Rai Technology University

ENGINEERING MINDS

Sales Management

Subject: SALES MANAGEMENT **Credits: 4**

SYLLABUS

An Introduction to Sales Management

Objectives and Scope of Personal Selling, Buyer Seller Dyad and Personal Selling Situation, Theories of Personal Selling, Personal Selling Process, Mistakes in Sales

Sales Forecasting

Prospecting, Sales Resistance, Closing Sales, Types of Personal- Selling Objectives, Analyzing Market Potential, Sales Forecasting Methods: Qualitative Methods, Quantitative Methods

Organization and Management of Sales Force

Functions of Salesperson, Qualities of Effective Sales Executive, Purpose of Sales Organization, Setting up a Sales Organization, Types of Sales Organization Structure, Centralization Versus Decentralization in Sales Force Management

Controlling the Sales Effort

Purpose of Sales Budget, Objective in Using Quotas, Procedure of Setting Quota, Limitations of Quota System, Concept of Sales Territory, Need for Establishment and Revision, of Sales Territory, Assignment of Sales Personnel to Territories, Importance of Customer Feedback By Sales Personnel

Channels of Distribution and Strategy

Marketing Channel, Types of Intermediaries, Contemporary Channel Scenario in India, Objective of Marketing Intermediaries, Function of Marketing Channel

Channel Design

Steps in Channel Design, Selection of Appropriate Channel, Channel Management, Channel Motivation

Physical Distribution

Physical Distribution concepts and objective, Components of Physical Distribution, Transportation, Warehousing, Impact of IT on Physical Distribution, Implication of Supply chain Management in Physical Distribution

Suggested Reading:

1. Sales Management, Richant.R.Still, Edward.W .Gundiff and Norman.A.P.Govoni Prentice Hall of India.
2. Sales Management: Analysis and Decision Making, Ingram, Cengage Learning.
3. Sales & Distribution Management, Krishna K.Havaldar and Vasant. M. Cavall, TMH.
4. Fundamentals of Sales Management, "Ramneek Kapoor", Macmillan.
5. Management of a Sales Force, "Spiro, Stanton and Rich", TMH.
6. Sales Management: In the Indian Perspective, "Vaswar DasGupta", PHI.

COURSE OVERVIEW

This course pack is designed to help students learn about sales and distribution management concepts and how to apply them to solve business problems.

Sales Management focuses on the activities of first line field sales managers.

Modern Sales Management is a complex and disciplined mix of: professional selling and negotiation skills, people and Management skills (including selection, motivation, Communicating and training). The coverage of the course pack deals with these topics in practical way. The importance of personal selling task and feedback system has been discussed. Companies are facing increasing competition, with threats to many traditional markets and customer bases, as supply and purchase points in many market segments become more concentrated. To tackle the threats and capitalize on opportunities the modern sales manager needs a far broader range of selling and managerial skills and experience than in past decades.

In Distribution Management the channel design is discussed, the different components of distribution like transportation, Inventory, Warehousing has been covered.

Course pack will enable students to understand Supply chain Management which has improved the efficiency in distribution.

SALES MANAGEMENT

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LESSON 1
OBJECTIVE AND SCOPE OF PERSONAL SELLING

Learning Objectives

- To know the broad objectives of sales management
- Definition of sales management
- How a Sales executive acts as a coordinator
- To know about personal selling

In this lesson we will study about an overview of Sales Management.

Sales Managers today must develop an integrative management style using adaptive, problem solving, extensive information, in many cases is an ever changing market place. The overwhelming majority of business environment workers are service providers such as investment bankers, consultants, and information technology specialists. Sales Mangers in the current business environment must have the **ability to add value,** which means functional expertise in sales and marketing along with knowledge of industry. However managers must also have the skills to lead, communicate, use changing technologies, build teams, motivate sales people, form strategic alliance with customers.

These are times of **drastic corporate downsizing** in which sales orgranisations are expected to do more with less. Many internal and external changes in organizations have dictated the need to conduct business differently.

External business environment has experienced changing technology, globalization, more competition and more demanding and sophisticated customers.

Internal changes have included greater emphasis on quality levels in product and service output, faster communication channels and more educated, skilled employee base.

The relationship between sales people and customer is changing faster than sales orders can be processed. Most remarkable is the fact that it is customers who are driving change. They are asking for, if not demanding better service from vendors. The shift has radically changed the way selling is done. Companies are building relationships, improving technologies, processes and systems along the way.

Sales Executive are professionals. The professional approach requires thorough analysis, market efficient personal selling objectives, appropriate sales policies and personal selling strategy.

Sales Executives have responsibilities to their Organization, Customer and Society.

Top Management holds them responsible for

1. Obtaining Sales Volume
2. Providing Profit Contribution
3. Continuing Business Growth

Customers (most often, wholesalers, retailers or industrial user) expect them to supply easily resalable products and services backed up by supporting activities (help in doing training dealer salesforce, local advertising, credit) and assurance that products and services are wise investments in competitive market place.

Society looks to them to assure delivery of goods & services

- that final buyers want at price
- of increasing importance
- to market products whose potential for damaging the environment is minimal.

If goods and services made and sold are needed and accepted by buying public and if this products are socially responsible, then it is likely that management's objectives will have been achieved. Ultimately, a business's earnings depend upon, how well the interest of the firm, the final buyers and society are blended. To the extent that these interests are in harmony, the firm experiences Sales Volume, Net Profits and Business Growth.

Sales Management as defined by

American Marketing Association — is Planning, direction and control of Personal selling including recruiting, selecting, equipping assigning, routing,

Supervising, paying and motivating as these task apply to personal Salesforce.

Sales Managers are responsible for organizing the sales effort, both within and outside their Companies. Within the Company the Sales Manager builds formal and informal organizational structures that ensure effective communication not only inside the sales department but in its relations with other organizational units.

Outside the Company, Sales Manager serves as a key contact with customers and other external publics and is responsible for building and maintaining an effective distribution network.

Sales Managers have still other responsibilities. They are responsible for participating in preparation of information critical to the making of key marketing decisions, such as those on budgeting quotas and territories. Sales Management helps to respond proactively and effectively to customers, the key to winning business and processing orders during the pre-sales, order management and post shipment phases.

Objectives of Sales Management

From the Company View point, there are three general objectives of Sales Management

- Sales Volume
- Contribution To Profits
- Continuing growth

Sales Executives, of course do not carry the full burden in the effort to reach these objectives, but they make major contributions. Top Management has the final responsibility, because it is accountable for the success a failure of entire enterprise.

Top Management delegates to Marketing Management, which then delegates to Sales

Management, sufficient authority to achieve the tree general objectives. In the process objectives are translated into more specific goals.

Top Management
↓
Marketing Management
↓
Sales Management

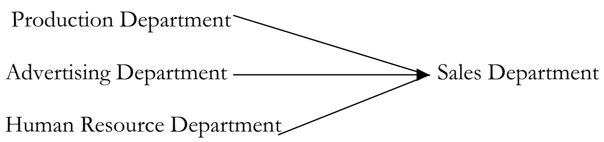
Objectives are broken down an restated as definite goals that Company has chance of achieving.

Before goat setting Sales Executives provide estimate on market and Sales potentials, the capabilities of sales force and middlemen. Once goals are finalized it is the Sales Executives who guide and lead Sales Personnel and middlemen who play critical role in implementing selling plans.

Sales Executives as Coordinator

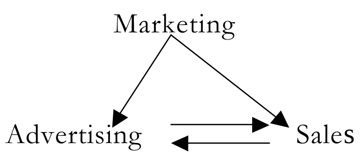
Why is it necessary to coordinate sales activities with other departments ?

Sales Executives have responsibilities to co-ordinate sales activities with other departments in the organization. This is essential as the product/service which is the final output of any organization is to be ultimately sold by the Sales Personnel. Higher ranking Sales Executives are those most concerned with obtaining effective co-ordination, but Sales Executives at all organizational levels have some responsibility for coordinating.



Coordinating with Advertising

Synchronizing personal selling with advertising is important. Advertising may prove uneconomic unless the sales force capitalizes upon interest aroused. Personal Selling effort is wasted in explaining details that might be explained by advertising, but when sales personal and advertising use the same appeals, promotional impact is magnified. The timing and sequence with which different phases of personal selling and advertising efforts are executed affect firm's chances for marketing success.



Co-ordination with Production

Selling should be coordinated with production. There should be stocks available to be sold in the market. Sales Personnel should have knowledge about production schedule. They should be able to provide the market with precise delivery of materials. Further sales personnel should be aware of changes in product features, quality styles so as to update the market about the product.They in turn provide information about customers want and demand to the production department . This is because they are in direct contact with the customers. Organisations need to add features to their product or constantly improve quality in order to survive in the market.

Co-ordination with Human Resource

Sales Department works under lot of pressure. They experience rapid changes due to constant development in market place. They have to keep the objectives in mind and there are targets to be achieved. It is essential that there is constant motivation in the department. Human Resource department need to provide the necessary facilities to the Sales Personnel. Adequate compensation package keeping the interest of Sales Personnel is prepared. Sales Personnel should be aware of these benefits.

What is personal selling?

Personal selling involves oral conversations, either by telephone or face-to-face, between salespersons and prospective customers.

Contribution of personal selling

- Salespeople generate revenue
- Salespeople provide market research and customer feedback
- Salespeople provide solutions to problems
- Salespeople provide expertise and serve as information resources
- Salespeople serve as advocates for the customer when dealing with the selling organization

The Four Sales Channels

- **Over-the-counter selling:** personal selling conducted in retail and some wholesale locations in which customers come to the seller' place of business
- **Field selling:** sales presentations made at prospective customers' homes or businesses on a face-to-face basis
- **Telemarketing:** promotional presentation involving the use of the telephone on an outbound basis by salespeople or on an inbound basis by customers who initiate calls to obtain information and place orders
- **Inside selling:** performing the functions of field selling but avoiding travel-related expenses by relying on phone, mail, and electronic commerce to provide sales and product service for customers on a continuing basis

Sales Management in the 21st Century

- Building long-term relationships with customers
- Creating sales organizational structures that are more nimble and adaptable
- Gaining greater job ownership and commitment from salespeople by removing functional barriers within the organization
- Moving sales management style from commanding to coaching
- Leveraging available technology for sales success

- Better integrating salesperson performance evaluation to include full range of activities and outcomes

Personal selling which forms part of sales management will be a way to reach out to customers.

Questions

Q1. How do you define sales management?

Q2. What are objectives of sales management?

Q3. How a sales executive acts as a coordinator?

Q4. What is personal selling?

Annexure 1

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by Jonathan Byrnes

You are what you sell. Sales is the front-wheel drive that pulls a company forward in the marketplace. But in many companies, top managers are frustrated because the sales process seems disconnected from corporate objectives. This presents a serious impediment to management's efforts to manage profitability effectively.

Why does this occur so often, and what can managers do about it?

The process of transforming top management's goals into concrete sales typically breaks down for one or more of the following reasons:

- Lack of top management clarity about objectives.
- Difficulty translating objectives into an operational business plan.
- Vagueness communicating objectives and business plan to the sales force.
- Failure to align compensation with the objectives.
- Problematic individual sales plans and managerial coaching.

Each of these can be remedied through thoughtful management.

A Five-step Remedy

In order to reconnect sales management to profitability, address each of the points of breakdown. Managers can do this through a five-step process.

Understand profitability: A surprisingly frequent underlying reason why the sales force does not succeed in maximizing company profitability is that the senior managers themselves do not have a clear understanding of the company's key profitability drivers. This makes it impossible for them to communicate to the sales force clear, implementable objectives and systematic procedures to accomplish them.

Some senior managers feel there is no time to analyze and understand the factors affecting profitability, and to devise concrete measures to guide managers in their efforts to maximize profits. This is a major error.

Some senior managers feel there is no time to analyze and understand the factors affecting profitability.

The core responsibilities of senior management are to set strategy and objectives, secure resources, and maximize profitability. It is imperative that top managers have a deep enough knowledge of profitability management to be able to communicate that wisdom to the sales force. It is futile to simply instruct the sales force to produce the most profitable results.

Translate into business objectives: All companies have business plans, but often these plans, which feature mainly company and market analysis, sets of programs, and numbers, are not adequate to guide a sales force.

The core questions that must be addressed every day by the sales reps and sales managers are who to call on and what each call needs to accomplish. A sales rep can accomplish a limited number of things, such as increasing sales in an existing account, changing a customer's product mix, up-selling, cross-selling, obtaining a new customer, minimizing discounts, minimizing returns, etc. Effective business plans must give guidance to the sales force about which objectives they should pursue in given situations in order to produce the highest payoffs. The sales reps cannot maximize everything.

Effective business plans have three essential roles: first, to state clearly the company's objectives; second, to specify new initiatives, required resources, and expected results; and third, to guide the day-to-day activities of the company toward maximum profitability. In most companies, the first objective is usually met, the second is sometimes met, and the third is often neglected. When this occurs, it causes the sales force to become disconnected from profitability.

Communicate the business objectives: In some companies, business objectives and plans are simply not communicated to the sales force. They are created by department heads or staff, and shared only with upper- and middle-level managers. Sometimes business plans are considered confidential. This causes the sales force to be disconnected.

There is a parable about three bricklayers who are asked what they are doing: the first replies, "laying bricks," the second replies, "building a wall," and the third replies, "building a cathedral." In the absence of an understanding of business objectives that guide profitability maximization, the sales force is simply laying bricks. They never see the cathedral, and the company loses the inspired performance.

In effective companies, the top managers communicate the company's objectives to the sales force. If the objectives have changed, they explain the decision and why the new objectives are good for the company, the customers, and the sales force. They do not hand off to the head of sales the responsibility for this vital communication.

This direct communication creates two important benefits. First, because most top managers have a deeper understanding of the factors that create profitability across the company, they are able to communicate the nuances of how to maximize the company's profitability in the everyday decision-making that is the heart of the sales process, and they can communicate why this is important to the sales force and the company. Second, the mere fact that the top managers personally communicate the objectives to the sales force strongly underlines their commitment to accomplishing these goals. By demonstrating that they have taken the time to understand and explain how to maximize profitability, these top managers display the "body language" that motivates the sales force.

Translate into a compensation plan: In some companies, objectives are changed each year, or more frequently, with little or no change in the compensation plan. There is an old saying that a person can understand a vision and can buy into the vision, but in the end will do what you pay him to do.

> Every aspect of the account plans should be measurable.

Conversely, if a person does not understand how to accomplish the vision, it does not do a lot of good to tie her compensation to its realization. The difficulty with tailoring an effective sales compensation plan is that it requires a set of well-thought-out business objectives that are specific enough to guide the sales force every day. The sales force should be driven by the compensation plan. "Work your pay plan" is one of the central tenets of sales management. Simply telling the sales reps to maximize profitability without giving them an understanding of how to do this, and compensating them to do this, will render the compensation plan largely ineffective.

Sometimes, the sales force is asked to maximize many objectives, or a set of objectives that cannot be simultaneously maximized. In these cases, the sales force defaults to the simplest way to maximize their compensation. Sales compensation is so critical to a company's success that top management should directly review the plan.

Create individual sales plans: In many companies, sales plans for individual sales reps do not exist or are too vague. This is like writing a paper without taking the time to develop an effective outline. For example, a rep may simply plan to increase revenues by a certain percent for a cluster of accounts. This is a hope, not a plan. By contrast, an effective individual sales plan must be specified at the account/product level, so the rep and sales manager can track progress and continuously improve the rep's performance.

The building blocks for a tightly-connected sales force are threefold: 1) clear business plans, which include guidance on what to do to maximize profitability in particular types of situations, and which reflect top management clarity and commitment; 2) compensation that has been tailored to direct the sales reps to meet the company's objectives; and 3) well-specified account plans that will enable the reps to fulfill the business objectives and allow the sales managers to monitor and coach the reps' progress. These plans must be developed by the individual sales reps, and include step-by-step, account-specific initiatives to obtain new accounts, to increase penetration in existing accounts, and to increase account profitability.

Every aspect of the account plans should be measurable. They should provide specific answers to the questions: Where will I get sales? How will I get sales? How will I meet my objectives and the company's objectives? How will I make money? Well-specified account plans provide the basis for management coaching. They also protect the company against losing sales in the event of rep turnover.

Here's an example of the power of effective account plans. The top management of a company had looked carefully at its profitability and sales force productivity. It determined that the highest-payoff sales objective was to "turn around" high potential, under penetrated accounts that were clustered in areas that minimized installation costs. However, the reps were focused on increasing revenues in a vague way, and consequently spent inordinate amounts of time with "easy" or "friendly" accounts, many of which were only marginally profitable to serve.

In order to increase sales force productivity, top management devised a clear set of business plans to guide the reps in account selection and managing their time. They helped the sales managers work with the reps to identify the highest-potential underperforming accounts in each territory, and to create step-by-step account plans to map the buying center and systematically position the company for the sale. Management understood that turning around an account could be a three-month process, and set up milestones to monitor progress with compensation tied to achieving specific milestones. Sales managers coached the reps account-by-account, milestone-by-milestone.

> A sales rep is most productive when focused on accomplishing the few things that really matter in each sales call.

The initiative was extremely effective, with sales increasing by more than 30 percent in a number of target accounts within a month. Top management had succeeded in reconnecting the sales force to profitability.

"Top Gun" Sales Managers

Several years ago, the U.S. military developed "Top Gun" training programs to increase the effectiveness of fighter pilots. These programs were based on the finding that, although technology had improved considerably, many pilots were becoming less effective. The problem was that these pilots were having difficulty with information overload. The best pilots had learned to focus on the few things that mattered most. Once the other pilots were taught what to focus on in specific situations, their effectiveness skyrocketed.

In a similar way, top managers can reconnect their sales management to profitability. A sales rep is most productive when focused on accomplishing the few things that really matter in each sales call. It is management's responsibility to identify those few things, and to tie compensation specifically to their accomplishment. It is the rep's responsibility to get the job done.

The biggest problem in sales force productivity is often that management has not given the reps the necessary goal clarity and focused compensation. This five-step process will ensure that top managers give the sales force what it needs to succeed, in the process ensuring the success of the whole company.

LESSON 2
BUYER SELLER DYAD AND PERSONAL SELLING SITUATIONS

Learning objectives

- To know about buyer seller dyads
- To know about the different personal selling situations.
- To know the recent trends in selling.

Buyer Seller Dyad

Let us Understand what is Buyer Seller Dyad?

Fundamental to understanding salesmanship is recognition that it involves buyer-seller interactions. Sociologists use the term "dyad" to describe a situation in which two people interact. The salesperson and the prospect, interacting with each other, constitute one example of a "buyer-seller dyad". Another is the interaction of a seller using advertising with a particular prospect in the reading, listening, or viewing audience. In both advertising and personal selling, the seller seeks to motivate the prospective buyer to behave favorably toward the seller. Whether or not the buyer reacts as the seller desires depends upon the nature of the interaction. The opportunity for interaction is less in the advertising case than in personal selling. However, advertising and personal selling often supplement or support each other, and the buyer reacts to their combined impact.

Franklin Evans researched buyer-seller dyads in the life insurance business. Prospects who bought insurance knew more about salespersons and their companies, and felt more positively toward them, than did prospects who did not buy, Furthermore, the more alike salespersons and their prospects were, the greater was the likelihood that a sale would result. This was true for physical characteristics (age, height), other objective factors (income, religion, education), and variables that relate to personality factors (politics, smoking). [3]

Evan's findings have significance for sales management. Whenever possible, sales personnel should be assigned to prospects whose characteristics are similar to their own, thus improving the chance of successful dyadic relationships. Pairing salespersons with customers of similar backgrounds is more easily accomplished in industrial selling, where there are fewer prospects about whom information is needed, than in consumer-goods selling, where the number of prospects and customers per salesperson is much larger.

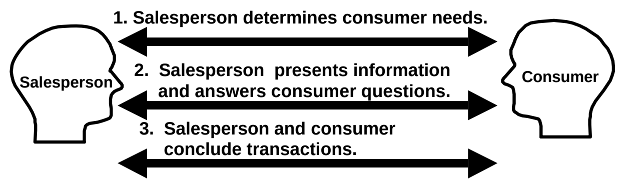
Henry Tosi studied dyads of wholesale drug salespeople and retail pharmacists who made buying decisions. When the buyer perceived the salesperson's performance to be similar to his or her concept of "ideal" performance, the number of sources from which purchases were made was low. Although this did not necessarily result in a larger percentage of purchases from the salesperson, customer satisfaction with the salesperson's behavior did at least allow the salesperson to get into the store. Tosi concluded that, in addition to the physical characteristics and personality and objective factors cited by Evans, the customer's perception of what that behavior should be is a necessary condition for the continuation of dyadic interaction.[4]

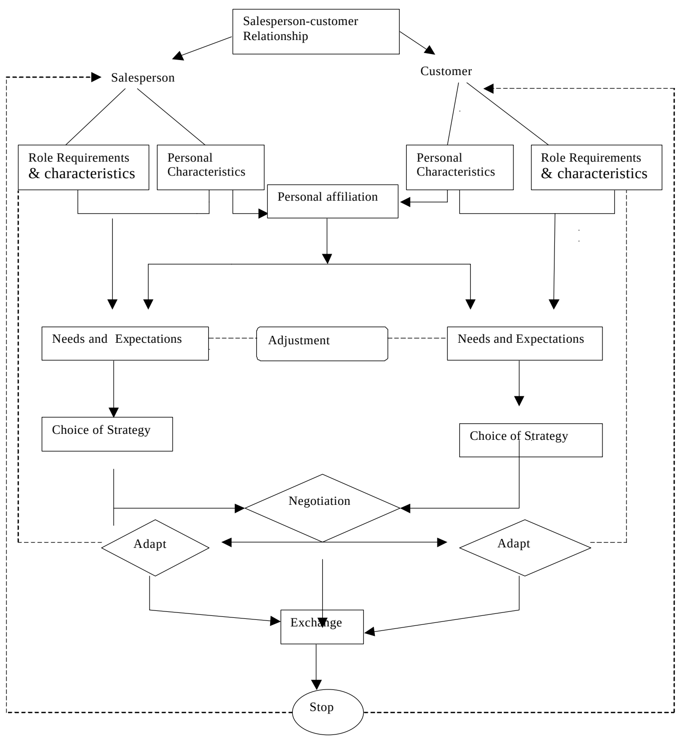
Another factor influencing buyer-seller dyadic interactions is the buyer's initial conditioning with respect to selling. Salespeople have been maligned and the butt of nasty stories for generations. People are taught from childhood to beware of the tricky salesperson.

