermediary as compared to employees. It should finally be mentioned that channel management, which includes intermediary selection, channel motivation and channel development is a continuous job. The efforts cannot be slackened any point of time. Even in the best of networks, there will be some dropouts, every year a few may become inactive.

New channel members must be added in place of those who dropout. And the inactive ones must be either activated or weeded out. Evenwhen the dealer outfit is in a fairly trim condition, there has to be a continuous infusion of fresh blood into the system. Similarly, training and development of the channel member has also to be a continuous effort.

SUMMARY

- Marketing channels also provide salesmanship. In particular, they help in introducing and establishing new products in the market.
- Channels also look after a part of the physical distribution functions like transportation, handling, warehousing, subdistribution, order processing and inventory management.
- Merchandising is another important function performed by marketing channels.
- Channels provide market intelligence and feedback to the principal.
- The probability level associated with each factor is a basic ingredient of any potential 'environment scenario' and concerns the risk evaluation of each future business strategy.
- Existing market structure: This includes traditional modes of operation, geographical factors, size and placement of the population, etc.
- Dealer selection is the first task in the process of dealer management.
- Cost and efficiency are the two main parameters in economic evaluation.

REVIEW QUESTIONS

1. How does channel provides distribution efficiency?
2. Discuss the channel functions.
3. How channel is important due to its functions?
4. What environmental factors affect channel selection?
5. Why should companies go for SWOT analysis for channel selection?
6. Describe how a dealer is selected?
7. What do you mean by trade margin?
8. What are the functions of principal?
9. Why is it necessary to train channel members?
10. How are channel members appraised?