There are indications that salespeople, not as stereotyped, but as they actually perform, leave much to be desired in the impact they make on customers. Studies of the attitudes of buyers and purchasing agents reveal that many are critical of the salesperson's lack of product knowledge, failure to follow up, general unreliability, slavish adherence to "canned" presentations, blatant use of flattery, bad manners, commercial dishonesty, and so forth.

The Buyer-Seller Dyad

Good communication is a key to successful marketing, and it is particularly important for positive personal selling results. The **buyer-seller dyad** is flexible and efficient, closes sales, and provides feedback.





Conceptual model of 'Salesperson – Buyer 'Dyadic Relationship

Figure in the last page is a conceptual model of "salesperson-buyer" dyadic relationships. This model, developed after an extensive literature search, views the sales process as being influenced by both salesperson and buyer, each a focal person influenced by personal characteristics and role requirements. Personal characteristic include personality, values, attitudes, past experiences, and the like. Role set requirements (for example, formal authority and organizational autonomy) interact with personal characteristic to shape needs and expectations. Focal persons' perceptions of each other's needs may lead to adjustments of their own (see the "feedback" mechanism represented by the broken lines in Figure 2.1).

Based on individual needs and expectations, each focal person develops a strategy aimed to negotiate a favorable exchange. That strategy may embrace persuasion, ingratiation, communication of facts or offers, friendship, and other elements. If the strategies are compatible, an exchange takes place. Otherwise, the salesperson and the buyer may stop interacting, or based on feedback from the unsuccessful negotiation, either or both may adapt by altering strategy, attempting to adjust needs and expectations, or modifying role requirements. Role requirements, as well as needs and expectations, often are determined by forces beyond the focal person's control, so one or both may find it impossible to adapt. For instance, to meet a buyer's expectations, a salesperson may need to set prices, yet this may be against company policy and beyond the salesperson's control. When the particular round of negotiations is terminated regardless of its outcome, the experience becomes input into future interactions of the salesperson

Diversity of Personal-selling Situations

Considerable diversity exists among personal-selling situations, and it is helpful to distinguish between service and developmental selling. Service selling aims to obtain sales from existing customers whose habits and patterns of thought are already conducive to such sales. Developmental selling aims to convert prospects into customers. Developmental selling, in other words, seeks to create customers out of people who do not currently view the salesperson's company favorably, and who likely are resistant to changing present sources of supply.

Different sales positions require difference amounts and kinds of service and developmental selling. McMurry and Arnold classify positions on a spectrum ranging from the very simple to the highly complex. They categorize sales positions into three mutually exclusive groups each containing subgroups, a total of nine subgroups in all:

Group A (service Selling)

1. Inside Order Taker –"waits on" customers; for example, the sales clerk behind the neckwear counter in a men's store. These jobs are known as technical support staff, sales assistants, telemarketers, and telesales professionals.
2. Delivery Salesperson – mainly engages in delivering the product; for example, persons delivering milk, bread, or fuel oil.
3. Route or Merchandising Salesperson – operates as an order taker but works in the field – the soap or spice salesperson calling on retailers is typical.
4. Missionary – aims only to build goodwill or to educate the actual or potential user, and is not expected to take an order; for example, the distiller's "missionary" and the pharmaceutical company's "detail" person.
5. Technical Salesperson – emphasizes technical knowledge; for example the engineering salesperson, who is primarily a consultant to "client" companies.

Group B (developmental Selling)

6. Creative Salesperson of Tangibles – for example, salespersons selling vacuum cleaners, automobiles, siding, and encyclopedia.
7. Creative Salesperson of Intangibles – for example. Salespersons selling insurance, advertising services, and educational programs.

The more developmental selling required in a particular sales job and the more complex it is, the harder it is to make sales. The amount and kind of developmental selling depends upon the natures of prospects and customers, on the one hand, and the nature of products, on the other hand. The easiest sales are self-service sales: customers know their needs, know the products capable of satisfying these needs, sell themselves, and go through the checkout line. The most difficult sales require developmental selling and creativity – where sometimes the sales must be made on something other than the product's merit, or "multiple" sales are necessary to get the order, and where continual effort is required to keep the account.

Recent Trends In Selling

Let us see what are the recent trends in selling to understand selling in present environment.

• Relationship selling

Regular contacts over an extended period to establish a sustained seller-buyer relationship. The success of tomorrow's marketers depends on the relationships that they build today Relationships are built upon trust.

According to Stephen X. Doyle and George Thomas Roth ("Selling and Sales Management in Action: The Use of insight & Coaching to improve Relationship Selling," Journal of Personal Selling & Sales Management, Winter 1992, p. 62) there are five characteristics of trust-building in salespeople.

Customer Orientation means that the salesperson places as much emphasis on the customer's interests as on the salesperson's interests. Presentations balance the pros and cons. The salesperson doesn't push a product that the buyer doesn't need.

Competence includes the salesperson's ability, knowledge, and resources to meet customer expectations. The salesperson displays technical command of products and applications.

Dependability is the predictability of the salesperson's actions. His or her words and actions are consistent with a professional image.

Candor is the honesty of the spoken word. The proof used to support claims is credible. Subsequent events prove the salesperson's statements to be true.

Likability is rooted in each party's perception of "having something in common" with the other. This is an emotional factor, yet a powerful force in buyer and seller relationships.

- **Consultative Selling**

Meeting customer needs by listing to them, understanding — and caring about — their problems, paying attention to details, and following through after the sale

- **Team Selling**

Combination of salespeople with specialists from other functional areas to promote a product. **Team selling** is the use of teams made up of people from different functional areas to service large accounts.. Increasingly, sales representatives who lack technical expertise work as a team with a technical expert. In this arrangement, the duties of a sales representative are to make the preliminary contact with customers, introduce the company's product, and close the sale. The technical expert will attend the sales presentation to explain and answer questions and concerns. In this way, the sales representative is able to spend more time maintaining and soliciting accounts and less time acquiring technical knowledge. After the sale, sales representatives may make frequent follow-up visits to ensure the equipment is functioning properly and may even help train customers' employees to operate and maintain new equipment. Useful in sales situations that call for detailed knowledge of new, complex, and ever-changing technologies

- **Sales Force Automation (SFA)**

Applications of computer and other technologies to make the sales function more efficient and competitive

Many salespeople need to go to the prospective customer in order to demonstrate or illustrate the particulars about the product. Technology makes salespeople more effective and productive because it allows them to provide accurate and current information to customers during sales presentations.

Sales automation (also known as **customer asset management** and **total customer management**) implies that technology can be used to speed up previously inefficient operations. The Internet and related technology have affected the personal selling process. Product information on Web sites is available to customers and prospects. In the past, salespeople delivered this information to the customer. The Internet frees salespeople to focus on the most important aspects of their job (such as building long-term relationships with customers and focusing on new accounts). Information is shared among users in every department that touches the customer. Also, information sharing promotes more effective channel partnership.

Salespeople use computers (with communications devices, contact management programs, and email) to connect them (over the Internet) to their own company's databases when they are out on sales calls. This gives them with the ability to provide the customer with extensive, relevant information almost immediately. Salespeople have access to current, relevant marketing materials, including data sheets, brochures, multimedia presentations, and proposal templates, online or via CD-ROM.

Salespeople have access to dossiers on prospects, customer and prospect companies, perceptions, loyalties and buying histories, personal interests, competition, etc. Online access to the company's customer and prospect database gives the salesperson the ability (and the responsibility) to update files from the field. In some cases, it makes sense to create a dedicated (and more manageable) sales database for a special initiative, product, or region. Salespeople become intelligence agents in the field when they feed that information directly into the data resources shared by the rest of the sales force and the company at large.

Conclusion

We here studied that buyer seller dyad is face to face conversation between a buyer and a seller. Understanding the importance is important as it helps in selling process. We also studied that there are different types of personal selling situations. The personal selling in todays business environment is taking a new shape with emphasis on team selling, sales force automation, relationship selling.

Questions

Q1. Why is it necessary to understand buyer seller dyad?

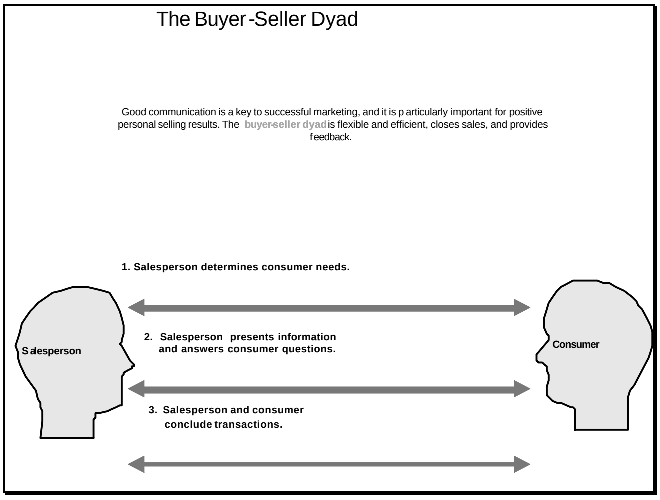
Q2. What are the different personal selling situations?

Q3. What do you mean by Team selling?

Q4. Why is relationship selling important?

Q5. What do you mean by sales force automation?

Points to Ponder



DIVERSITY OF PERSONAL-SELLING SITUATIONS

- Inside Order Taker
- Delivery Salesperson
- Route or Merchandising Salesperson
- Missionary selling
- Technical Salesperson
- Creative Salesperson of Tangibles
- Creative Salesperson of Intangibles

RECENT TRENDS IN SELLING

- **Relationship selling**
- **Team selling**
- **Sales force automation**

Ehical Dilemma

You are a sales manager of a highly successful firm that produces bricks for home and office builders . The territory's top seller , Mr. singh is leaving for a month on a Vacation .You know that for the past three weeks Mr. Singh has worked relentlessly with one particular home builder Raheja' s in an attempt t sell bricks for building purpose. Such a sale would have netted Mr. Singh a healthy Rs.20,000 commission Despite Mr. singh's successful closing of more than 40 sales last month he was never able to close this particular sale even after meeting and negotiating with Raheja's several time , who kept insisting of better deal.

Yesterday Mr. Singh left on his vacation . Early this morning one of your newest hires , Vinod received a call from Raheja's wanting to purchase the bricks at the price Mr. Singh had negotiated before his departure.Since Mr. Singh cannot be accessed Vinod was forced to handle the one hour of paper work in order to finalise the deal.

Later that afternoon while reviewing the papers Vinod had completed and kept on your desk you notice that in the blank marked "salesperson " Vinod had written his own name. The name of the individual who is in this blank will receive Rs. 20,000 check. Thinking that Vinod has simply made a mistake you call him in your office to correct the error. However you soon find out that Vinod had purposely written his own name. He explained " I made the sale . I wrote up the client , placed the order and used my own selling time to do it. In fact he was never actually able to make the sale when he was here. He was not even in the town when customers finally decided to place the order. He did not work with the customer at all today—he is on vacation ! I did. I deserve the credit for sale." You know Mr. singh is struggling to make his sales quota.

What do you do?

LESSON 3
THEORIES OF PERSONAL SELLING

Learning Objectives

To learn about the different theories of selling :

- AIDAS theory of personal selling
- "Right Set Of Circumstances" Theory Of Selling
- "Buying Formula" Theory Of Selling
- "Behavioral Equation" Theory

Is selling An Art or a Science?

Let us see what is it

Is selling a science with easily taught basic concepts or an art learned through experience? In a survey of 173 marketing executives, 46 percent perceived selling as an art, 8 percent as a science, and 46 percent as an art evolving into a science.[9] The fact that selling is considered an art by some and a science by others has produced two contrasting approaches to the theory of selling.

The first approach distilled the experiences of successful salespeople and, to a lesser extent, advertising professionals. Many such persons, of course, succeeded because of their grasp of practical, or learned-through-experience psychology and their ability to apply it in sales situations. It is not too surprising that these selling theories emphasize the "what to do" and "how to do" rather than the "why". These theories, based on experiential knowledge accumulated from years of "living in the market" rather than on a systematic, fundamental body of knowledge, are subject to Howard's dictum, "Experiential knowledge can be unreliable."[10]

The second approach borrowed findings from the behavioral sciences. The late E.K. Strong, Jr. professor of psychology at the Stanford Graduate School of Business, was a pioneer in this effort, and his "buying formula" theory is presented later in this section. John A. Howard of the Columbia Graduate School of Business was in the forefront of those who adapted the findings of behavioral science to analysis of buying behavior; his "behavioral equation," discussed later in this section, attempts to develop a unified theory of buying and selling.

Theories of Selling [8]

In this section we examine four theories. The first two, the **"AIDAS"** theory and the "right set of circumstances" theory, are seller oriented. The third, the "buying-formula" theory of selling, is buyer oriented. The fourth, the behavioral equation, emphasizes the buyer's decision process but also takes the salesperson's influence process into account.

AIDAS Theory of Selling

This theory – popularly known as the AIDAS theory, after the initials of the five words used to express it (attention, interest, desire, action, and satisfaction) – is the basis for many sales and advertising texts and is the skeleton around which many sales training programs are organized. Some support for this theory is found in the psychological writings of William James, but there is little doubt that the construct is based upon experiential knowledge and, in fact, was in existence as early as 1898. During the successful selling interview, according to this theory, the prospect's mind passes through five successive mental states: attention, interest, desire, action, and satisfaction. Implicit in this theory is the notion that the prospect goes through these five stages consciously, so the sales presentation must lead the prospect through them in the right sequence if a sale is to result.

Securing Attention

The goal is to put the prospect into a receptive state of mind. The first few minutes of the interview are crucial. The salesperson has to have a reason, or an excuse, for conducting the interview. If the salesperson previously has made an appointment, this phase presents no problem, but experienced sales personnel say that even with an appointment, as salesperson must possess considerable mental alertness, and be a skilled conversationalist, to survive the start of the interview. The prospect's guard is naturally up, since he or she realizes that the caller is bent on selling something. The salesperson must establish good rapport at once. The salesperson needs an ample supply of "conversation openers". Favorable first impressions are assured by, among other things, proper attire, neatness, friendliness, and a genuine smile. Skilled sales personnel often decide upon conversation openers just before the interview so that those chosen are as timely as possible. Generally it is advantageous if the openings remarks are about the prospect (people like to talk and hear about themselves) or if they are favorable comments about the prospect's business. A good conversation opener causes the prospect to relax and sets the stage for the total presentation. Conversation openers that cannot be readily tied in with the remainder of the presentation should be avoided, for once the conversation starts to wander, great skill is required to return to the main theme.

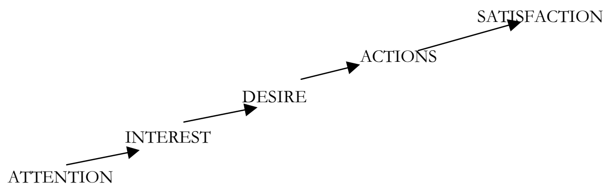
Gaining Interest

The second goal is to intensify the prospect's attention so that it evolves into strong interest. Many techniques are used to gain interest. Some salespeople develop a contagious enthusiasm for the product or a sample. When the product is bulky or technical, sales portfolios, flipcharts, or other visual aids serve the same purpose.

Throughout the interest phase, the hope is to search out the selling appeal that is most likely to be effective. Sometimes, the prospect drops hints, which the salesperson then uses in selecting the best approach. To encourage hints by the prospect, some salesperson devise stratagems to elicit revealing questions. Others ask the prospect questions designed to clarify attitudes and feelings toward the product. The more experienced the salesperson, the more he or she has learned from interviews with similar prospects. But even experienced sales personnel do considerable probing, usually of the question-and-answer variety, before identifying the strongest appeal. In additional, prospects' interests are affected by basic motivations, closeness of the interview subject to current problems, its timeliness, and their mood – receptive, skeptical, or hostile – and the salesperson must take all these into account in selecting the appeal to emphasize.

Kindling Desire

The third goal is to kindle the prospect's desire to ready-to-buy point. The salesperson must keep the conversation running along the main line toward the sale. The development of sales obstacles, the prospect's objections, external interruptions, and digressive remarks can sidetrack the presentation during this phase. Obstacles must be faced and ways found to get around them. Objections need answering to the prospect's satisfaction. Time is saved, and the chances of making a sale improved if objections are anticipated and answered before the prospect raises them. External interruptions cause breaks in the presentation, and when conversation resumes, good salespeople summarize what has been said earlier before continuing. Digressive remarks generally should be disposed of tactfully, with finesse, but sometimes distracting digression is best handled bluntly, for example, "Well, that's all very interesting, but to get back to the subject



Inducing Actions

If the presentation has been perfect, the prospect is ready to act- that is, to buy. However, buying is not automatic and, as a rule, must be induced. Experienced sales personnel rarely try for a close until they are positive that the prospect is fully convinced of the merits of the proposition. Thus, it is up to the salesperson to sense when the time is right. The trial close, the close on a minor point, and the trick close are used to test the prospect's reactions. Some sales personnel never ask for a definite "yes" or "no" for fear of getting a "no", from which they think there is no retreat. But it is better to ask for the order straightforwardly. Most prospects find it is easier to slide away from hints than from frank requests for an order.

Building Satisfaction

After the customer has given the order, the salesperson should reassure the customer that the decision was correct. The customer should be left with the impression that the salesperson merely helped in deciding. Building satisfaction means thanking the customer for the order, and attending to such matters as making certain that the order is filled as written, and following up on promises made. The order is the climax of the selling situation, so the possibility of an anticlimax should be avoided – customers sometimes unsell themselves and the salesperson should not linger too long.

"Right Set of Circumstances" Theory Of Selling

"Everything was right for that sale" sums up the second theory. This theory, sometimes called the "situation-response" theory, had its psychological origin in experiments with animals and holds that the particular circumstances prevailing in a given selling situation cause the prospect to respond in a predictable way. If the salesperson succeeds in securing the attention and gaining the interest of the prospect, and if the salesperson presents the proper stimuli or appeals, the desired response (that is, the sale) will result.

The set of circumstances, included factors external and internal to the prospect. To use a simplified example, suppose that the salesperson says to the prospect, "Let's go out for a cup of coffee". The salesperson and the remark are external factors. But at least four factors internal to the prospect affect the response. These are the presence or absence of desires: (1) to have a cup of coffee, (2) to have it now, (3) to go out, and (4) to go out with the salesperson.

Proponents of this theory tend to stress external factors and at the expense of internal factors. They seek selling appeals that evoke desired responses. Sales personnel who try to apply the theory experience difficulties traceable to internal factors in many selling situations, but the internal factors are not readily manipulated. This is a seller-oriented theory: it stresses the importance of the salesperson controlling the situation, does not handle the problem of influencing factors internal to the project, and fails to assign appropriate weight to the response side of the situation-response interaction.

"Buying Formula" Theory of Selling

In contrast to the two previous theories, the third emphasizes the buyer's side of the buyer-seller dyad. The buyer's needs or problems receive major attention, and the salesperson's role is to help the buyer find solutions. This theory purports to answer the question: What thinking process goes on in the prospect's mind that causes the decision to buy or not to buy?

The buying formula is schematic representation of a group of responses, arranged in psychological sequence. The buying formula theory emphasizes the prospect's responses (which, of course, are strongly influenced by internal factors) and deemphasizes the external factors, on the assumption that the salesperson, being naturally conscious of the external factors, will not overlook them. Since the salesperson's normal inclination is to neglect the internal factors, the formula is a convenient way to help the salesperson remember.

The origin of this theory is obscure, but recognizable versions appear in a number of early books on advertising and selling by authors who had experiential knowledge of salesmanship.[13] Several psychologists also advanced explanations similar to the buying formula.[14] The name "buying formula" was given to this theory by the late E.K. Strong, Jr., and the following step-by-step explanation is adapted from his teaching and writings.[15]

Reduced to their simples elements, the mental processes involved in a purchase are

need (or problem) → solution → purchase

Because the outcome of a purchase effects the chance that a continuing relationship will develop between the buyer and the seller, and because nearly all sales organizations are interested in continuing relationships, it is necessary to add a fourth element. The four elements then, are need (or problem) → solution → purchase → satisfaction

Whenever a need is felt, or a problem recognized, the individual is conscious of a deficiency of satisfaction. In the world of selling and buying, the solution will always be a product or service or both, and they will belong to a potential seller.

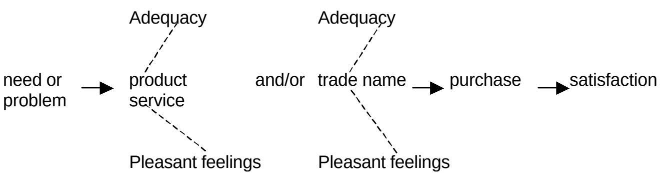
In purchasing, then, the element "solution" involves two parts: (1) product (and/or service) and (2) trade name (name of manufacturer, company, or sales-person).

In buying anything, the purchaser proceeds mentally from need or problem to product or service, to trade name, to purchase, and, upon using the product or service, he or she experiences has been established, the buying formula is:

need or problem → product service and/or trade name → purchase → satisfaction/ dissatisfaction

To ensure purchase, the product or service and the trade name (that is, the source of supply) must be considered adequate, and the buyer must experience a (pleasant) feeling of anticipated satisfaction when thinking of the product and/or service and the trade name. in many cases, an item viewed as adequate is also liked, and vice versa, but this is not always so. Some products and services that are quite adequate are not liked, and some things are liked and bought that are admittedly not as good as competing items. Similar reasoning applier trade names. Some sources of supply are both adequate and liked, others are adequate but not liked, still others are liked but patronized even though they are inadequate compared to competing sources.

With adequately and pleasant feelings included, the buying formula becomes



When a buying habit is being established, the buyer must know why the product or service is an adequate solution to need or problem, and why the trade name is the best one to buy. The buyers also must have a pleasant feeling toward the product or service and the trade name.

Then, whenever the buyer's buying habit is challenged by a friend's remark, a competing salesperson's presentation, or a competitor's advertisement, the buyer needs reasons to defend the purchase, and, in addition, he or she needs a pleasant feeling toward both the product or service and the trade name. All this is represented by the dashed lines in the formula.

The primary elements in a well-established buying habit are those connected by solid lines, on the central line of the formula. Most purchases are made with scarcely a thought as to why, and with a minimum of feeling. And it should be the constant aim of the salesperson and advertiser to form such direct associations. Reasons (adequacy of solution) and pleasant feelings constitute the elements of defense in the buying habit. As long as they are present, repeat buying occurs.

The answer to each selling problem is implied in the buying formula, and differences among answers are differences in emphasis upon the elements in the formula.

Where the emphasis should be placed depends upon a variety of circumstances. Without going into detail, it may be said that

1. If the prospect does not feel a need or recognize a problem that can be satisfied by the product or service, the need or problem should be emphasized.
2. If the prospect does not think of the product or service when he or she feels the need or recognizes the problem, the association between need or problem and product or service should be emphasized.
3. If the prospect does not think of the trade name when he or she thinks of the product or service, the association between product or service and trade name should be emphasized.
4. If need or problem, product or service, and trade name are well associated, emphasis should be put upon facilitating purchase and use.
5. If competition is felt, emphasis should be put upon establishing in the prospects' minds the adequacy of the trade-named product or service, and pleasant feelings toward it.
6. If sales to new prospects are desired, every element in the formula should be presented.
7. If more sales to old customers are desired, the latter should be reminded. (Developing new uses is comparable to selling to new customers.)

"Behavioral Equation" Theory

Using a stimulus-response model (a sophisticated version of the "right set of circumstances" theory), and incorporating findings from behavioral research, J.A. Howard explains buying behavior in term of the purchasing decision process, viewed as phase of the learning process.

Four essential elements of the learning process included in the stimulus-response model are drive, cue, response, and reinforcement, described as follows:

1. Drives are strong internal stimuli that impel the buyer's response. There are two kinds:
   a. Innate drives stem from the physiological needs, such as hunger, thirst, pain, cold, and sex.
   b. Learned drives, such as striving for status or social approval, are acquired when paired with the satisfying of innate drives. They are elaborations of the innate drives, serving as a façade behind which the functioning of the innate drives is hidden. Insofar as marketing is concerned, the learned drives are dominant in economically advanced societies.
2. Cues are weak stimuli that determine when the buyer will respond.
   a. Triggering cues activate the decision process for any given purchase.
   b. Nontriggering cues influence the decision process but do not active it, and may operate at any time even

though the buyer is not contemplating a purchase. There are two kinds:

i. Product cues are external stimuli received from the product directly, for example, color of the package, weight, or price.

ii. Informational cues are external stimuli that provide information of a symbolic nature about the product. Such stimuli may come from advertising, conversations with other people (including sales personnel), and so on.

c. Specific product and information cues may also function as triggering cues. This may happen when price triggers the buyer's decision.

3. Response is what the buyer does.
4. A reinforcement is any even that strengthness the buyer's tendency to make a particular response."

Howard incorporates these four elements into an equation:

$$B = P \times D \times K \times V$$

where

B = response or the internal response tendency, that is, the act of purchasing a brand or patrionizing a supplier

P = predisposition or the inward response tendency, that is, force of habit

D = present drive level (amounts of motivation)

K = "incentive potential" that is, the value of the product or its potential satisfaction to the buyer

V = intensity of all cues: triggering, product, or informational

The relation among the variables is multiplicative. Thus, if any independent variable has a zero value, B will also be zero and there is no response. No matter how much P there may be, for example, if the individual is unmotivated (D = 0), there is no response.

Each time there is a response—a purchase—in which satisfaction (K) is sufficient to yield a reward, predisposition (P) increases in value. In other words, when the satisfaction yields a reward, reinforcement occurs, and, technically, what is reinforced is the tendency to make a response in the future to the cue that immediately preceded the rewarded response. After reinforcement, the probability increases that the buyer will buy the product (or patronize the supplier) the next time the cue appears—in other words, the buyer has learned.

Buyer-seller dyad and reinforcement: In the interactions of a salesperson and a buyer, each can display a type of behavior that is rewarding, that is reinforcing, to the other. The salesperson provides the buyer with a product (and the necessary information about it and its uses) that the buyer needs; this satisfaction of the need is rewarding to the buyer, who, in turn, can reward the salesperson by buying the product. Each can also reward the other by another type of behavior, that of providing social approval. The salesperson gives social approval to a buyer by displaying high regard with friendly greetings, warm conversation, praise, and the like.

In understanding the salesperson-client relation, it is helpful to separate economic aspects from social features. The salesperson wishes to sell a product and the buyer wishes to buy it—these are the economic features. Each participant also places a value and cost upon the social features. Behavior concerning these features of the relationship consist of sentiments, or expressions of different degrees of liking or social approval. Salesperson attempt to receive rewards (reinforcements) either in sentiment or economic by changing their own behavior or getting buyers to change theirs.

Salesperson's influence process: The process by which the salesperson influence the buyer is explainable in terms of the equation B = P x D x K x V. The salesperson influences P (predisposition) directly, for example, through interacting with the buyer in ways rewarding to the buyer. The greatest effect on P, however, comes from using the product. The salesperson exerts influence through D (amount of motivation), this influence being strong when the buyer seeks information in terms of international cues. If the ends to be served are not clearly defined, by helping to clarify these, the buyer's goals, the salesperson again exerts influence through D. When the buyer has stopped learning—when the buyer's buying behavior becomes automatic—the salesperson influence D by providing triggering cues. When the buyer has narrowed down the choices to a few sellers, the salesperson, by communicating the merits of the company brand, can cause it to appear relatively better, and thus affect K (its potential satisfaction for the buyer). Finally, the salesperson can vary the intensity of his or her effort, so making the difference in V (the intensity of all cues).

Salesperson's role in reducing buyer dissonance: According to Festinger's theory of congnitive dissonance, when individuals choose between two or more alternatives, anxiety or dissonance will almost always occur because the decisions, people expose themselves to information that they perceive as likely to support their choices, and to avoid information likely to favor rejected alternatives.

Although Festinger evidently meant his theory to apply only to postdecision anxiety, it seems reasonable that it should hold for predecision anxiety. Hauk, for instance, writes that a buyer may panic on reaching the point of decision and rush into the purchase as an escape from the problem or put it off because of the difficulty of deciding. It seems, then, that a buyer can experience either predecision or postdecision dissonnsce, or both.

Reducing pre- and predecision anxiety or dissonance is an important function of the salesperson. Recognizing that the buyer's dissonance varies both according to whether the product is an established or a new one, and whether the salesperson-client relationship is ongoing or new, these are four types of cases involving the salesperson's role.

1. **An established product—an ongoing salesperson-client relationship.** Unless the market is unstable, the buyer tends toward automatic response behavior, in which no learning is involved and thus experiences little, if any, dissonance; but insofar as it does occur, the salesperson is effective because the salesperson is trusted by the buyer.

2. An established product—a new salesperson-client relationship. The salesperson, being new, is less effective in reducing dissonance.

3. A new product—an ongoing salesperson-client relationship. Unless the buyer generalizes from personal experience with an established similar product, the buyer experiences dissonance, especially if it is an important product. Because of the established relationship with the buyer, the salesperson can reduce dissonance.

4. A new product—a new salesperson-client relationship. The buyer needs dissonance reduction, and the sales, and the salesperson is less capable of providing it.

How can a salesperson facilitate the buyer's dissonance reduction? Two ways are (1) to emphasize the advantages of the product purchased, while stressing the disadvantages of the forgone alternatives, and (2) to show that many characteristics of the chosen item are similar to products the buyer has forgone, but which are approved by the reference groups. In other words, the buyer experiencing cognitive dissonance needs reassuring that the decision is or was a wise one; the salesperson provides information that permits the buyer to rationalize the decision

Notes -

Points to Ponder

AIDAS theory of selling

- **Securing attention**
- **Gaining interest**
- **Kindling desire**
- **Inducing actions**
- **Building satisfaction**

Right set of circumstances theory of selling

“Buying formula” theory of selling

“Behavioral Equation” Theory

$$B = P \times D \times K \times V$$

Question

Q1 What is AIDAS theory of selling?

Q2 How important is AIDAS theory in personal selling?

Q3 What is” Buying formula” of theory of selling ?

Q4 When you are a customer do you experience a similar process as given in “Buying fformula” theory?

LESSON 4
PERSONAL SELLING PROCESS

Learning Objectives

- To understand about the steps in personal selling process.
- To know the mistakes that can be done in sales.

Personal Selling Process

Certainly no magical formula exists for making a sales. Many different factors may influence a purchase decision.Yet most sales trainers believe logical , sequential steps do exists that , if followed can greatly improve the chance of making a sale. This is called a sales process. This sequential series of actions by sales person leads to customer taking a desired action and ends with a follow up to ensure purchase satisfaction.

There is a certain way in which sales person needs to attend his function. It involves few steps. A sales person need not follow all steps .Depending on his nature of job he goes about the personal selling process.

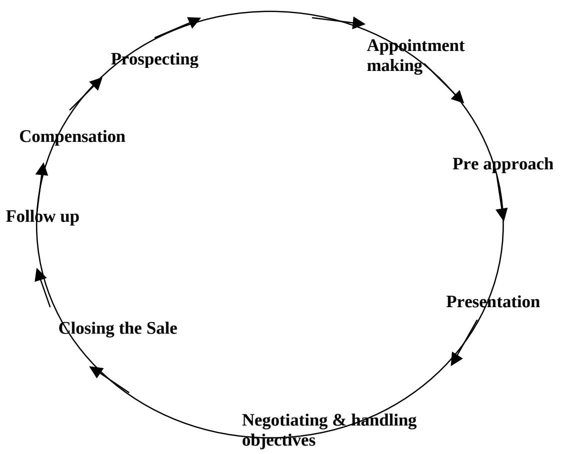
Steps in Personal Selling Process

The personal selling process consists of creating new customers and maintaining existing customers. Salespeople follow a series of steps in identifying prospects and turning them into customers.

1. Prospecting: is identifying potential qualified customers. It is the first step in personal selling process. A prospect is a person or business that needs the product a salesperson is selling and has the ability to buy it.A sales person constantly looks for new prospects for two reasons. One is to increase sales. The other is to replace the customers who will be lost over time.

Prospects may come as referrals from existing customers, from suppliers, dealers, etc. Sometimes they come from analysis of public sources such as directories, newspapers, or public activities of the firm. Once prospects have been identified, they need to be qualified or screened to see if they are good prospects.

The Sales Cycle



2. Pre approach: once the prospect has been identified and qualified the next step in selling process is pre approach. During pre approach the sales person is gathering information to use in the attempt to make the sale. Salesperson investigates the prospect in greater depth and plans the sales call. Pre approach is planning the sales presentation to meet the customer's wants or to solve the customer's problem. It involves gathering research about the prospect. The salesperson must determine where the specific target market consumer is in the purchasing process. In the approach, the salesperson meets and greets the buyer and puts the buyer at ease. At this meeting, the salesperson asks some key questions to get some essential information before getting the buyer's attention and launching into the presentation.

Sales persons should carefully plan their sales call . Although numerous reasons exists for planning the sales call , four of the most frequently mentioned are

- Helps build a salesperson confidence
- Develop an atmosphere of goodwill and trust with the buyer
- Help create an image of professionalism
- Increase sales because people are prepared.

3. Presentation: the sales opener , or approach , is the first major part of sales presentation If done correctly , it greatly improves the chances of a sales person's chances of getting the sale. Purpose of presentation is to provide knowledge about the features , advantages and benefits of the product . Telling the product "story" to the prospect, showing how the product will solve a problem for the product. The salesperson must build a case for how the product can serve the needs of the buyer. A need-satisfaction approach involves carefully listening to the buyer's needs and then clearly explaining how the product can satisfy those needs. Questioning and listening are more important than talking. Presentations using Microsoft's PowerPoint significantly enhance the professionalism of the presentation.

To do an adequate job in planning a presentation, salespeople must understand the concepts of features, potential benefits, and confirmed benefits. Extensive research by Learning International, a major sales training and consulting firm, concludes that stating features and potential benefits may result in successful sales calls, or at least may lead to a continuation of the sales dialogue on the next sales call. This same research, however, concluded that a far more promising way to achieve sales call success is to seek customer confirmation of potential benefits. According to Learning International, successful sales calls have approximately five times as many confirmed benefit statements than for unsuccessful sales calls.

A **feature** is a factual statement about a characteristic of the product or service being sold.

Examples of features:

- Bell-shaped nozzle on vacuum cleaner
- Daily delivery of Frito-Lay potato chips
- Technical support personnel for a computer system

A **potential benefit** describes how the product or service may meet a customer need that is assumed to be important by the salesperson. When a customer acknowledges the importance of a benefit to his or her buying situation, it is a **confirmed benefit**. In selecting specific benefits to be stressed, salespeople should focus on any unique benefits not offered by competition, as long as the benefits are of interest to the prospect. These might include product benefits, along with non-product related benefits such as delivery, extraordinary customer service, or additional sales support available to the customer.

Examples of corresponding benefits:

- Optimum airflow improves cleaning ability
- Retailer can reduce inventory costs
- Assistance in installation, maintenance, and expansion

5. Handling Objections: theoretically salesperson presentation should show the prospect that the product is required by him and it should be bought. Very few presentations end that successfully and very few prospects are that easily convinced Usually prospect will raise objections .Objections raised by the prospect takes a great deal of skill and training. Experienced sales person welcome objections . The salesperson must be able to identify the real reasons for an objection, respond to the objection, and overcome it. Objections provide the salesperson with the opportunity to learn more about the customer's needs and provide information about the product to satisfy those needs. The most difficult prospect is one who does not say anything during the presentation , refuse to buy and gives no reason for the decision. The best way to deal with objections is to avoid them by building answers to common questions in to the formal sales presentation.

6. Closing: closing follows once the objection have been handled . It is at this point that the sales person should ask for order. Unfortunately , many sales persons are to reluctant to close : in fact one study revealed that 50% of salespeople failed to directly ask for the order. The major reason the salespeople are so resistant to close seems to be is fear of rejection . If sales people do not ask for an order they cannot be turned down and thereby they avoid embarrassment or disappointment . However all professional purchasing agents expect a sales representatives to attempt a close. Closing the sale is asking the prospect for an order. The salesperson must be able to recognize the signals that indicate the prospect is ready to close. Successful salespeople learn to time their closing remarks on the basis of signals given by the buyer . These cues can take the form of a gestures (Customer nods in agreement , picks up the product and examines it closely) or they can be verbal comments . When prospect makes comments like

"Shipment must be completed in five months?"

"We like the speed control feature?"

"Do you have custom model in stock?"

Sales person should recognize these comments as signs of interest and shift to closing techniques. These we will discuss in detail in next lesson.

7. Follow-up: is essential to building a relationship between the seller and the buyer. The sales person follows-up to ensure that the buyer received the right products in the right condition at the right time. Any problems or concerns on the part of the buyer after the sale are addressed immediately. The salesperson demonstrates continued interest in the account and a desire to satisfy the buyer's needs on an ongoing basis.

It is a must that sales should end in follow up, determine if the order was delivered on time, installation OK etc. Also helps determine the prospects future needs. Accomplishes four objectives:

- customer gain short term satisfaction
- referrals are stimulated
- in the long run, repurchase
- prevent cognitive dissonance

Follow up activities are critical to the success of salespeople and sales managers . Customers expect after-sale service and it is frequently the job of sales people to make sure these activities are carried out.

As a general rule when an order is not obtained on the initial call the sales person should express appreciation for the time made available and suggests a later visit . In this way a sales person show continued interest in helping the prospect and in getting the order. When leaving a sales person should inquire if there are any brochures , samples or othew information that the prospects needs before they meet again.

Whenever a sales person leaves without an order they should immediately write down what they have learned about the prospect for example What were prospects chief objections , who makes the decision and what are the prospects primary needs. If the sales person made any critical mistake during presentation they should be noted so that they are not repeated in the next visit.

Old school, sell and leave!!—Quickly before customer changes her mind!!

Now:

- Stay a few minutes after sale—reinforce, make them feel good, made wise choice, leave small gift (with co. name on it!!), call office at any time etc!!
- Follow up, reinforce, know birthdays, new year etc, friendly correspondence...relationship building!!

Salespeople who do not follow up on sales are unlikely to establish long term relationship with customers or secure repeat business. Purchasing agents expects post sale service and it is sales person's responsibility to see that they remain satisfied.

Compensation

Compensation plans include (1) straight wages or salary, (2) straight commission, (3) wages or salary plus bonus, and (4) wages or salary plus commission. Salespeople receive hourly wages, a salary, commissions, or a combination of wages or salary and commissions. Commissions are usually based on the amount of sales, whereas bonuses may depend on individual performance, on the performance of all salespeople in the group or district, or on the company's performance. Commissions offer salespeople the opportunity to significantly increase their earnings, but they may find their earnings depend on their ability to sell their product and the ups and downs of the economy. Employers may use incentive programs such as awards, banquets, and profit-sharing plans to promote teamwork among the sales staff.

Mistakes in Sales

1. Not Understanding Selling

The purpose of salespeople is to sell a service or a product. One should have knowledge of one's company's current style of selling and how it is analyzed so that it can be improved. One should know who the ideal customer is, and what he or she wants. One should know why some people buy his or her product and why they do not. One must gain knowledge of the service provided and the customers' needs. Selling is not about being pushy and being aggressive, some regard that as "incompetent." Companies must train their employees to be "professional salespeople or persuaders are low-key, service-oriented, and relationship-builders" (Hopkins, 2001, p. 311).

2. Expecting Things to Improve by Themselves

If someone is unskilled and incompetent in sales, one cannot expect that he or she will improve by themselves. "Sales skills are not a gift of birth." It is something that can be mastered with study and work. Watching people from personal experience will help you identify what makes people good and bad persuaders. Training salespeople is very important to having the difference between competent and incompetent sales people. For most salespeople sales do not come naturally. "Even though they may be naturally comfortable talking with others, the actual skill of persuading must be learned just as the ins and outs of the product or service must be learned in order to succeed" (p. 312).

3. Talking Too Much and Not Listening Enough

A salesperson does not just talk, they listen too. A salesperson should think of himself or herself as a detective. One must ask the right questions, take good notes, and "intently" listen to what the customer says as well as their body language. It is not about the talking, it is about asking the right questions that "lead down the path" and toward a sale (p. 312-313).

4. Using Words that Kill Sales

One tries to "paint a picture" with words when making a presentation in sales. "A few wrong word pictures can ruin the entire portrait" one is "trying to paint." Sales people can use specific words that create negative thoughts in customers' minds, which could mean the difference between a successful sale or an unsuccessful sale. Avoid using negative words. One can rephrase negative words into positive words (p. 313).

1. Not Knowing When to Close the Sale

Customers who leave a place of business without purchasing something are lost sales. A sales person must look for "buying signs." These "signs" might be when they say "will" instead of "might." For example, "Is it in stock?" or "Is there delivery?, are other signs that a customer is going to say yes to a sale. One uses these signs to help understand when to close a sale. Knowing "when to close" is an important element in sales (p. 313).

2. Not Knowing How to Close the Sale

One must ask "a question that moves the prospect into a position of having to make an ownership decision." An example would be: "If I have the red one, do you want to take it with you today, or shall I ship it?" (p. 314)

3. Lack of Sincerity

Be sincere and mean it. Do not let greed get in the way, or you may not get anywhere. Make sure you are selling to benefit the customer and not yourself. A salesperson needs to be selling a product that they believe in and believe that it is good. If one does not believe in one's product, a customer will "recognize" the insincerity and want nothing to do with the salesperson and the product. They will also tell their friends about it as well. Another effect is that one convincing them of something that one does not believe in, can make one seem like a con artist. As a salesperson, "selling or persuading others must be your sincere desire to serve others and help them get involved in something that is truly beneficial for them. Honesty and integrity are the key elements to every successful selling career" (p. 314).

4. Not Paying Enough Attention to Details

Not being prepared, by not paying attention to detail, can cause loss in sales. Not paying enough attention to a sales letter when there are grammatical errors, not being prepared for a presentation, or not knowing one's product can result in a decline in sales. These are all signs of not doing ones best. If one cannot do this someone else will, and get the sale (p. 315).

5. Letting yourself Slump

Are you a bull sometimes and a bear other times? When being a bear, or in a slump, it takes a lot to get out of it. Try to be consistent with sales, in order to do so be a bull all of the time (p. 315).

6. Not Keeping in Touch

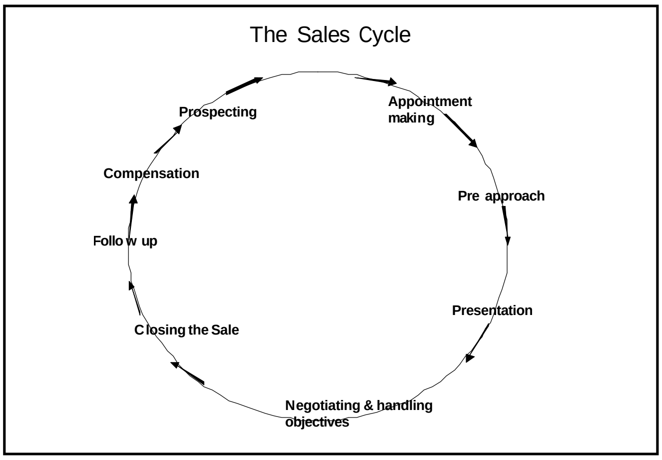
People do business with people who give them attention. All it takes is a couple of phone calls to keep customers. Call customers every so often to see how the product is doing, and if there is room for improvement. It shows that a company cares about the customer by keeping in touch (p. 315).

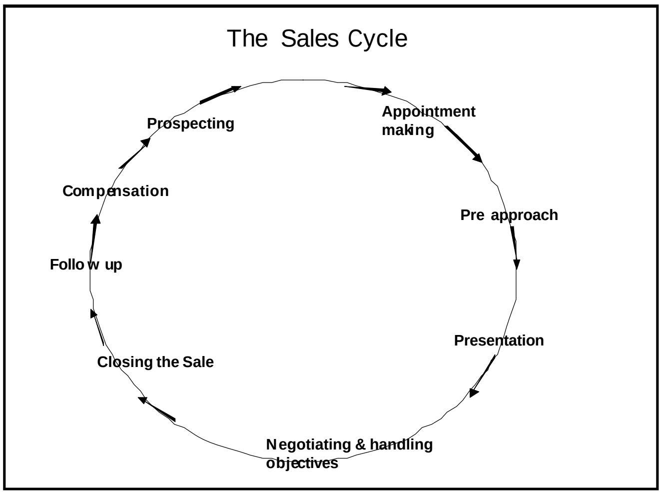
Lack of training is a large contributing factor of poor communication in sales; it is hazardous to a company's "health." Poor communication can result in a bad relationship between mangers and sales people; manufactures and sales people; or salespeople and customers. In the end it means a lack of sales and profit, which will lead to the inevitable, demise of a company.

Conclusion

In this lesson we learnt about the selling process. It is a continuous process. There are different steps in the process. A salesperson should proceed in the similar steps to make sales. Then we have also discussed that there may be some common mistakes that can occur in sales. In the next lesson we will learn about prospecting, Objection handling and closing in detail.

Points to ponder





Questions

Q1. Why do salesperson spend part of their time in prospecting?

Q2. What is the importance of preapproach?

Q3. Why should form the part of presentation?

Q4. Why is follow up necessary for a sales person?

LESSON 5
PROSPECTING, OBJECTION HANDLING AND CLOSING

Learning Objectives

- To understand about prospecting
- To know how objections can be handled.
- To know closing techniques.

Prospecting

In the last lesson we studied about the sales cycle. Now let us study the prospecting step in detail.

Efficient organization of time and thorough planning of work are earmarks of above-average salespersons. They look for ways to "stretch" productive selling time. They arrange travel and call schedules to economize on time spent enroute and distance traveled. They make appointments to avoid prolonged waiting for callbacks. They do not waste time trying to sell to people who cannot buy or are not likely to do so. The planning work, which is essential in eliminating calls on non buyers , is called "prospecting."

Improvement in prospecting is one way to stretch productive selling time. Many sales personnel devote too little time to prospecting and, as a consequence, too much to calling on non prospects . Salespersons who are proficient in prospecting apply their selling efforts productively; they do not call on nonprospects and can devote their full attention to those likely to buy.

Some companies use specialized personnel for prospecting, but most regard it as one of the salesperson's responsibilities. Even though salespersons may not to "all" the prospecting, they often have access to information on likely prospects that is not available to central office personnel.

Steps in Prospecting

Let us see what are steps in prospecting which will help in understanding it better

The steps in prospecting are

1. formulating prospect definitions,
2. searching out potential accounts,
3. qualifying prospects and determining probable requirements, and
4. relating company products to each prospect's requirements.

Formulating Prospect Definitions

Prospective customers must have the willingness, the financial capacity, and the authority to buy, and they must be available to the salesperson. Salespersons waste time when they attempt to sell individuals who have neither need for the product or money to pay for it. Salespersons waste time if they try to sell to the wrong persons; so it is important to ascertain which persons in each firm have the authority to buy. Although individuals may qualify as prospects in other respects, they may be inaccessible to the salesperson. The president of a large corporation, for example, may need insurance and be willing and able to pay for it, but a particular salesperson may have no way to make the contact.

In addition to meeting the stated requirements, there are other requirements unique to each company's customers. Starting the data on the profitability of present accounts, any characteristics typical of profitable accounts but not shared by unprofitable accounts should be detected. These identifying characteristics ideally should be ones recognizable from information appearing in directories or lists. Prospects in many businesses and professions, for instance, are readily identified from classified listing in telephone and city directories. Key characteristics that identify profitable accounts are assembled into descriptions of the various classes of customers, and these are the prospect definitions.

Searching out Potential Accounts

Using the prospect definitions, the salesperson combs different sources for the names of probable prospects, or "suspects," as they are called. Sources of prospect information include

- Directories of all kind
- News and notes in trade papers and business magazines
- Credit reports, membership lists of chambers of commerce and trade and
- Manufacturers' associations
- Records of service requests.
- Other sources are
- Responses to company advertising
- Sales personnel of noncompeting firms calling on the same general classes of trade
- Conventions and meetings bankers and other "centers of influence," and the salesperson's own observations.

Salespeople selling services, insurance, for example, uncover prospects among their acquaintances; members of their professional, religious and social organizations; and the referrals of friends. Another source of prospects is the "endless chain" – satisfied customers suggest, voluntarily or on request, other leads to the salesperson who served them.

Qualifying Prospects and Determining Probable Requirements

As information is assembled on each tentative prospect it is easier to estimate the probable requirements of each for the types of products sold by the company. Prospects with requirements too small to represent profitable business are removed from further consideration, unless their growth possibilities show promise. Even after tapping all readily available information sources, additional information often is required to qualify certain prospects, and personal visits by salespersons may be the only way to obtain it. These visits may not bring in sales, but they save time, as prospects are separated from nonprospects .

Relating Company Products to Each Prospect's Requirements

The final step is to plan the strategy for approaching each prospect. From the information assembled, it is usually possible to determine each prospect's probable needs. From what the salesperson knows about the company's products, their uses, and applications, he or she selects those that seem most appropriate for a particular prospect.

The salesperson's presentation is now easy to construct, and it is tailored to fit the prospect. The salesperson should have clear ideas about specific objections the prospect may raise and other obstacles to the sale that may be encountered. The salesperson is ready to contact the prospect, the only tasks remaining are making an appointment, deciding how to open the presentation, and determining how to persuade the prospect to become a customer.

Sales Resistance

Let us study about sales resistance.

Prospects show sales resistance by pointing out real or imagined obstacles, and by voicing objections, sincere or insincere. In analyzing sales resistance, the sales-persons needs to skill in the accurate and rapid appraisal of people and their motivations. A prospect's expressed sales resistance is either an obstacle or an objection. An obstacle is real or unreal; an objection is sincere or insincere.

Obstacles to Sales

Obstacles are real or apparent reasons that the prospect has for not buying.

If the obstacle is **real**, it precludes the consummation of the sale. But if it is **apparent**, there are ways to circumvent it. A prospect says a temporary shortage of cash prevents buying – and obstacle, not an objection – and the salesperson helps the prospect to circumvent it by explaining a method for financing the purchase. Some obstacles can be circumvented, others cannot. When an obstacle arises, the salesperson determines whether or not there is a way to get around it. If the salesperson recognizes the specific obstacle and knows a way to circumvent it, the next move is to present the solution to the prospect.

Sales Objections

Objections are never good reasons for failing to complete the sale, but they nearly always divert the salesperson's presentation from its main course. At best, an objection requires a satisfactory answer; at worst, it blocks the sale. Adroitness in handling objections is a difference between effective and ineffective salespeople.

Sincere Objections

Trace to incompleteness, inaccuracy, or vagueness in the sales presentation. Prospects may not recognize the nature of their needs, or they may have doubts about the appropriateness of the product to fulfill those needs. Prospect may be confused in some respect, or may react unfavourably to the salesperon's personality. Except when personality conflict cannot be resolved (a real obstacle, not an objection), sincere objections are overcome by patience and thorough explanations.

Prospects raise insincere objections to discourage salespersons, to get rid of them, to test their competence, and as false excuses for not buying. When salespersons sense that an objection is insincere, they seek to regain the offensive as soon as possible. They do not permit an insincere objection to provoke an argument – one of the surest ways to lose a sale.

Some sales executives say that every objection, no matter how insincere, should be treated with the utmost courtesy. Others say that insincere objections should be ignored. The best defensive strategy often is the strong counterattack, and the salesperson should seek to regain the initiative as soon as he or she can gracefully do so.

Closing Sales

It is important to understand closing techniques and when it should be initiated .

The selling tactics followed affect the ease of closing the sale. Low-pressure sales are closed more easily than are high-pressure ones. In low-pressure sales, prospects feel that they are reaching the buying decisions themselves, and primarily through rational processes of thought, so there is no need for extra push just before the sales are consummated. In high-pressure sales, the main thrust is to the prospects' emotions, so salespersons attempt to propel prospects into buying decisions. Often, the prospect regains normal perspective as the sale nears its climax, and, if this happens, the salesperson needs unusually effective persuasion to close the sale.

Every salesperson approaches certain closings with apprehension. At closing time, either the salesperson sells the prospect an order or the prospect sells the salesperson on a "no sale". Closing time provides an opportunity to register

tangible proof of selling skill. Occasionally even the best salesperson must rely upon closing skill to make the sale.

Prospecting, if well done, puts the salesperson in the proper frame of mind for the close. The salesperson feels that a real service is being performed for the prospect, not that " a bill of goods is being sold." There is no doubt that the product is the best solution to the prospect's problems.

When the sales presentation is complete and clear, no difficulty is met in closing the sale. All obstacles to the sale and all objections have been removed, to the prospect's entire satisfaction. Basic agreement has been reached, and the prospect is ready to accept the proposal.

But even after an excellent presentation, and in spite of thorough prospecting, some prospects refrain from positive commitments. The natural tendency of many people is to let inertia guide their reactions – many are happy to leave things as they are, and salespersons leave empty-handed unless they jolt these prospect into buying. The skilled closer gives the extra push that tiggers a buying response. But failures to get an order result as much from poor prospecting and inept presentations as from ineffective closing.

When an attempted close fails, the salesperson should normally try another. The refusal does not necessarily imply an unwillingness to buy; it may indicate the prospect's need for additional information or for clarification of some point. Some executives recommend that sales personnel attempt as many as five closes before giving up. Early closing attempts should be so expressed that a refusal will not cut off the presentation. A salesperson judges the sincerity of a prospect's refusal, surrendering gracefully when it is clear that no sale will be made.

The salesperson first uses an indirect close, that is, attempts to get the order without actually asking for it

- The salesperson may ask the prospect to state a preference from among a limited number of choice (as to models, delivery dates, order size, or the like), so phrasing the question that all possible responses are in the salesperson's favor except for one: "None at all."
- Or the salesperson may summarize, emphasizing features that visibly impress the prospect, showing how the reasons for the purchase outweigh those opposed to it. Then the salesperson pauses for the prospect's response, which is expected to be, "Go ahead and write the order." Sometimes, the extra push may be a concession that makes the purchase sufficiently more attractive to make the sale. ·
- Or the salesperson may assume that the sale is made, write out the order, and hand it to the prospect for approval – if the prospect balks, the issue is clearer. Perhaps one last objection is voiced, but after it is answered, the sale is made.

When one or more attempts at an indirect close fail, the salesperson uses the **direct approach**. Few prospects respond negatively to a frank request for the order. In fact, many people, especially those who are themselves engaged in selling, do not buy unless the order is asked for outright.

10 Traits of Effective Salespeople

1. Ego strength: *a* healthy self-esteem that allows one to bounce back from rejection.
2. *A sense of urgency:* wanting to get it done now.
3. Ego drive: a combination of competitiveness and self esteem.
4. Assertiveness: the ability to be firm, lead the sales process, and get one's point across confidently.
5. *Willingness to take risk:* willing to innovate and take a chance.
6. *Sociable :* outgoing, friendly, talkative, and interested in others.
7. *Abstract reasoning:* ability to understand concepts and ideas.
8. *Skepticism:* a slight lack of trust and suspicion of others.
9. *Creativity:* the ability to think differently.
10. *Empathy:* the ability to place oneself in someone else's shoes.

Conclusion

In this lesson we discussed the the steps in prospecting. There are various ways to gather information about prospects. The objections are of different types and salespeople are trained to deal with them. Closing of sales can be direct or indirect.

Points to Ponder

Prospecting

- Formulating prospect definition
- Searching out potential accounts
- Qualifying prospects
- Relating company's product to prospects requirements

Objection

- Obstacles
- objections

Closing

- Indirect closing
- Direct closing

Questions

Q1. What is involved in the process of qualifying prospects?

Q2. How should a salesperson handle an excuse?

Q3. When should salesperson attempt to close the sale?

Q4. Describe the different types of closes?

Q5. What are the qualities of an effective sales person?

Notes -

LESSON 6
SALES FORECASTING-I

Learning Objectives

- What are qualitative and quantitative personal selling objectives
- To know about market potential, sales potential and sales forecast.
- There are different ways or forecasting

    Qualitative methods

    Quantitative methods

Types of Personal-Selling Objectives.

Let us see how objectives are set?

The qualitative personal-selling objectives are long term and concern the contributions management expects personal selling to make in achieving long-term company objectives. These objectives generally are carried over from one period's promotional program to the next. Depending upon company objectives and the promotional mix, personal selling may be assigned such qualitative objectives as

1. To do the entire selling job (as when there are no other elements in the promotional mix).
2. To "service" existing accounts (that is, to maintain contacts with present customers, take orders, and so forth).
3. To search out and obtain new customers.
4. To secure and maintain customers' cooperation in stocking and promoting the product line.
5. To keep customers informed on changes in the product line and other aspects of marketing strategy.
6. To assist customers in selling the product line (as through "missionary selling").
7. To provide technical advice and assistance to customers (as with complicated products and where products are especially designed to fit buyers specifications).
8. To assist with (or handle) the training of middlemen's sales personnel.
9. To provide advice and assistance to middlemen on management problems.
10. To collect and report market information of interest and use to company management.

The basic considerations in setting qualitative personal-selling objectives are decisions on sales policies and personal-selling strategies and their role in the total promotional program. After this role is defined, qualitative long-term personal-selling objectives are set. In turn, the qualitative personal-selling objectives become the major determinants of the quantitative personal-selling objectives.

The quantitative objectives assigned to personal selling are short term and are adjusted from one promotional period to another. The sales volume objective – the dollar or unit sales volume management sets as the target for the promotional period – is the key quantitative objective. All other quantitative personal-selling objectives derive from or are related to the sales volume objective. Thus, discussion here focuses upon the setting of sales volume objectives. Setting the sales volume objective influences the setting of other quantitative personal selling objectives, among them the following:

1. To capture and retain a certain market share.
2. To obtain sales volume in ways that contribute to profitability (for example, by selling the "optimum" mix of company products).
3. To obtain some number of new accounts of given types.
4. To keep personal-selling expenses within set limits.
5. To secure targeted percentages of certain accounts' business.

Some Important Terms

Before examining the planning and analytical work involved in setting sales volume objectives, it is important to define three terms: market potential, sales potential, and sales forecast. Some executives use these terms synonymously, but, as the following discussion indicates, there are good reasons for distinguishing among them.

Market Potential

A market potential is an estimate of the maximum possible sales opportunities present in a particular market segment and open to all sellers of a good or service during a stated future period. Thus, an estimate of the maximum number of low-priced pocket cameras that might be sold in San Mateo County, California, during the calendar year 1987 by all sellers competing for this market would represent the 1987 San Mateo County market potential for low-priced pocket cameras. A market potential indicates how much of a particular product can be sold to a particular market segment over some future period, assuming the application of appropriate marketing methods.

Sales Potential

A sales potential is an estimate of the maximum possible sales opportunities present in a particular market segment open to a specified company selling a good or service during a stated future period. To illustrate, and estimate of the number of low-priced pocket cameras that might be sold in San Mateo County, California, during the calendar year 1987 by the Eastman Kodak Company would be the 1987 San Mateo County sales potential for Eastman Kodak low-price pocket cameras. A sales potential represents sales opportunities available to a particular manufacturer, such as to Eastman Kodak Company, while a market potential indicates sales opportunities available to an entire industry.

Sales Forecast

A sales forecast is an estimate of sales, in dollars or physical units, in a future period under a particular marketing program and an assumed set of economic and other factors outside the unit for which the forecast is made. A sales forecast may be for a single product or for an entire product line. It may be for a manufacturer's entire marketing area, or for any subdivision of it. Such forecasts are short-term, or operating, sales forecasts rather than long-range sales forecasts, which are used for planning production capacity and for long-run financial planning. Long-range sales forecasts, although of interest, are so tentative that sales planners give them only passing attention. It is the short-term, or operating, sales forecast that it important to the sales executive. Keep in mind, then, that an operating sales forecast is a prediction of how much of a company's particular product (or product line) can be sold during a future period under a given marketing program and an assumed set of outside factors.

Analyzing Market Potential

Market Identification

The first step in analyzing a product's market potential is to identify its market. Market identification requires finding out

1. Who buys the product?
2. Who uses it?
3. Who are the prospective buyers and/or users?

Some companies find answers to these questions in their internal records, but most companies, especially those that use long marketing channels, must use field research to obtain meaningful answers. In consumer-goods marketing, buyers, users, and prospects are identified and classified according to such characteristics as age, sex, education, income, and social class. In industrial-goods marketing, buyers, users, and prospects are identified and classified by size of firm, geographical location, type of industry, and the like.

Market identification studies reveal the characteristics that differentiate the market segments making up the product's market potential. Frequently they uncover unexploited market segments whose patronage might be obtained through redirecting personal-selling effort or changing promotional strategy. Sometimes, market identification studies provide, as a side result, customer data on such factors as purchase frequency, searching time expended, unit of purchase, and seasonal buying habits. When assembled and analyzed, these data help in estimating market potential.

Market Motivation

The second step in analyzing market potential is to detect the reasons why customers buy the product and the reasons why potential customers might buy it. Market motivation studies answer twin questions: Why do people buy? Why don't people buy? The answers help not only in estimating market potential but assist the sales executive seeking to increase the effectiveness of promotional programs.

Motivation research techniques vary, but the most widely used are the projective techniques, in which respondents project themselves, their attitudes, interests, and opinions into interpretations of special materials presented by the researcher. Analysis of results by trained specialists lays bare what goes on in buyer's minds, including, importantly, the real reasons for buying or not buying the product. Most motivation studies are directed towards explaining the buying behavior of ultimate consumers rather than industrial users. Information from motivation studies helps not only in estimating a product's market potential but assists in deciding.

1. How best to present the product in sales talks.
2. The relative effectiveness of different selling appeals.
3. The relative appropriateness of various promotional methods.

Analysis of Market Potential

Having identified the potential buyers and their buying behavior, the third step is to analyze the market potential. Generally, market potential cannot be analyzed directly, so analysis makes use of market factors (a market factor is a market feature or characteristic related to the product's demand). For instance, the number of males reaching shaving age each year is one market factor influencing the demand for men's electric shavers. But not every male reaching shaving age is a prospective buyer of an electric shaver – some will be late in starting to shave, others will adopt other shaving methods, some will not have the money to buy a shaver or will prefer to use that money for something else, and still others will use borrowed shavers or, perhaps, will grow beards. Thus, using market factors for analyzing market potential is a two-step process:

1. Select the market factor(s) associated with the product's demand.
2. Eliminate those market segments that do not contain prospective buyers of the product.

Market Indexes

A market index is a numerical expression indicating the degree to which one or more market factors associated with a given product's demand is present in a given market segment – usually a given geographical market segment. Market indexes are expressed in relative terms, such as in percentages, rather than in absolute numbers. In analyzing the market for furniture, for example, a market index might contain three factors: population, effective buying income, and number of marriages. In the United States, the most widely used single-factor market indexes are population as a percentage of U.S. total and effective buying income as a percentage of U.S. total. Many companies refine these indexes further by breaking them down into greater detail: for example, the population index is divided into subindexes covering different age groups and the income index into subindexes for different income groups.

Other marketers construct their own market indexes, including different market factors and using different weighting systems. One producer of lighting fixtures includes data on new housing starts, and a maker of auto seat covers includes motor vehicle registrations. Other market factors frequently used in constructing consumer-goods market indexes are registrations of new automobiles, home ownership, marriage licenses issued, births, and deaths. Marketers of industrial products construct market indexes using such market factors as value added by manufacture, number of employees engaged in certain kinds of manufacturing, number of manufacturing establishments, person-hours worked, total value of shipments of particular items, and capital expenditures for new plant and equipment.

Sales Potential and Sales Forecasting

Sales potentials, are defined earlier, are quantitative estimates of the maximum possible sales opportunities present in particular market segments open to a specified company selling a good or service during a stated future period. They are derived from market potentials after analyses of historical market share relationships and adjustments for changes in companies' and competitors' selling strategies and practices.

A firm's sales potential and its sales forecast are not usually identical – in most instances, the sales potential is larger than the sales forecast. There are several reasons for this:

" Some companies do not have sufficient production capacity to capitalize on the full sales potential;

" Other firms have not yet developed distributive networks capable of reaching every potential customer;

" Others do not attempt to realize their total sales potentials because of limited financial resources; and

" Still others, being more profit oriented than sales oriented, seek to maximize profitable sales and not possible sales.

The estimate for sales potential indicates how much a company could sell if it had all the necessary resources and desired to use them. The sales forecast is a related but different estimate – it indicates how much a company with a given amount of resources can sell if it implements a particular marketing program.

Sales Forecasting Methods

A sales forecasting method is a procedure for estimating how much of a given product (or product line) can be sold if a given marketing program is implemented. No sales forecasting method is foolproof – each is subject to some error. Some methods are unsophisticated, such as the jury of executive opinion or the poll of sales force opinion. Others involve the application of sophisticated statistical techniques, such as regression analysis or econometric model building and simulation. Two sales forecasting methods may be either sophisticated or unsophisticated, depending upon how they are used – the projection of past sales and the survey of customers' buying plans.

Well-managed companies do not rely upon a single sales forecasting method but use several. If different methods produce roughly the same sales forecasts, then more confidence is placed in the results. But if different methods produce greatly different sales forecasts, then the sales situation merits further study.

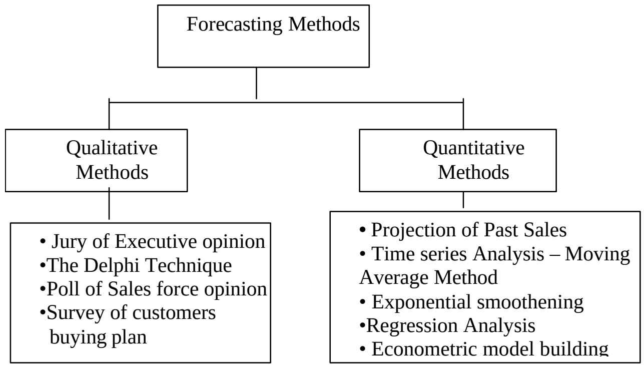
The forecasting methods can be broadly classified as qualitative and quantitative .

Qualitative methods are:

- Jury of Executive opinion
- The Delphi Technique
- Poll of Sales force opinion
- Survey of customers buying plan

Quantitave Methods

- Projection of Past Sales
- Time series Analysis – Moving Average Method
- Exponential smoothening
- Regression Analysis
- Econometric model building and simulation



Let us study Qualitative Methods in this lesson .Quantitative Methods are discussed in Next Lesson

Qualitative Forecasting Methods

Jury of Executive Opinion

There are two steps in this method:

1. high-ranking executives estimate probable sales, and
2. an average estimate is calculated.

The assumption is that the executives are well informed about the industry outlook and the company's market position, capabilities, and marketing program. All should support their estimates with factual material and explain their rationales.

Companies using the jury of executive opinion method do so for one or more of four reasons:

1. This is a quick and easy way to turn out a forecast.
2. This is a way to pool the experience and judgment of well-informed people.
3. This may be the only feasible approach if the company is so young that it has not yet accumulated the experience to use other forecasting methods.
4. This method may be used when adequate sales and market statistics are missing, or when these figures have not yet been put into the form required for more sophisticated forecasting methods.

The jury of executive opinion method has weakness.

- Its findings are based primarily on opinion, and factual evidence to support the forecast is often sketchy.
- This approach adds to the work load of key executives, requiring them to spend time that they would otherwise devote to their areas of main responsibility.
- And a forecast made by this method is difficult to break down into estimates of probable sales by products, by time intervals, by markets, by customers, and so on.

The Delphi Technique

Several years ago researchers at the he Rand Corporation developed a technique for predicting the future that is called the Delphi technique. This is a version of the jury of executive opinion method in which those giving opinions are selected for their "expertise". The panel of experts responds to a sequence of questionnaires in which the responses to one questionnaire are used to produce the next questionnaire. Thus, information available to some and not to other experts is disseminated to all, enabling all to base their final forecasts on "all available" information. Some contend that "this technique eliminates the bandwagon effect of majority opinion."

Poll of Sales Force Opinion

In the poll of sales force opinion method, often tagged "the grass-roots approach," individual sales personnel forecast sales for their territories; then individual forecasts are combined and modified, as management thinks necessary, to form the company sales forecast.

This approach appeals to practical sales managers because :

- forecasting responsibility is assigned to those who produce the results.
- Furthermore, there is merit in utilizing the specialized knowledge of those in closet touch with market conditions. Because the salespeople help to develop the forecast, they should have greater confidence in quotas based upon it.
- Another attractive feature is that forecasts developed by this method are easy to break down according to products, territories, customers, middlemen, and sales force.

But the poll of sales force opinion approach has weaknesses.

- Not generally trained to do forecasting, and influenced by current business conditions in their territories, salespersons tend to be overly optimistic or overly pessimistic about sales prospects.
- They are too near the trees to see the forest — they often are unaware of broad changes taking place in the economy and of trends in business conditions outside their own territories.
- Furthermore, if the "forecasts" of the sales staff are used in setting quotas, some sales personnel deliberately underestimate so that quotas are reached more easily.
- To some extent, the weakness of this method can be overcome through training the sales force in forecasting techniques, by orienting them to factors influencing company sales, and by adjusting for consistent biases in individual salespersons' forecasts.

For most companies, however, implementing corrective actions is an endless task, because sales personnel turnover is constantly going on, and new staff members (whose biases are unknown at the start) submit their forecasts along with those of veteran sales personnel with known biases. In short, this method is based to such a large extent on judgment that it is not appropriate for most companies to use it as the only forecasting method. The poll of sales force opinion serves best as a method of getting an alternative estimate for use as a check on a sales forecast obtained through some other approach.

Survey of Customers' Buying Plans

What more sensible way to forecast than to ask customers about their future buying plans? Industrial marketers use this approach more than consumer-goods marketers, because it is easiest to use where the potential market consists of small numbers of customers and prospects, substantial sales are made to individual accounts, the manufacturer sells direct to users, and customers are concentrated in a few geographical areas (all more typical of industrial than consumer marketing). In such instances, it is relatively inexpensive to survey a sample of customers and prospects to obtain their estimated requirements for the product, and to project the results to obtain a sales forecast. Survey results, however, need tempering by management' specialized knowledge and by contemplated changes in marketing programs. Few companies base forecasts exclusively on a survey of customers' buying plans. The main reason lies in the inherent assumptions that customers know what they are going to do and that buyers' plans, once made, will not change.

Even though the survey of customers' buying plans is generally an unsophisticated forecasting method, it can be rather sophisticated – that is, if it is a true survey (in the marketing research sense) and if the selection of respondents is by probability sampling. However, since it gathers opinions rather than measures actions, substantial nonsampling error is present. Respondents do not always have well-formulated buying plans, and, even if they do, they are not always willing to relate them. In practice, most companies using this approach appear to pay little attention to the composition of the sample and devote minimum effort to measuring sampling and nonsampling errors.

Conclusion

In this lesson we studied the about the personal selling objectives which can be qualitative and quantitative. Then we discussed about market potential which is sales opportunities present for all sellers of a good or service. Sales potential which is the maximum sales opportunity for a company selling a good or service. We have also discussed the qualitative forecasting methods.

Points to Ponder

Qualitative personal selling objectives

- To do the entire selling job (as when there are no other elements in the promotional mix).
- To "service" existing accounts (that is, to maintain contacts with present customers, take orders, and so forth).
- To search out and obtain new customers.
- To secure and maintain customers' cooperation in stocking and promoting the product line.
- To keep customers informed on changes in the product line and other aspects of marketing strategy.
- To assist customers in selling the product line (as through "missionary selling").
- To provide technical advice and assistance to customers (as with complicated products and where products are especially designed to fit buyers specifications).
- To assist with (or handle) the training of middlemen's sales personnel.
- To provide advice and assistance to middlemen on management problems.
- To collect and report market information of interest and use to company management.

•**Qualitative methods are:**
•• Jury of Executive opinion
••The Delphi Technique
••Poll of Sales force opinion
••Survey of customers buying plan

ANALYZING MARKET POTENTIAL

- **Market identification**
- **Market Motivation**
- **Analysis of Market Potential**

•**Qualitative methods are:**
•• Jury of Executive opinion
••The Delphi Technique
••Poll of Sales force opinion
••Survey of customers buying plan

Questions

Q1. What is the difference between sales potential and sales forecast?

Q2. Why is jury of executive opinion method of forecasting so popular?

Q3. What is Delphi method of forecasting?

Q4. What is poll of sales force opinion ?

Q5. What are the weaknesses of poll of sales force opinion method?

LESSON 7
SALES FORECASTING-II

Learning Objectives:

To learn about the quantitative sales forecasting methods

- Projection of Past Sales
- Time-series analysis
- Moving Average method
- Exponential smoothing
- Regression Analysis
- Econometric Model Building and Simulation

Quantitative Forecasting Methods

In This lesson we will learn about Quantitative forecasting Methods. Let us discuss each one by one.

Projection of Past Sales

The projection of past sales method of sales forecasting takes a variety to forms. The simplest is to set the sales forecast for the coming year at the same figure as the current year's actual sales, or the forecast may be made by adding a set percentage to last year's sales, or to a moving average of the sales figure for several past years. For instance, if it is assumed that there will be the same percentage sales increase next year as this year, the fore-caster might utilize a naïve model projection such as

$$\text{next year's sales} = \text{this year's sales} \times \frac{\text{this year's sales}}{\text{last year's sales}}$$

This year's sales are inevitably related to last year's. Similarly, next year's sales are related to this year's and to those of all preceding years.

Projecting present sales levels is a simple and inexpensive forecasting method and may be appropriate for companies in more or less stable or "mature" industries — it is rare in such industries for a company's sales to vary more than 15 percent plus or minus from the preceding year.

Time-Series Analysis

Not greatly different in principle from the simple projection of past sales in time-series analysis, a statistical procedure for studying historical sales data. This procedure involves isolating and measuring four chief types of sales variations: long-term trends, cyclical changes, seasonal variations, and irregular fluctuations. Then a mathematical model describing the past behavior of the series is selected, assumed values for each type of sales variation are inserted, and the sales forecast is 'cranked out."

For most companies, time-series analysis finds practical application mainly in making long-range forecasts. Predictions on a year-to-year basis, such as are necessary for an operating sales forecast, generally are little more than approximations. Only where sales patterns are clearly defined and relatively stable from year to year is time-series analysis appropriately used for short-term operating sales forecasts.

One drawback of time-series analysis is that it is difficult to "call the turns". Trend and cycle analysis helps in explaining why a trend, once under way, continues, but predicting the turns often is more important. When turns for the better are called correctly, management can capitalize upon sales opportunities; when turns for the worst are called correctly, management can cut losses.

Moving Average Method

Are used to allow for market place factor changing at different rates and at different times . With this method both distant past and distant future have little value in forecasting . The moving average is a technique that attempts to "smooth out "

The different rates of change for the immediate past , usually past three to five years. The forecast is the mean of these past periods and is only valid for one period in future. The forecast is updated by eliminating the data for the earliest period and adding the most recent data.

Take for Example in the following table 7.1 .The sales volumes for periods 3 , 4, 5 are totaled and divided by 3 to derive the mean of 366.6 which is the period 6 forecast.If the company operates in the stable environment a short 2 or 3 years average will be most useful . For a firm in an industry with cyclical variation , the moving average should use data equal to length of cycle.

Table 7.1

Period	Sales volume	Sales for three Year period	Three year moving Average
1	200		
2	250		
3	300	750	
4	350	900	300
5	450	1100 / 3 =	366.6
6	?		

Period 6 forecast = 366.6

Exponential smoothing

One statistical technique for short-range sales forecasting, exponential smoothing, is a type of moving average that represents a weighted sum of all past numbers in a time series, with the heaviest weight placed on the most recent data. To illustrate, consider this simple but widely used form of exponential smoothing —— a weighted average of this year's sales is combined with the forecast of this year's sales to arrive at the forecast for next year's sales. The forecasting equation, in other words, is

$$\text{next year's sales} = a\,(\text{this year's sales}) + (1-a)(\text{this year's forecast})$$

The a in the equation is called the "smoothing constant" and is set between 0.0 and 1.0. If, for example, actual sales for this year came to 320 units of product, the sales forecast for this year was 350 units, and the smoothing constant was 0.3, the forecast for next year's sales is

$$(0.30)(320) + (0.7)(350) = 341 \text{ units of products}$$

Determining the value of a is the main problem. If the series of sales data changes slowly, a should be small to retain the effect of earlier observations. If the series changes rapidly, a should be large so that the forecasts respond to these changes. In practice, a is estimated by trying several values and making retrospective tests of the associated forecast error is then chosen for future smoothing.

Evaluation of past sales projection methods. The key limitation of all past sales projection methods lies in the assumption that past sales history is the sole factor influencing future sales. No allowance is made for significant changes made by the company in its marketing program or by its competitors in theirs. Nor is allowance made for sharp and rapid upswings or downturns in business activity, nor is it usual to correct for poor sales performance extending over previous periods.

The accuracy of the forecast arrived at through projecting past sales depends largely upon how close the company is to the market saturation point. If the market is nearly 100 percent saturated, some argue that it is defensible to predict sales by applying certain percentage figure to "cumulative past sales of the product still in the hands of users" to determine annual replacement demand. However, most often the company whose product has achieved nearly 100 percent market saturation finds, since most companies of this sort market durables or semi durables, that its prospective customers can postpone or accelerate their purchases to a considerable degree.

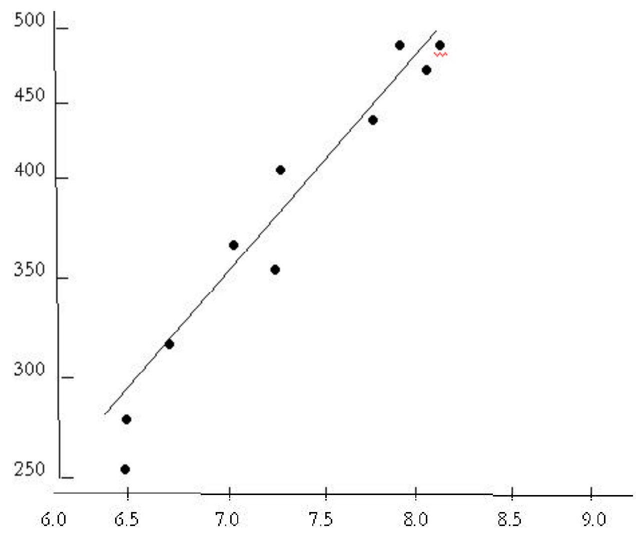
Past sales projection methods are most appropriately used for obtaining "check" forecasts against which forecasts secured through other means are compared. Most companies make some use of past sales projections in their sales forecasting procedures. The availability of numerous computer programs for time-series analysis and exponential smoothing has accelerated this practice.

Regression Analysis

Regression analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other variables. It involves fitting an equation to explain sales fluctuations in terms of related and presumably causal variables, substituting for these variables values considered likely during the period to be forecasted, and solving for sales. In other words, there are three major steps in forecasting sales through regression analysis:

1. Identify variables causally related to company sales.
2. Determine or estimate the values of these variables related to sales.
3. Derive the sales forecast from these estimates.

Computers make it easy to use regression analysis for sales forecasting. One tyre manufacturer, for instance, used simple regression analysis to determine the association between economic variables and its own sales. This company discovered that a positive correlation existed between gross national product and its own sales, but the correlation coefficient was too low to use in forecasting company sales. The same was true of personal disposable income and retail sales; their correlation coefficients with company sales were too low to use in forecasting company sales.



Automobile sales (millions of units)

The tyre manufacturer measured the relationship between its own dollar sales and unit sales of automobiles and found a much higher degree of correlation . The dots on this scatter diagram cluster closely around the straight line that is the result of the mathematical computation between the two series of data. If the correlation had been perfect, all the dots would have fallen on the line.

Where sales are influenced by two or more independent variables acting together multiple regression techniques are used.

Evaluation of regression analysis for sales forecasting. If high coefficients of correlation exist between company sales and independent variables, the forecasting problem is simplified, especially if the variables "lead" company sales. The probable course of sales may then be charted, and the forecaster can concentrate on factors that might cause deviations. But it is necessary to examine other circumstances that might upset past relationships. A forecast made through regression analysis assumes that past relations will continue. A "lead-lag" association in which deviations regularly occur in related independent variable(s) prior to a change in company sales is a near-ideal situation, but it rarely holds except over short periods. Lead-lag relationships are common, but associations between the lead variables and sales in which the intervening time intervals remain stable are uncommon. Periods not only contract or expand erratically; they vary greatly during different phases of the business cycle.

If close associations exist between company sales and a reliable barometer, estimates are improved by experts' predictions of probable changes in the barometer. However, one danger in using regression analysis is that forecasters may put too much faith in the statistical output. They may abandon independent appraisals of future events because of a statistically developed forecast. It is wrong to place blind faith in any forecasting method. It is wise to check results with those of other forecasts.

Econometric Model Building and Simulation

Econometric model building and simulation is attractive as a sales forecasting method for companies marketing durable goods. This approach uses an equation or system of equations to represent a set of relationships among sales and different demand-determining independent variables. Then, by "plugging in" values (or estimates) for each independent variable (that is, by "simulating" the total situation), sales are forecast. An econometric model (unlike a regression model) is based upon an *underlying theory* about relationships among a set of variables, and parameters are estimated by statistical analysis of past data. An econometric sales forecasting model is an abstraction of a real-world situation, expressed in equation form and used to predict sales. For example, the sales equation for a durable good can be written.

$$S = R + N$$

Where

S = total sales

R = replacement demand (purchases made to replace product units going out of use, as measured by the scrappage of old units)

N = new-owner demand (purchases made not to replace existing product units, but to add to the total stock of the product in users' possession)

Total sales of a durable good, in other words, consist of purchases made to replace units that have been scrapped and purchases by new owners. Thus, a family that has a five-year-old machine trades it in to a dealer as part payment for a new machine and becomes part of the replacement demand (although only effectively so when the five-year-old machine, perhaps passing through several families' hands in the process, finally comes to be owned by a family that goes ahead and consigns its even-older machine to the scrap heap).

Replacement demand is measured by the scrappage of old units of products, that it, by the percentage of the total stock of the product in users' hands that is taken out of service through consignment to the trash pile, by sale to a junk dealer, or merely by being stowed away and never used again. Replacement demand in any one year does not include demand originating from the family that had a five-year-old machine that it traded to a dealer for a new machine, with the dealer reselling the old machine to another family who buys it second-hand. Only when a particular machine goes completely out of service is it regarded as scrapped, and, at that time (through a chain of purchases and trade-ins), some family becomes a part of replacement demand. Econometricians estimate replacement demand by using life expectancy of survival tables, which are similar to the life (or mortality) tables used by life insurance actuaries. An example is shown in Figure 7.2

If some durable good has a maximum service life of eleven years and 10,000 units of the good enter service in some year, the table indicates that five years later, 8,621 will probably still be in service, and ten years later, 54. For this batch of 10,000 products units, scrappage is 1,035 in the fifth year (that is, 1,379-344, the difference between the accumulated total scrappage at the close of the fifth and fourth years, respectively). In the fifth year, then, 1,035 replacement sales trace back to the batch of 10,000 product units that entered service five years before.

New-owner demand is the net addition to users' stocks of the product that occurs during a given period. For instance, if 2,000,000 units of some appliance were in service at the start of a period and 2,500,000 at the end, new-owner demand was 500,000 during the period. Forecasting the number of sales to new owners involves treating the stock of the product in the hands of users as a "population" exhibiting "birth" and "death" characteristics, that is, thinking of it as being analogous to a human population.

Constructing this sort of econometric model requires going through three steps. First, study independent variables affecting

Figure 7.2 Durable-Goods Survival Coefficients (Maximum Service

Year	Survival/Coefficient
1.	0000
0.	9995
0.	9946
0.	9656
0.	8621
0.	6406
0.	3594
0.	1379
0.	0344
0.	0054
0.	0000

each demand category (replacement and new owner) and choose for correlation analysis those that bear some logical relationship to sales (the dependent variable). Second, detect that combination of independent variables that correlates best with sales. Third, choose a suitable mathematical expression to show the quantitative relationships among the independent variable and sales, the dependent variables. This expression becomes the econometric model.

The procedure for building econometric models is simple, but finished models can take on formidable appearances. Consider, for example, this econometric model for forecasting sales of washing machines.

$$S_{tc} = Y_t - y_t + Y_t \left\{ Ht \left[(0.03 - 0.0157) \frac{\left((I_t + 3Ct)/P1\right)}{\left(10^{0.01818t - 33.1143}\right)} \right] - 0.0000283Y_1 \right\}$$

where

S_{tc} = calculated value for forecasted sales of washing machines during some time period

Y_t = level of consumers' stock that would occur in the following period (as of January 1) if no washing machines were sold and scrappage rates

y_t = level of consumers' stock that would occur in the following

period (as of January 1) if no washing machines were sold and scrappage rates remained the same

H_t = number of wired (i.e., electrified) dwelling units, in millions

I_t = disposable personal income

C_t = net credit extended (excluding credit extended for automobiles)

P_t = price index for house furnishings

$10^{0.01818t - 33.1143}$ = trend of real purchasing power over time

$I_t + 3Ct/Pt$ = real purchasing power

Thus, new owner demand in this model is represented by $Y_t - y_t$, determined by applying appropriated survival coefficients to previous years' sales of washing machine and estimating consumers' total stocks of washing machines in each year. Replacement demand is represented by the other *symbol*s in the equation and takes into account the number of wired dwelling units (washing machines are not sold to people who live in homes with no electricity) real purchasing power (disposable personal income plus credit availability divided by a price index), and real purchasing power adjusted for the historical trend. Regression analysis was used to derive the numerical values in this model.

Econometric model building seems a nearly ideal way to forecast sales. Not only does it consider the interaction of independent variables that bear logical and measurable relationships to sales, it uses regression analysis techniques to quantify these relationships. Econometric models, however, are best used to forecast industry sales not the sales of individual companies. This is because the independent variables affecting an individual company's sales are more numerous and more difficult to measure than are those determining the sales of an entire industry. Many companies use an econometric model to forecast industry sales, and then apply an estimate of the company's share-of the-market percentage to the industry forecast to arrive at a first approximation for the company's forecasted sales.

Converting Industry Forecast to Company Sales Forecast

Many companies forecast both their own sales and sales of the industry. Of those using multimethod forecasting procedures, nearly all – at one or more stages – provide for the making of an industry sales forecast. In fact, of the six sales forecasting methods discussed in this chapter, only in two – the poll of sales force opinion and unsophisticated forms of projecting past sales – is to normal to skip the industry sales forecast and forecast company sales directly. The general practice is to forecast industry sales early in the procedure and from it derive a company sales forecast for use as a check against forecasts arrived at through other methods.

Deriving a company sales forecast from an industry sales forecast requires an appraisal of company strengths and weaknesses (as well as marketing programs) against those of competitors. The result is an estimate of expected market share that (when applied to the industry sales forecast) results in a forecast of company sales. The poll of sales forece opinion method leaves this appraisal up to the sales personnel – they focus on estimating how much the company can sell, not on how much the industry can sell. Unsophisticated forms of the past sales projection method implicitly assume that no changes will occur in the company's strengths and weaknesses not in its marketing programs vis-a-vis those of its competitors. In the other four forecasting methods considered in this chapter, management makes this appraisal when it determines the company's probable market share percentage. Moreover, although some companies check such appraisals with sales personnel, in most the main appraisal of competitive position is made by executives better informed on the overall sales outlook than any sales-person can be.

Forecasting a company's market share varies in complexity from one industry to another. In the steel industry, the number of competitors is small and market share is stable, so determining a given company's market share is a simple task – a matter of projection past trends and adjusting for anticipated changes in the company's relative strengths and weaknesses. But in the women's clothing industry, the number of competitors is large and market shares fluctuate widely, so determination of market share is difficult. The ability to evaluate a clothing style's salability is a key element in forecasting, and this requires both thorough knowledge of market trends and keen judgment. Most companies operate in industries that lie somewhere between these two extremes, with market shares neither as stable as in steel nor as volatile as in women's apparel. Forecasters in most companies need information on competitors' plans to launch new and improved products, advertising and selling plans, pricing strategies, and so on. When forecasters evaluate this information in relation to their own company's proposed marketing and selling plans, they are in a position to exercise informed judgment in predicting the company's probable market share. If, for example, a forecaster knows that a major competitor plans a substantial price cut on a product that many buyers buy mainly on the basis of price, it will be necessary to lower the estimate of the company's market share unless management is willing to match the price cut. Forecasting a company's market share is a matter both of examining past trends and of appraising impending changes in competitive relationships.

Points to Ponder

Quantitave Methods
- Projection of Past Sales
- Time series Analysis – Moving Average Method
- Exponential smoothining
- Regression Analysis
- Econometric model building ans simulation

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Questions

Q1. Describe advantages of using Regression Techniques?

Q2. What is Time Series analysis?

Q3. Using the information below develop a sales forecast for the next year for this firm using moving average method , Projection of past sales method. Do you think these methods should give you the same estimate? Why or Why not?]

ABC Corp.

Year	Sales
1995	7,50,000
1996	8,25,000
1997	8,95,000
1998	9,75,000
1999	10,25,000
2000	11,00,000

Notes -

LESSON 8
FUNCTIONS OF SALESPERSON

Learning Objectives:

- To learn about the functions of sales management
- Functions of The Sales Executive
- Qualities of Effective Sales Executives
- Relations With Managers of Other Marketing Activities

The job of a sales people involves lot of creativity . Let us see what makes an effective sales executive.

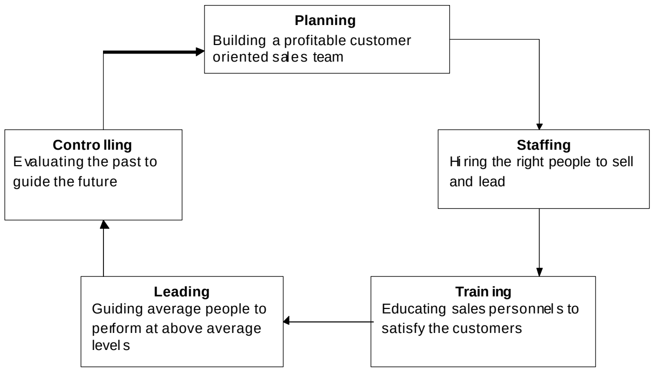
The Effective Sales Executive

The sales executive's job, like those of other line executives, is to make deci-sions and to see to it that others carry them out. However in marked contrast to the jobs of other marketing executives, the job of the sales executive is more action oriented and less planning oriented. Not that sales executive are uncon-cerned about planning, because they are. But their plans cover rather short periods and concern near-term personal-selling objectives and how to at-tain them. It is not stretching things very much to say that the main concern of marketing manage-ment is the "future" and the main concern of sales management is the "present"-the "here and now." Ultimately, all marketing plans call for action in their implementation, and sales management's plans typically are near to the action point.

What qualifications must sales executives have to make decisions? They re-quire a base of experiential and other knowledge, much of which may not be very explicit; this base provides a "feel" for problems and possible solutions. They need keen awareness of company and sales department goals-they must recognize the key features distinguishing the sort of company that top manage-ment is trying to build, and they must visualize the nature and type of contribu-tions the sales department can make toward realizing that future "company im-age." They need the ability to conceptualize problem situations in areas where they have the main decision-making responsibility and in those where they con-tribute to decisions that have implications in other marketing areas and/or in other parts of the business.

The decisions that the sales executives are involved in may affect only the sales department, or they may have significant implica-tions elsewhere in the Or-ganization. Sales executives, in performing their jobs, must know how to analyze information, how to combine its significance with their own experiential knowl-edge and judgment (and their willingness to accept a certain amount of risk), how to apply imagination in searching for alternative solutions to problems, how to predict the likely outcomes of different -alternatives, and how to choose that alternative with the highest payoff.

Sales Management Functions



Nature of Sales Management Positions

The requirements of the sales executive's job vary from company to company and from position to position within companies. However, certain responsibili-ties are typically assigned to the same types of executives in different companies. It is possible, therefore, to generalize about the activities and responsibilities of sales managers, district sales managers, product managers, and other sales or marketing executives. Some companies have formulated concise statements of duties associated with various positions, known as job or position descriptions. Typical job descriptions for the jobs of sales manager and district sales manager follow.

Position Guide-Sales Manager

Reporting relationship

The sales manager reports to the vice-president of marketing.

Job Objective

The primary objective is to secure maximum volume of dollar sales through the effective development and execution of sales' programs and sales policies for all products sold by the division.

Duties and Responsibilities

In working toward achievement of the primary job objective, the sales manager is expected to be concerned with

I. Sales Program

The sales manager takes the initiative in establishing short- and long-range sales goals of the division and, in collaboration with other marketing executives, sets sales, profit, growth, market share, and other goals.

The sales manager arranges for the development of detailed sales programs designed to improve competitive positions, reduce selling and other distribution expenses, and reach established sales goals.

The sales manager reviews and approves sales policies, sales strate-gies, and pricing policies (to the extent that they impact upon sales goals) for all products to ensure that short-term operations are in accord with long-term profitability and do not jeopardize other phases of the company's operations.

2. Organization

The sales manager establishes an effective plan of organi-zation, and methods of controlling the activities of members of the sales organization, that will provide sufficient time for carrying out the full line of departmental responsibilities.

The sales manager provides leadership both to immediate subor-dinates and all levels of the sales organization in establishing a sound basis for each individual's self-development, and in making certain that rewards are in line with responsibilities and performance.

3. Sales Force Management

The sales manager identifies promising sources for the recruitment of new sales personnel and sets standards for selec-tion of the most promising recruits.

The sales manager provides for the training of new personnel so as to achieve high-level performance in the shortest possible time. At the same time the sales manager provides for the training of veteran sales personnel, so as to improve their performance levels and to prepare them for possible promotion. The sales manager sees to it that there is an adequate supply of sales executive talent for replacements up through and including the sales manager's own position.

The sales manager ensures that sales personnel are properly moti-vated, so as to achieve optimum sales performance.

The sales manager establishes a system of sales supervision that controls waste and inefficiency and points sales efforts into the most Profitable channels.

4. Internal and External Relations

The sales manager develops effective work-ing relations' with other department heads and the general manager so that significant sales developments can. be translated into appropriate courses of action.

The sales manager develops and maintains relationships with key accounts that provide maximum long-term participation in their availa-ble business.

The sales manager develops and maintains effective working rela-tionships with sales, training, and other key personnel in the employ of customers to ensure that cooperation is beneficial to both parties.

5. Communications

The sales manager keeps the vice-president of market-ing informed on sales results and future plans of operation.

The sales manager establishes a system of communications with other sales personnel that keeps them informed of overall departmental sales objectives, results, and problems and keeps the sales manager in-formed of their needs and problems.

6. Control

The sales manager consults with the production manager so that production rates and inventories are geared as closely as possible to actual sales needs.

The sales manager reviews and approves sales and expense budgets and evaluates periodically the performance of all sales activities in relation to budget and sales goals and takes such corrective actions as are required.

The sales manager delegates authority and develops control records and performance standards to permit a proper balance of time spent on the various activities in this job description.

Performance Criteria.

The sales manager's performance is considered satisfactory when The department's dollar and unit sales are equal to or exceed the quantities budgeted.

The profit contribution of the sales departrnent is in line with plan.

The details of sales plans are in writing and acceptable to marketing management.

The turnover rate of sales personnel is maintained at a level regarded as satisfactory by marketing management.

Functions of the Sales Executive

Many sales executives get promoted into their positions because of their previ-ous performances as salespersons. In some companies, outstanding salespersons have an inside track when sales executives' jobs are being filled. The assumption is that outstanding salespersons will be outstanding sales executives. Nothing could be farther from the truth. The sales executive's job demands administra-tive skills much beyond those required of salespeople. Personal-selling experi-ence is not unimportant, as sales executives manage people who do personal selling. But .personal-selling experience and outstanding personal-selling perfor-mance are two different things-most companies can recount instances where an outstanding salesperson failed in a sales executive's job.

Basically, the sales executive has two sets of functions: operating and plan-ning.

The operating functions include sales force management, handling rela-tionships with personnel in other company departments and with the trade (middlemen and/or customers), communicating and coordinating with other marketing executives, and reporting to some superior executive (such as the marketing vice-president). In addition, in some companies and fairly commonly in lower-level sales executive positions, the sales executive sells some accounts personally (to keep a "hand in" and to keep abreast of current selling problems and conditions).

The sales executive's **planning functions** include those connected with the sales program, the sales organization, and its control. The sales executive is re-sponsible for setting personal-selling goals, for developing sales programs de-signed to achieve these goals, for formulating sales policies and personal-selling strategies, and for putting together plans for their implementation. Sales programs are put into effect through the sales organization, and the sales executive is responsible for designing and shaping the sales organization, for staffing it, for developing the skills of those who are part of it, and for providing leadership to it. Achievement of sales departmental goals require_ controls over selling ac-tivities, sales volume, selling expenses, and the like. The sales executive is re-sponsible for these and related control activities.

The relative emphasis that sales executives give to the operating and plan-ning functions varies with (1) the type of products, (2) the-size of company, and (3) the type of supervisory organiza-tion. Customarily, sales executives at all organizational levels devote more time and attention to sales force management than they do to any other single activity.

The significance attached to operating and planning functions varies with the product.

➔ If the product is a consumer good, sales executives attach the great-est importance to planning functions: development of sales programs, coordination of personal selling with advertis-ing, and building and maintaining relationships with dealers and customers.

➔ If the product is an industrial good, sales executives attach the greatest importance to the operating functions -managing and directing the sales force, making calls with salespeople, and sell-ing personal accounts. Consumer-goods sales managers, in general, spend more time on planning and less on operating than do their counterparts in industrial- goods companies.

The amount of the sales executive's time devoted to planning and operat-ing functions is influenced by the size of the sales organization. Sales executives in small companies spend less time on planning and more on operating. As the size of the company increases, the sales executive devotes more time to planning and less to operating.

Exerting important influences on the way sales executives distribute their time and effort, too, is the type of supervisory organization. When the sales exec-utive supervises the field sales force directly, he or she spends most of the time on operating functions. When the sales executive supervises the field sales force through subordinate sales executives, more attention is devoted to planning and less to operating. Sales executives who have high-caliber subordinates generally are more willing to delegate most of the performance of the operating functions to them and, consequently, have more time left for planning.

Qualities of Effective Sales Executives

What qualities should sales executives possess? It is difficult to list _'success" qualifications. Sales executives' jobs cover a gamut of products, markets, and marketing channels, and there would seem to be few, if any, qualifications in common. Nevertheless, five qualities (or abilities) common to effective sales exec-utives, whatever their fields, can be identified:

1. **Ability to define the position's exact functions and duties in relation to the goals the company should expect to attain.** Sales executives calculate what is en-tailed in their responsibilities. Whether or not the company provides them with a job description, they draw up their own descriptions consis-tent with the responsibilities assigned by higher management. Revisions are necessary whenever changes occur in the assigned responsibilities or in company goals.
2. **Ability to select and train capable subordinates and willingness to delegate sufficient authority to enable them to carry out assigned tasks with minimum supervisio**n. Ability to delegate authority is a must. Effective executives se-lect high-caliber subordinates and provide them with authority to make decisions. Within existing policy limits, decisions are made by subordi-nates; when an exception falling outside these limits occurs, the supe-rior decides. The more capable the subordinates, the wider policy limits can be and the more the superior's time is freed for planning.
3. **Ability to utilize time efficiently**. The time of sales executives is valuable, and they budget it and use it carefully. They allocate working time to tasks yielding the greatest return. They arrive at an optimum division be-tween office work and field supervision. Even the use of off-duty hours is important. Excessive work time and too little leisure reduce effi-ciency. Successful sales executives balance such leisure-time activities as community service and professional meetings against personal social ac-tivities, recreation, and self-improvement.
4. **Ability to allocate sufficient time for thinking and planning**. Able administra-tors make their contributions through thinking and planning. They know how and are willing to think. They recognize that reviewing past performances is a prerequisite to planning. They strive to gain new in-sight that will bring problems into better focus. Effective sales executives shield themselves from routine tasks and interruptions. Failing this, they retreat to Shangri-Las where surroundings are conducive to think-ing and planning.
5. **Ability to exercise skilled leadership**. Competent sales executives develop and improve their skills in dealing with people. Although they rely to a cer-tain extent on an intuitive grasp of leadership skills, they depend far more on careful study of motivational factors and shrewd analysis of the ever-changing patterns of unsatisfied needs among those with whom they work. Skilled leadership is important in dealing with subordinates and with everyone else.

Relations with Top Management

Effective sales executives are well above average in initiative and personal drive. Realizing the sales executive's potential, however, depends largely upon rela-tions with top management. Sales executives should want to get ahead, for per-sonal goals are as vital to them as the objectives they set for the sales department, but if they are to achieve these goals, not only must they know-where they are going, but top management must be kept abreast of their progress.

Effective sales executives plan and implement their own self-development programs, and setting definite career goals is essential. They harmonize their own goals with those of the organization, this being important for maximum progress of individual and company alike. Whenever the sales executive and the company cease to move toward mutually compatible goals, friction causes both to fall short. When this happens, either the two sets of goals must be reconciled, or the executive should leave the firm. Sometimes, sales executives unilaterally reconcile such goal conflicts (usually by adjusting personal goals to fit those of the organization). More often, they reconcile them through interaction with company top management.

Effective sales executives are highly qualified as problem solvers and deci-sion makers.. Consequently, sales executives guard against taking too many of their problems to top management. Asking for help in deciding problems is ask-ing for closer supervision (and less authority). Competent sales executives do not require a close watch over their activities.

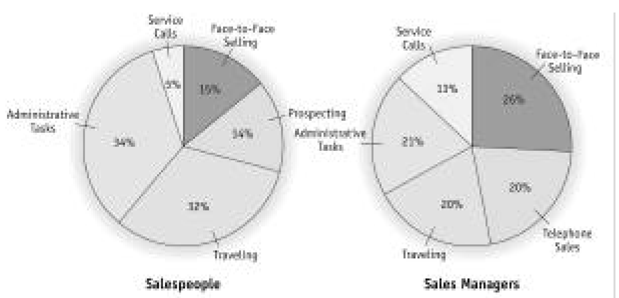
Effective sales executives keep top management informed on important decisions and the department's plans and accom-plishments. They transmit all ordinary reports promptly, and special reports when appropriate. They exercise restraint in reporting their own activities, but they see that their superiors have all the information needed to evaluate their personal effectiveness. Their re-ports ensure that top management knows in broad outline the problems encoun-tered in selling _he company's products, the ways they are handled, and the re-sults accomplished.

Effective sales executives pay attention to the manner in which they com-municate with top management. They do not hesitate to give their superiors the benefit of their thinking, but, unless matters of high principle are involved, they are willing to modify preconceived ideas.

When the sales executive has a great idea, is absolutely sure of it; and top management is unconvinced, the sales executive must play the role of super-salesperson and "sell" to those with the authority to decide. When the facts do not speak for them-selves-when those in authority fail to grasp their full signifi-cance—the sales executive, like any competent executive, should bring to bear his or her full powers of persuasion.

Effective sales executives listen and learn. They keep a dated record of im-portant conversations. They refrain from voluntar-ily discussing the personal competence of fellow executives. They avoid relaying rumors. They control their executive contacts, never missing scheduled engagements without reason. Sales executives following such rules of conduct experience little difficulty in winning top management's confidence and respect.

How Salespeople and Sales Managers Spend Their Time



According to the given data it is seen that largest portion of sales manager's time is spend in selling . This finding dispels the common misconception that a sales manager sits behind the desk issuing orders. In reality a sales manager devote considerable time to field travel and to solving customers problems. In addition their calls are often designed to help train salespeople and to keep management informed about competi-tive conditions.

Relations with Managers of Other Marketing Activities

Sales executives spend most of their time on sales force management; they also are concerned with other marketing activities. The degree of responsibility over these activities, and the amount of time allocated to them, vary with the particu-lar job, but sales executives are almost always concerned wid.! Products, promo-tion, pricing, and distribution. They may also have a role in achieving control over these activities and coordi-nation among them.

Relation with Product Management

Product planning and the formulation of product policies require numerous decisions. Periodically each product needs appraising in terms of its profitability and its ability to fulfill buyers' wants. Decisions are made on whether each should be retained, changed or improved, or dropped from the line. Other deci-sions are made on adding new products and on changes in product design and other features. Still other decisions concern product quality, services rendered in connection with sales, and packaging.

Product decisions are often the shared responsibility of marketing, produc-tion, research and development, and financial executives, operating as a product committee. Sales 'executives provide inputs for these decisions. Their contact with the market through subordinates arid sales personnel provide. them with feedback about product performance_ and acceptance generally not available from other sources.

Relations with-Promotion Management

Chief marketing executives are responsible for setting promo-tional policies, but sales executives participate in their formulation. Their knowledge of the market and their control over personal-selling activity make sales executives a key source of information, and they occupy a strategic position in imple-menting promo-tional plans. Sales personnel are responsible not only for transmitting sales messages to prospects but for securing the use of point-of-purchase displays and for coordi-nating dealer efforts with advertising programs. Sales executives, be-cause of their key roles in making and implementing promotional policies, must coordinate closely with other executives in the formulation and implementation of the promotional program.

Almost every product relies' on personal selling as a promo-tional method at one or more points in the marketing channel. Personal selling's effectiveness traces to the use of personal contact in conveying the sales message to prospec-tive buyers. But personal selling is the most expensive promotional method in terms of cost per sales message transmitted. The proportion of personal selling in the promotional mix generally must be limited, and it is the sales executive's responsibility to keep selling costs down.

The sales executive makes certain that salespeople keep abreast of current advertising campaigns. Sales personnel need briefing on specific advertising ap-peals, enabling them to adapt their selling approaches in ways that enhance the total promotional impact. The sales force should know which media are scheduled to carry advertisements for which products and the timing of each ad's ap-pearance. Advertising personnel need access to the sales executive, since this ex-ecutive is' an important source of information about customers, their needs, behavior, and motives.

Sales executives play similar roles with respect to other promo-tional meth-ods. Decisions regarding the usage of these methods in the promotional mix are normally made by the chief marketing executive or by other specialists. Besides serving as an important source of information, the sales executive secures coordinative efforts by the sales force to ensure that each promotional activity obtains optimum results.

Relations with Pricing Management

When major decisions on pricing policy are required, both the chief marketing executive and the sales executive occupy influential positions in top management councils. Relative to other executives, they generally have much clearer ideas of the prices final buyers are willing to pay, the sales executive because of close and continuing contacts with the market and the marketing executive because of ac-cess to pricing information gathered and interpreted by the marketing research staff.

In spite of the fact that these two executives are well qualified to speak with authority on pricing matters, price policies should be formulated and prices should be set by a group of executives. Each department affected should be rep-resented, for pricing policymaking is, by nature, an interdepartmental activity. Included in the policy making group should be representatives not only of the marketing department but also of such departments as production, cost account-ing, credit, advertising, legal, and public relations. Pricing, policies should result from the cooperative action of the group rather than from compro-mises among its members.

Once pricing policy is established, its implementation is the responsibility of the sales executive. For example, the pricing committee might adopt sug-gested list prices, but the sales executive is the one responsible for informing dis-tributors and dealers and obtaining their conformance. Responsibility for ad-ministering prices should be assigned to the sales executive, because the sales department has the closest relationship with the market.

Relations with Distribution Management

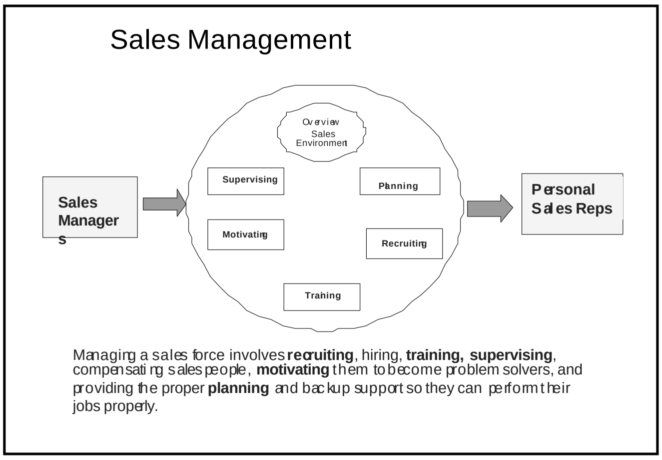
Distribution policies are major determinants of the breadth and complexity of the sales department's organization and func-tions. Selection of a marketing channel, or channels, sets the pattern for sales force operations, both geograph-ically and as to the classes of customers. It is also necessary to determine the number of outlets for the product at each distribution level, and this affects the size and nature of the manufacturer's sales organization and the scope of its ac-tivities. Furthermore, marketing management determines policies on the amount and extent of cooperation it desires with members of the distribu-tive network-also influencing the size of the sales force, the nature of the sales pet son's job, the need for sales supervision, and the like. Because of the impact of distribution policies upon the sales organization and its activities, sales executives play key roles in providing information needed for their formulation, since they are responsible for implementation of these policies.

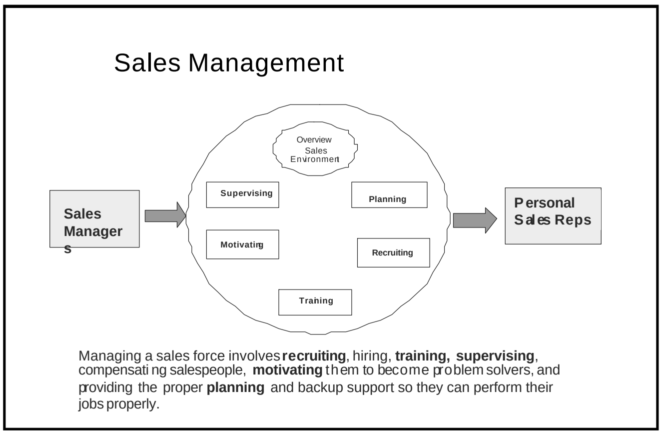
Conclusion

Sales executives' jobs vary from company to company and from position to posi-tion within companies, but all are responsible for making decisions and seeing to it that others carry them out. All sales executives, from the top sales executive down, spend most of their time managing personal-selling activities. Lower-ranking sales executives, such as branch managers, devote nearly all their time to direct supervision of salespersons. Thus, while sales executives need qualifica-tions similar to those of effective executives in other fields, they must ,be adept at leading people. The higher their positions are in the organizational hierarchy, the more sales executives must work with decision makers in' other marketing areas, since all marketing decisions impact on the personal-selling situation

Notes -

Points to Ponder





Questions

Q1. What type of activities are included in the job of a sales manager?

Q2. Which activity of sales manager takes up the most time?

Q3. What are thr operating and planning functions of a sales executive?

LESSON 9
PURPOSE OF SALES ORGANISATION

Learning Objectives

- To understand the purpose of sales organization
- To know the steps in setting up a sales organization structure

The Sales Organization

In this lesson we will study about the sales organization

Effective sales executives insist upon sound organization. They recognize that the sales organization must achieve both qualitative and quantitative personal-selling objectives. Over the long haul, it must achieve qualitative objec-tives-those concern-ing personal-selling's expected contributions to achieve-ment of overall company objectives. In the short run, it must attain the quantita-tive personal-selling objectives-not only sales volume but other objectives related to "profit" (such as keeping selling expenses within certain limits) and to "competitive position" (such as attaining given market shares). Achieving short- run quantitative personal-selling objectives precedes attainment of the long-run qualitative personal-selling objectives. The effective sales executive looks upon the sales organization both with respect to the "here and now" and to the "fu-ture." But the sales organization makes its major contribution in the present and the near term-recognizing this, the effective sales executive builds both sales -mindedness and profit-mindedness into the sales organization.

Existence of a sales organization implies the existence of patterns of relationships among subgroups and individuals established for purposes of facil-itating accomplishment of the group's aims.

Organizational defects often trace to lack of attention given to sales organi-zation during the early existence of a company. When setting up a business, management is more concerned with financing and non marketing problems. Executives of new enterprises consider organization questions, but most often these relate to non marketing activities. In manufacturing, for example, as prod-ucts are improved, production quantities increased, new products added, and production processes developed, the manufacturing organization is adapted to changed situations. Similar alterations in the sales organization are frequently neglected or postponed.

Sales organizations in many companies evolved without regard for chang-ing conditions. The basic setup designed when the company was new remains, despite, for example, changes in selling style and size of sales force. The sales organization, after all, is the vehicle through which personal-selling strategy is implemented. A well-designed sales organization, like a well-designed automo-bile, accomplishes more, and more economically, than does one that is an" arti-fact.

The sales organization should be adjusted to fit-ideally, to anticipate -changing situations. Shifts in marketing, in competi-tion, and in other business factors call for changes in the sales organization. The ideal sales organization has a built-in adaptability allowing it to respond appropriately in fluid and diverse marketing environments.

So what is the Purposes of Sales Organlzation ?

- In the ideally organized sales department, wasted motion and duplication of ef-fort would be eliminated, friction would be minimized, and cooperation maxi-mized. Dynamic characteristics inherent in marketing preclude the achievement of such perfection. But when sufficient attention is given to sales organization, the ideal is approached, if not attained, and personal-selling efforts increase in productivity.
- How an organization works is more important than how it is supposed to function. Sales management should direct its main organizational efforts toward the "informal" organization. Through intelligent leadership and related "hu-man relations" talents, the skilled manager moves both individuals and informal groups along lines that facilitate achievement of the purposes of formal organi-zation.

To Permit the Development of Specialists

As a business expands, marketing and selling activities multiply and become in-creasingly complex. It is difficult to fix responsi-bility for performance of all nec-essary activities, particularly when executives are reluctant to delegate authority.

One purpose of reorganizing the sales department is to facilitate assignment of responsibility and delegation of authority. In fact, specialization, or division of labor as economists call it, is the chief means through which the pro-cesses of organization and reorganization are affected. As tasks grow in number and complexity, they are broken down into manageable units and are assigned to specialized personnel. The assignments made are called "delegations of authority." This is conducive to the development of specialists.

To Assure that All Necessary Activities are Performed

As a sales organization grows and specialization increases, it is increasingly im-portant to perform all necessary activities. What are "necessary" changes over time. When jobs are highly specialized, danger exists that the organizational plan will not provide for supervision of all activities. Essential tasks may not be per-formed, simply because they are not assigned to specific individuals.

When a company is small, for instance, its executives are in close contact with users of the product. As a company grows, as marketing channels lengthen, and as the marketing area expands geographically, top executives become far-ther and farther removed from the customers. As soon as executives begin to lose their informal contacts with customers, an individual should be assigned re-sponsibility for maintaining such relationships. If these contacts are highly important, responsibility for maintaining them should be assigned to an executive specializing in customer relations.

To Achieve Coordination or Balance

Good organization achieves coordination or balance. Individuals vary in compe-tence, potential, and effectiveness. Their personalities may be such that through assumption of authority, failure to delegate it, or both, their positions are magnified out of all proportion to their importance. Worse yet, total accomplishments of the organization are less than they could have been if, so to speak, greater advantage had been taken . By getting people to pull together as a team rather than as an assortment of individuals, the organization accomplishes more collectively than its members could independently.

Motivating individuals to work together toward common objectives is, then, important in achieving coordination. Individual goals are subordinated to, or reconciled with, organizational goals. Some of the means for accomplishing this are indoctrination and training programs, group meetings, supervision and guidance, and two-way communications.

Modern organizational theory suggests that sales departments should be divided into small, freely communicating, face-to-face groups to decrease the possibility of uncoordinated proliferation.

To Define Authority

Sales executives should know whether their authority is line, staff, or functional. Line authority carries the power to require execution of orders by those lower in the organizational hierarchy. Staff authority is the power to suggest to that holding line authority the method for implementation of an order. Functional authority enables specialists in particular areas, such as in technical product ser-vice, to enforce their directives within a specific and limited field. Line executives make decisions on the need, place, and time of action over a wide range of mat-ters. Staff executives advise line executives about methods but have no formal power to require or enforce the execution of their recommendations. Functional executives are specialists-experts in some aspect of the business-who assist executives holding general line authority. For example, such specialists advise on new product introduction.

A sales organization receives directions from several sources No person should have more than one boss. The supporting argument is that, if individuals receive instructions from multiple sources, they may get conflicting and confusing directions. The argument is a good one, but the "one-boss" rule does not necessarily follow. Modern organi-zational theory points out that the real problem is; one not of avoiding the multiple-boss situation but harmonizing orders and directives from different sources. A smoothly operating sales organization has built-in ways of achieving harmony. Two important ways are continuing coordination of the work of different executives and free-flowing communications systems.

To Economize on Executive Time

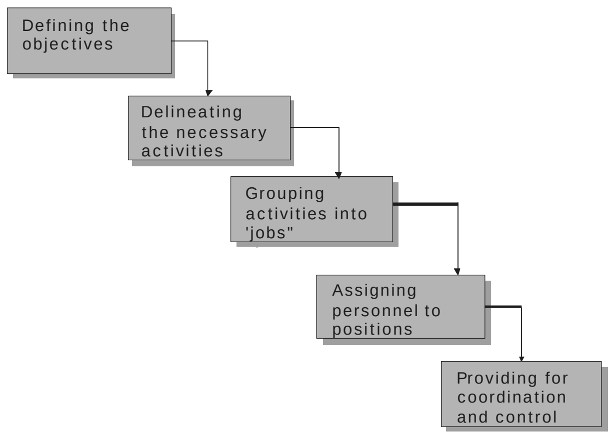
As a sales department's operations and activities increase in complexity and number, additional subordinates are added. This permits higher-ranking sales executives to delegate more authority. It also allows for the more effective use of specialization, while higher executives devote less time to operations and more to planning. One purpose, then, of organization-and one often overlooked-is achieving economies in the use of executive time. Top sales executives need not concern themselves personally with all the sales department's problems and activities, particularly routine or technical ones, when they have capable and well- trained subordinates.

In building the sales organization, then, the need for effective coordination limits the number of subordinates who report directly to certain executives. This limit is the "span of control." But the greater the abilities of the coordinator and of those report-ing to him or her, the larger the number that can be effectively coordinated. Lower-level sales executives, however, those with salespeople reporting directly to them, have a wider span of control than higher executives devoting much time to planning and policy formulation and little to administrative and operat-ing details.

Settlng Up A Sales Organization

Let us see how a sales organization is set ?

Not often is a sales organization built entirely from scratch, as some structure usually exists. Most problems of sales organization, in other words, are problems of reorganization-the sales organization exists and the goal is to make it more effective. It is appropriate, nevertheless, for the sales executive to approach the organizational problem, each time it arises, as though a completely new organi-zation were being built. There are five major steps in setting up a sales organization:



Defining Objectives

The initial step is to define the sales department's objectives. Top management, of course, defines the long-run objectives for the company, and from these, the general, or long-run, objectives for the sales department are derived Quantitative personal-selling objectives, in turn, are set with an eye on the qualitative objectives. Survival, for instance, is the most basic qualitative objective of any enterprise as well as its sales department, and this requires, among other things, a continuing flow of sales revenue; so, securing a given level of sales volume is an important sales department quantita-tive objective.

Survival also requires profits. Hence, a second qualitative personal-selling objective is to produce profits, not only by making profitable sales but by control-ling departmental costs and expenses.

It follows that a third qualitative personal-selling objective is to realize long-term growth in sales and profits. Therefore, three of the sales department's general objectives -all traceable to management's desire for survival of the firm-may be summed up in three words: sales, profits, and growth.

Quantitative personal-selling objectives are required as operating guideposts. Thus, the quali-tative personal-selling objective of producing profits may be translated into specific quantitative personal-selling objectives

Determination of Activities and Their Volume of Performance

Fundamental to sound organizational design is recognition that activities are be-ing organized. Only after determining all necessary activities and estimating their volume of performance is it possible to answer such questions as: What ex-ecutive positions are required? What should be their relationships to other posi-tions? What should be the duties and responsibili-ties of persons who fill these positions?

Grouping Activities into Positions

Next, the activities identified as necessary are allocated to different positions. The planner must keep in mind that activities are aimed at achieving certain objectives-ultimately the composite provides the raw material from which job descrip-tions are compiled (in terms of reporting relationships, job objectives, du-ties and responsibilities, and performance measures).

Activities are classified and grouped so that closely related tasks are as-signed to the same position. Each position should contain not only a sufficient number of tasks but sufficient variation to provide for job challenge, interest, and involve-ment.

Certain activities are of crucial importance to success of the sales depart-ment, and this has implications for organizational design. For example, in a highly competitive field, product merchandising and pricing are assigned to po-sitions high up in the organizational structure. Activities of lesser importance are assigned to lower-level jobs.

When a large number of positions is being set up, groups of related jobs are brought together to form departmental subdivisions.. The smallest number of administrative levels that permits the organization both to perform its activities and to operate smoothly is best.

Assignment of Personnel to Positions

The next step is to assign personnel to the positions. This brings up the question of whether to recruit special individuals to fill the positions or to modify the posi-tions to fit the capabilities of available personnel. This is a question that has long been controversial. Compromises are frequent. On the one hand, some position requirements are sufficiently general that many individuals possess the neces-sary qualifications, or can acquire them through training. On the other hand, some individuals possess such unique talents and abilities that it is prudent and profitable to modify the job specifications to fit them. Nevertheless, planners prefer, whenever the situation permits, to have individuals grow into particular jobs rather than to have jobs grow up around individuals.

Provision for Coordination and Control

Sales executives who have others reporting to them (that is, those with line au-thority) require means to control their subordinates and to coordinate their ef-forts. They should not be so overburdened with detailed and undelegated re-sponsibilities that they have insufficient time for coordination.

Control and coordination is obtainable through both informal and formal means. Strong leaders control and coordinate the efforts of their subordinates largely on an informal basis. Through sheer force of personality coupled with unusual abilities to attract and hold the loyalty of followers, the strong leader tends to make minimal use of formal instruments of control and coordination. The most important formal instru-ment of organizational control is the written job description. This instrument sets forth for each job: reporting rela-tionships, job objectives, duties and responsibilities" and performance measure-ments.

Good job descriptions provide clear pictures of the roles job holders are to play in the sales organization, and are also useful in other situations. Written job descriptions find use in employee selection processes.

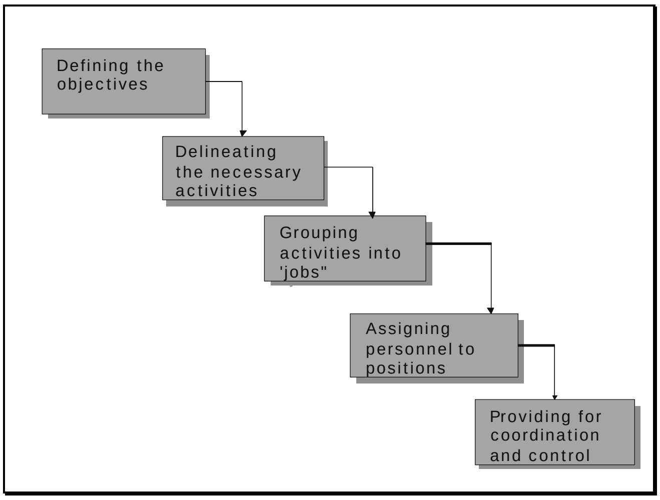
An organizational chart, another control instrument, shows formal rela-tions among different positions. A chart reduces confusion about the individu-al's role. An organizational chart delineates formal relations and, because of this, rarely provides a true picture of how the organization actually works. Neverthe-less, availability of an organizational chart enables members of a sales depart-ment to learn the nature of their formal relations with others, to know with whom they are expected to cooper-ate, and to clarify their formal roles.

Notes -

Points to Ponder

Purpose of sales organization

- To permit development of specialists
- To assure that all necessary activities are performed
- To achieve coordination of balance
- To define authority
- To economize on executives time



Questions

Q1. What do you understand by sales organization structure?

Q2. What is the purpose of sales organization?

Q3. What are the steps in setting up a sales organization structure?

LESSON 10
TYPES OF SALES ORGANISATION STRUCTURE

Learning Objectives

- To understand the different types of sales organization structures
- To understand what is centralization and decentralization in sales force
- To understand what are the schemes to divide line authority in sales organisation

In the last lesson we learned about the purpose of sales organization. In this lesson we are going to study the different types of sales organization structures .

Basic Types of Sales Organizational Structures

Organization structure is the arrangement of people and tasks to accomplish organizational goals.

There are **four basic types** of sales organizational structure line, line and staff, functional, and committee.

The grouping of activities into positions and the charting of relationships of positions causes the organization to take on Struc-tural form. The first two types (line and line and staff) are the most common. Functional and committee organizations are rare. Most sales departments have hybrid organizational structures, with variations to adjust for personalities and to fit specific operating conditions.

The sales department's structure evolves from the needs of the business. No two companies have identical sales organizations, because no two have iden-tical needs. The customers, the marketing channels, the company size, the prod-uct or product line, the practices of competitors, and the personalities and abili-ties of the personnel are but a few of the factors affecting the organizational structure of the sales department.

Lines Sales Organization

The line organization is the oldest and simplest sales organiza-tional structure. It is widely used in smaller firms and in firms with small numbers of selling personnel-for instance, in companies that cover a limited geographic area or sell a narrow product line. The chain of command runs from the top sales executives down through subordinates. All executives exercise line authority, and each subordinate is responsible only to one person on the next higher level. Responsi-bility is definitely fixed, and those charged with it also make decisions and take action. Lines of authority run vertically through the structure and all persons on anyone organizational level are independent of all others on that level.

The line sales organization sees its greatest use in companies where all sales personnel report directly to the chief sales executive. In these companies this executive often is preoccu-pied with active supervision and seldom has much time to devote to planning or to work with other top executives. Occasionally, however, the line sales organization is used where more than two levels of au-thority are present.

Figure 10.1 shows a fairly large sales department organized on the line basis. The sales manager reports to the general manager, assistant sales managers re-port to the sales manager, and salespeople report to assistant managers. Theo-retically, there is no cross-communication between persons on the same level. Contacts between persons on the same level are indirect arid are effected through the next higher level. For example, the assistant sales manager of Divi-sion 1 arranges to confer with the assistant sales manager of Division 2 through the sales manager. Similarly, contacts by sales personnel with the office staff flow up through the organization to the sales manager and back down through the assistant sales manager in charge of the office to the office staff.

Advantages of Line Structure

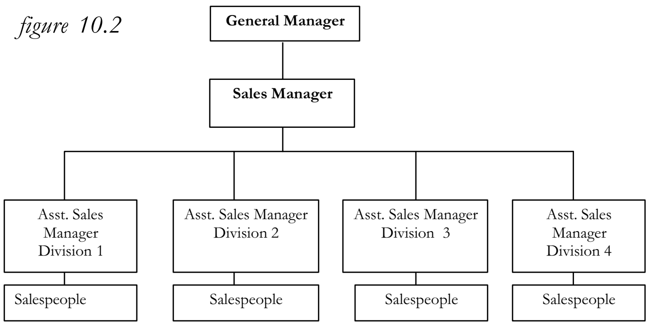
- The basic simplicity of line organization is the main reason for its use.
- Be-cause each department member reports to only one superior, problems of disci-pline and control are small.
- Lines of authority and responsibility are clear and logical, and it is difficult for individuals to shift or evade responsibilities.
- Definite placement of authority and responsibility saves time in making policy changes, in deciding new plans, and in converting plans into action.
- The simplicity makes it easy for executives to develop close relations with salespersons. With this work-ing atmosphere, it is not surprising that executives who come up through a line organization are frequently strong leaders. As the typical line sales department has few organizational levels, administrative expenses are low.

Weakness of the Line Sales Organization is that

- The head needs outstanding ability and rare qualifications, and should be well versed in all phases of sales management, for there are no subordinates with specialized skills and knowledge.
- Even if the head is an all-around expert, there is insufficient time for policymaking and planning, since rigidity of the line structure requires that a great deal of attention be given to direction of sales operations. The head often must make decisions and take action without benefit of planning. Under such conditions, results are often dis-appointing.

For rapidly growing concerns and for those with large sales staffs, the line organizational structure is inappropriate. As the department grows, new layers of executives must be added to retain control. Orders and directions must be passed down through a growing series of administrative levels. Moreover, as growth proceeds, earlier advantages of close relations among exec-utives and salespeople are sacrificed and maintaining morale becomes a greater challenge.

figure 10.2



Line and Staff Sales Organization

The line and staff sales department is often found in large and medium-sized firms, employing substantial numbers of sales personnel, and selling diversified product lines over wide geographic areas. In contrast to the line organization, the line and staff organization provides the top sales executive with a group of specialists-experts in dealer and distributor relations, sales analysis, sales or-ganization, sales personnel, sales planning, sales promotion, sales training, ser-vice, traffic and warehousing, and similar fields. This staff helps to conserve the top sales executives' time and frees them from excessively detailed work. They make it possible for their chiefs to concen-trate their efforts where they have the most skill. If the top sales executive is not equipped, through prior training or experience, to handle certain problems, staff specialists assist in increasing over-all effectiveness of the department. Similarly, by delegating problems involving considerable study or detailed, analysis to staff executives the top sales executive has more time for planning and for dealing with higher-priority matters.

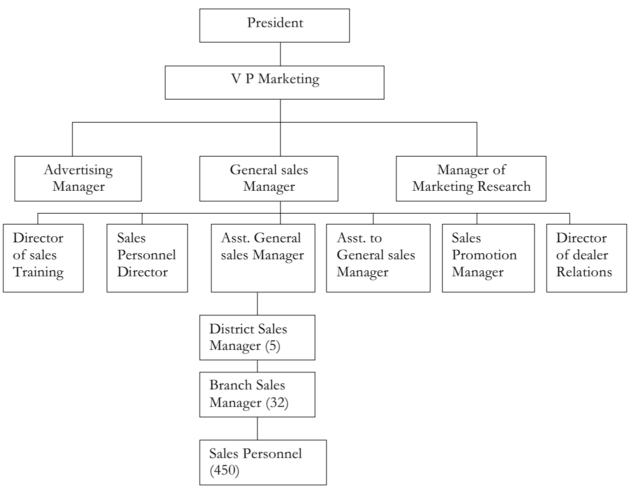


figure 10.2

Staff sales executives do not have authority to issue orders or directives. Staff recommendations are submitted to the top sales executives, who if they approve, transmit necessary instructions to the line organization Figure 10.2 illustrates the line and staff sales organization. The general sales manager reports to the vice-president in charge of marketing as does the adver-tising manager and the manager of marketing research. Six subordinates report to the general sales manager, but only one, the assistant general sales manager, is a line executive. Four of the five staff executives have responsibilities in special-ized fields; the fifth, the assistant to the general sales manager, is given more general assignments.

Note the difference between the assistant to and assistant. The assistant to is a staff executive who is given a broader operating area than those staff specialists with more descriptive titles. In contrast, the assistant has general line authority delegated by the superior. The assistant general sales manager is an understudy of the general sales manager who performs assignments of a line nature in the name of the superior. The assistant to the general sales manager carries part of the general administrative load that would otherwise be borne by the general sales manager.

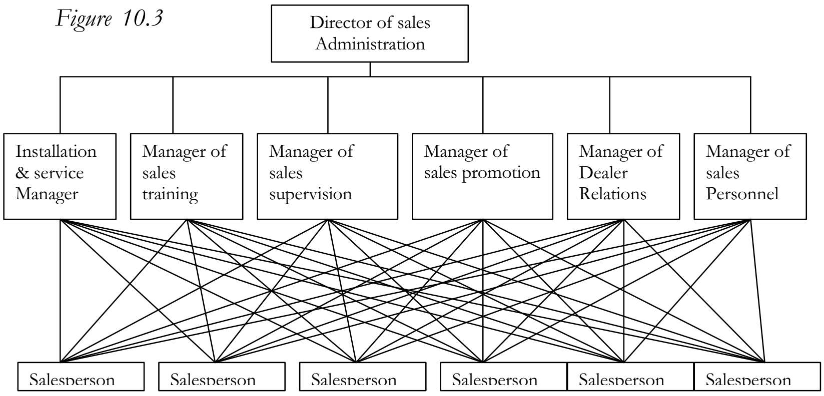
The Advantages of the Line and Staff Organization

- The chief sales executive, being relieved from much detail work, can take a broader view of the department.
- Problems can be seen in clearer perspective, and connections between apparently unrelated problems are brought into focus.
- A pool of experts provides advice and assistance in specialized fields.
- Planning activities are subdivided and apportioned to staff members, and deci-sions and policies rests on a sounder base than lip the line organization.
- Meanwhile, the top sales executive can concentrate on control and coordi-nation of subordinates. Staff members assume much of the burden of solving problems in their areas. Thus, the top sales executive can devote more attention to the human aspects of administration.

Weaknesses

- Work of the staff specialists must be coordinated, and this is costly. Other administrative expenses may also increase, unless the num-ber of staff executives is kept in line with departmental needs. The staff should be expanded only when it can be shown that the contributions of new staff mem-bers will equal or exceed the costs of maintaining them.
- Close control over staff-line relations is essential. If staff people issue in-structions directly to line executives, it is difficult to prevent some persons from evading unwanted responsibilities
- When the line and staff sales organization is used, the time between prob-lem recognition and corrective action tends to widen. This results from giving staff executives time to study problems before making recommendations to the decision makers.

Figure 10.3



Functional Sales Organization

This type of organizational structure is based upon the premise that each individual in the organization executive and employee should as few distinct duties as possible. The principle of specialization is used to the full extent. Duty assignments and delegations of authority are made according to function.

No matter where a particular function appears in the organiza-tion , it is in jurisdiction of the same executive. In functional sales department sales people receive instructions from several executives but on different aspect of their work. Provisions for coordinating the functional executives is made only at the top of the structure ; executives at lower level do not have coordi-nating responsibilities. In contrast to line and staff organization , all specialists in functional organization have line authority of the sort. Instructions and even policies cas be put into effect with or without prior approval of the top level coordinating executives.

A functional sales organization structure is shown in figure 10.3.The coordinating executive is the director of sales adminis-tration all executives in the next level are specialists . As indicated sales personnel receive instructions from six different executives.

Advantages of Functional Sales Organisation

- Specialised activities are assigned to experts whose guidance should help in increasing the effectiveness of sales force.

Weakness

- The sheer size of sales force in many large firms makes the highly centralized sales operation of a functional organization impractical.This limitation is traced to the requirement in functional model for lone official to coordinate the specialists .
- The practicality of functional organization for the sales department is open to question. Small and medium sized firms do not find it feasible or financially possible to utilize the high degree of division of labour.

Committee Sales Organization

The committee is never the sole basis for organizing a sales department. It is a method of organizing the executive group for planning and policy formulation while leaving actual operations, including implementation of plans and policies, to individual executives. Thus, many firms have a sales training committee (com-prised of the general sales manager, his or her assistants, the sales training man-ager, and perhaps representa-tive divisional or regional sales managers) that meets periodically to draft training plans and formulate sales training policies. Implementa-tion of these plans and policies, however, is the responsibility of the sales training manager, if the company has one, or of the line and/or staff execu-tives responsible for sales training in their own jurisdictions. Other, committees found in sales organizations includes customer relations, operations, personnel, merchandising, and new products.

Advantages

Before poli-cies are made-.and action is taken, important problems are deliberated by com-mittee members and are measured against varied viewpoints Committee meetings, where ideas are interchanged and diverse opinions are present, promote coordination among members of the executive team. When problems are aired in the give and take of committee meetings, cooperation is likely to be better than under any other organization plan. However, unless decision making and policy formulation are left to specific individuals, it is impossible to fix responsi-bility. Committees render their most important service in providing focal points for discussion and for the making of suggestions; so many companies prohibit committees from making decisions or formulating policies. No committee should develop into a vehicle for the evasion of responsibility.

For committees to operate effectively, other precautions are necessary. The agenda must be planned and controlled to avoid wasting time of executives not directly interested in the topics considered. The tendency for committees to consume large amounts of time is counteracted if the chairperson keeps the discussion focused upon the subject at hand.

Field Organlzation of the Sales Department

Every growing company faces, sooner or later, the necessity for establishing a field sales organization. The sales manager can personally supervise field selling operations when a company is young, when only a few salespeople are em-ployed, when the sales force travels out of the home office, and when the mar-keting area is small. As more salespersons are added, it is increasingly difficult to supervise and control them. If growth in sales volume is to parallel additions to the sales force, either the same marketing area must be worked more intensively or new areas must be penetrated. Both alternatives call for closer supervision and control of field sales personnel.

The field organization consists of all employees of the sales department who work away from the home office. All outside salespeople are included, as are traveling sales supervisors, branch and district managers, and clerical employees in branch and district offices. Also included are service, repair, and sales promo-tion personnel. Although not all are concerned directly with increasing the effec-tiveness of field selling operations, each makes contributions to that end.

The two main purposes of a field organization are

1. To facilitate the sell-ing task and

2. To improve the chances that salespeople will achieve their goals. .

Sales personnel count on the field organization for assistance and support. Their jobs should be made easier because of it.

Companies that consider centralization desir-able have complex supervisory organizations. Each salesperson is subjected to close supervision-hence the need for a considerable force of supervisors. Firms that believe in decentralization, in contrast, permit individuals in the field to op-erate more on their own.

Numerous factors influence the size of the field organization. The larger the firm, assuming similar sales-related marketing policies, the greater the re-quired number of salespeople, supervisors, and regional, branch, and district managers. The relative emphasis placed on personal selling in the marketing program affects the size of the field organization. For example, the firm selling directly to retailers, ultimate consumers, or industrial users commits itself to the performance of a sizable personal selling task, and it requires a field organiza-tion of commensurate size. In contrast, companies using wholesalers find that their field organizations can be correspondingly smaller, since parts of the per-sonal selling and other-tasks are transferred to these middlemen. Other factors affecting the size of the field organization include desired frequency of sales calls, number of customers and prospects, and geographical spread of sales ac-counts.

Centralization Versus Decentralization in Sales Force Management

In the centralized sales organization almost all activities, including sales force management, are administered from a central headquarters. The central sales office has full responsibil-ity for recruiting, selecting, training, compensating, supervising, motivating, controlling, and evaluating the sales force. In the de-centralized organization, in theory at least, all these activities/ are handled by field sales executives.

A decentralized sales organization is one in which there is decentralization -in management of various selling tasks and in performance of certain important personnel management activities. For example, branch or district sales offices may do the recruiting, selecting, motivating, and supervising; the central head-quarters may handle training, compensating, and evaluat-ing; and the branches and the central headquarters may share responsibility, in proportions varying with the marketing situation and management philosophy, for other aspects of sales force management. It is rare, in other words, for sales force management to be either 100 percent centralized or 100 percent decentralized. Management's appraisal of relative costs and effectiveness results in some aspects being central-ized and others decentralized.

Centralization in sales force management varies. Smaller companies that have few salespeople and confine their opera-tions to a small geographical area, keeping the unit of sales high, the sales call frequency low, and the caliber of salespersons relatively high, incline toward centralized sales force manage-ment. Manufacturing firms relying almost entirely upon specialized wholesale middle-men for marketing of their products need only minimum sales forces and, there-fore, tend toward centralization. Local wholesalers with restricted sales areas also have small sales forces and, by the nature of their operations, are highly central-ized. The principal factor deter-mining centralization, then, is a small size of sales force, but other marketing factors, such as those illustrated, also move a com-pany in this direction.

High decentralization in sales force management is found mainly among companies with large sales forces. Likely to have considerable decentralization, for instance, is a manufacturing firm distributing a wide line of consumer prod-ucts over a vast market area and selling directly to varied retailers-all conditions indicating the need for a large number of salespeople. Wherever marketing con-ditions require large sales forces; the economies and effectiveness of decentrali-zation are more attractive than are those of centralization.

Other things being equal, there is a strong pull in the direction of sales force decentralization as a company grows. This is true even though decentrali-zation requires at least one more level of sales management, and the mainte-nance of branch and district offices (or both) causes additions to other fixed operating costs. With growth, the advantages of decentralized sales force man-agement increasingly outweigh the higher costs. Among these advantages are:

1. More intensive cultivation of the market and, consequently, a higher sales volume to absorb the higher fixed costs.
2. More effective control, improved supervision, and increased sales pro-ductivity resulting from the addition of at least one intermediate level of sales executives, and from reduction of geographical separation of exec-utives and sales personnel.
3. Improved customer service stemming from more effective control of sales personnel.
4. Reduced need for and costs of territorial "break-in" time, since more sale persons are recruited from the areas to which they are assigned.
5. Improved sales force morale-there are more frequent contacts with executives, reductions in travel time, and fewer nights away from home.
6. Lower travel expenses-salespeople are dispatched from decentralized points, and fewer field trips by home office sales executives are re-quired.
7. A "built-in" management development program-branch and district offices not only provide realistic training but serve as proving grounds for future high-level sales executives. .

Schemes For Dividing Line Authority in the Sales Organization

As marketing operations expand, line authority and responsibil-ity eventually be-come excessively burdensome for the top sales executive. There is an increasing number of people to supervise. Ordinarily, the first remedial step taken is to add a general line assistant, for example, an assistant general sales manager. As the burden of line administrative work continues to grow, it is necessary to provide additional assistants. These new subordi-nates are given line responsibilities nar-rower than those of the assistant general sales manager. Although they work with a variety of matters, their assignments cover a limited area of operations. Tasks of line administration are subdivided among these new assistants in one of three ways: (1) by geographic area, (2) by products, or (3) by customers or mar-keting channels.

Geographic Division of Line Authority

The large firm with far-flung selling operations is likely to subdivide line author-ity geographically (see Figure 10.4). This is particularly so if the characteristics of large numbers of customers vary by geographic location, if different selling problems are encountered in different areas, or if certain products are more strongly demanded in some regions than in others. But there is an even more compelling reason for dividing line authority geographically as more custom-ers are added and as a wider area is cultivated, the size of the sales task increases enormously. Setting up geographic divisions is a way of cutting the sales task down to manageable proportions. When centralized administration becomes too great a burden for the top sales executives, secondary line executives are dele-gated authority to conduct sales operations within smaller areas. Geographic di-vision is usually made first into regions or divisions. This mayor may not be broken down further into districts or branches.

Advantages

- When line authority is divided geographically, local problems are handled speedily. It is not necessary to wait for decisions from the home office; many questions of importance to customers can be answered by executives personally acquainted with local conditions.
- Shortening the lines of communication makes possible closer supervision of salespeople, which, in turn, helps in improving customer service. Local markets can be cultivated intensively, and tactics of local competitors can be met and countered in the field.

Weakness

However, this system calls for multiple offices, so administra-tive expenses increase. Then, too, the top sales executive faces coordinating several regional operations. Unless this coordina-tion is effective, conflicting policies may develop in different regions.

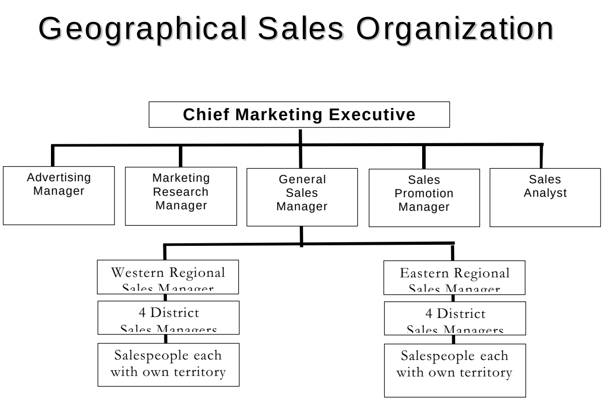


Figure 10.4

Product Division of Line Authority

A second scheme for dividing line authority is to split the sales task among sub-ordinate line executives, each of whom directs sales operations for part of the product line. When authority is so divided, more than one sales force may be required. Some companies' product lines are too wide to be distributed econom-ically by a single sales force. Others sell both highly technical and non technical products; thus some salespeople need specialized training and some do not. In still others, economies of a single sales force are reduced or eliminated because different products are marketed to different types of customers.(see figure 10.5)

Figure 10.5

The decision to use the product type of sales organization should rest on whether the benefits of product specialization outweigh the additional expenses. If they do not, it is wiser to organize the sales force on some other basis. Gains associated with specialized salespersons, who concentrate on selling specific products, must be outweighed against increased expenses. Maintaining more than one sales force results in higher administrative and travel expenses. There are almost certain to be times when two company sales personnel selling differ-ent products make calls on the same customers. Although special-ized salespeo-ple may give more "push" to individual products, many customers object to mul-tiple calls from the same company. The benefits of specialized sales forces are greatest for companies selling broadly diversified lines, reaching different mar-kets with different products, and encountering unique selling problems for the various products.

Customer (or Marketing Channel) Division of Line Authority

The third scheme for subdividing line authority is by type of customer (figure 10.6) .This is appropriate when nearly identical products are marketed to several types of customers and the problems of selling to each type are different. When the same, or similar, products are sold to a number of industries, they often find different applications in each industry. Customers not only have different needs, they are influenced by different buying motives. Thus, special sales forces sell to each major type of customer.

Figure 10.6

Dividing Line Authority on More than One Basis

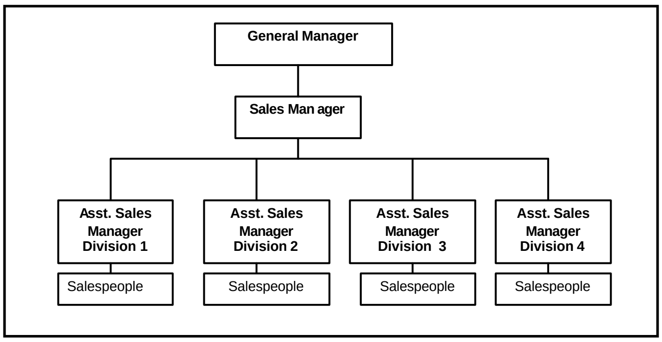
Few companies use a single basis for subdividing line authority. Most use a com-bination, subdividing the selling task more than once, to permit greater speciali-zation. Nearly every large sales department subdivides authority on the geo-graphic basis at some level of organization, but this is done visually in combination with either the product or type-of-customer system. If geographical differences are more important than those of product or type of customer, the primary subdivision is geographical, and the next is at a lower organizational echelon according to one of the other bases. If geographical differences are of lesser importance, the procedure is reversed. The factor most important to the marketing success of the company should form the basis for the first subdivision, and less important factors should determine subsequent breakdowns at lower organizational echelons.

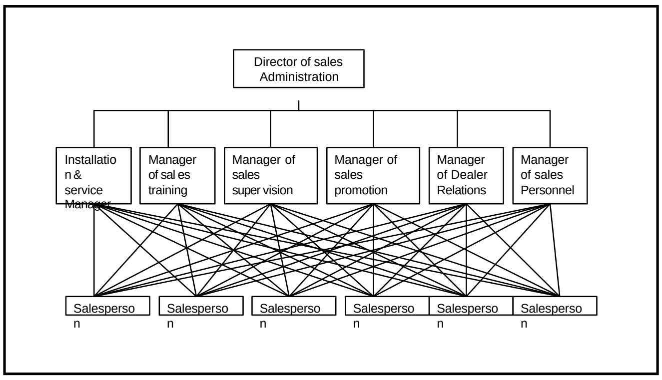
Conclusion

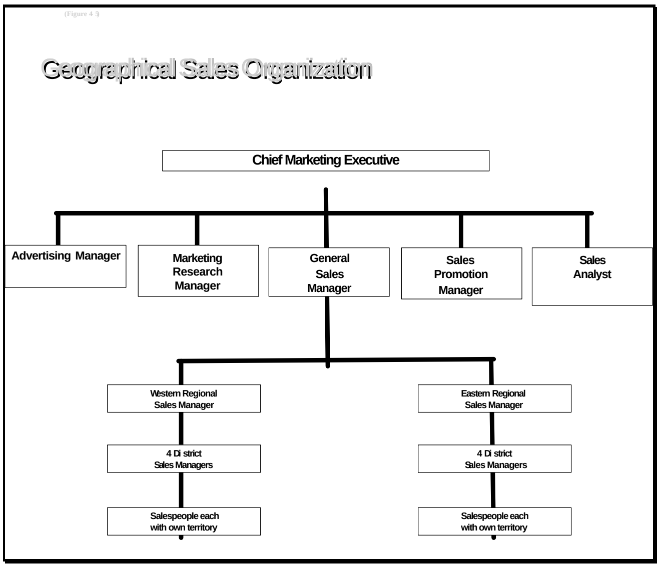
There is growing recognition of the need to apply sound principles of organiza-tion to the sales department. Organiza-tional planning is a Continuing activity, and the sales department structure is adjusted to changing market needs. This has evolved as less emphasis has been placed on securing orders and more attention has been paid to control of costs and expenses and the realization of net profits. These are trends of great importance. As they continue, an increas-ing number of sales organizations are structured more logically. Selling activities are performed with less waste effort, and total effectiveness of the sales effort is enhanced. These advances result in

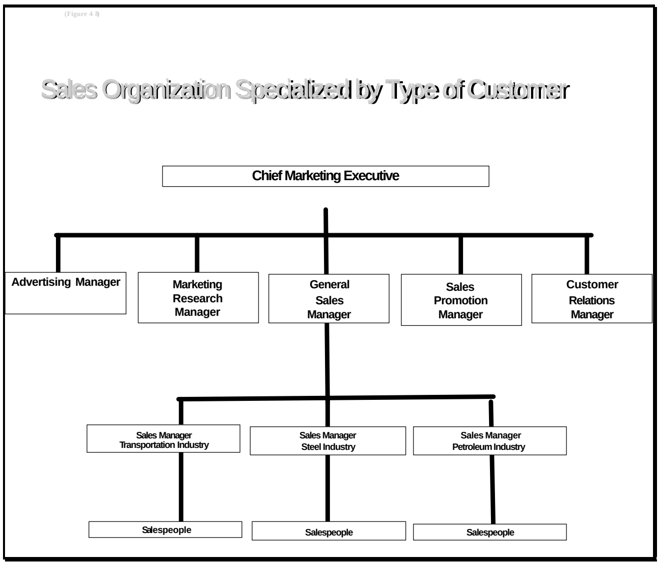
significant benefits to the firms achieving them, and to their customers.

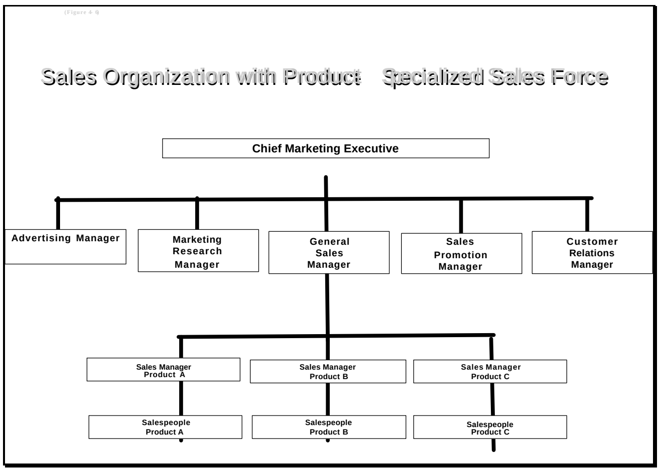
Points to Ponder











Questions

Q1. What are the advantages and disadvantages of line organization structure?

Q2. Explain line and staff organization structure?

Q3. What is functional organization structure?

Q4. What determines centralization and decentralization in an organization structure?

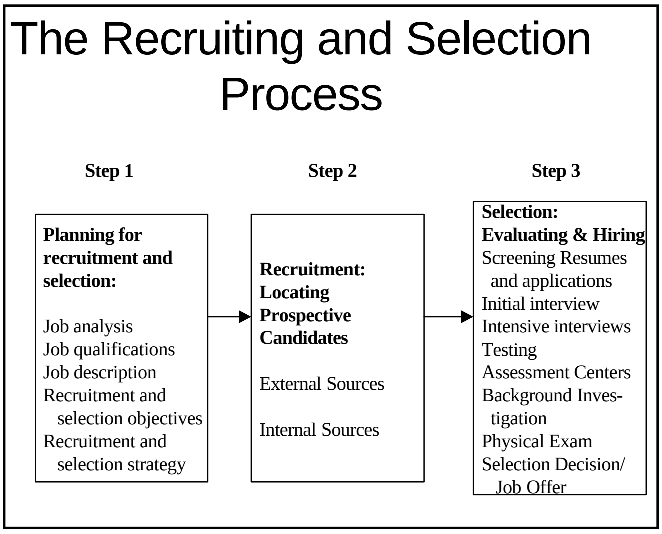
Q5. How is line authority divided?

LESSON 11
RECRUITMENT PROCESS

Learning Objectives

- To understand the recruitment procedure
- To understand the recruitment reservoir
- To understand internal and external source of recruitment

Let us understand how recruitment is done in sales organization



Recruiting Sales Personnel

Fielding the sales personnel needed to service the' company's customers and prospects is a key responsibility of sales executives. Discharging' this responsibility requires that the sales executive implement personal-selling strat-egy in terms of both the kind and number of sales personnel. Implementation is by no means a simple process. Having determined the desired kind of sales per-sonnel, implementation requires Job analysis, the writing of job descriptions, and the deriving of job specifica-tions so that recruiters will know the qualifications they should look for in prospective sales employees and sales trainers will know what additional qualifications they should aim to provide newly recruited sales personnel. Having decided the appropriate number of sales personnel, imple-mentation requires recruiting that number initially and replacing those that are lost (for whatever reason). Implementing personal-selling strategy, then, is a never-ending process-the nature of the selling job tends to change rather slowly (so changes in the kind of sales personnel desired are infrequent), but having and keeping the right number of sales personnel is a continual concern.

Recruitment - the process of generating a pool of candidates from which to select the appropriate person to fill a job vacancy. It involves-

- **Job Analysis:** The process of analysing the content to produce an account of the tasks and competencies that comprise a particular job via interviewing job holders and supervisors as well as by observation

  Job Analysis

  Task

  Job context

  Knowledge

  Skill

  Ability
- **Job Description** – The document that outlines the purpose of the job, the tasks involved, the duties, and responsibilities, the performance objectives and the reporting relationships
- **Person Specification** – A document that describes the skills, knowledge, and qualities needed to perform a particular job; translates the job requirements into tangible features that applicants need to demonstrate

Recruiting and selecting sales personnel is an important part of imple-menting personal-selling strategy, but it is not' all that is involved. Initial sales training is required to bring new sales personnel up to expected productivity lev-els, and continuing sales training is needed to maintain more experienced sales personnel at high levels of productivity. Motivational and supervisory efforts help in stimulating sales personnel to apply their skills effectively. It is on thing for sales .personnel to know what they are supposed to know, but it is a different thing to get them to apply what they know.

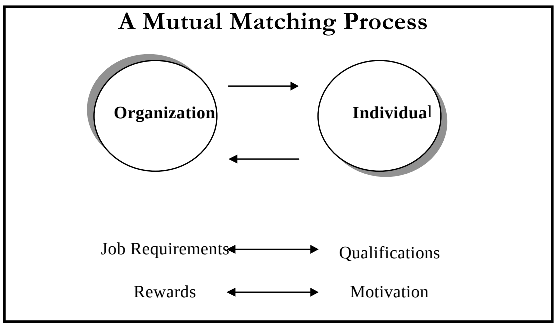
There are three main steps in re-cruiting and selecting a sales force.

Step 1 is to evaluate the sources from which sales personnel with good potentials are obtainable.

Step 2 is to tap the identified recruiting sources -and build a supply of prospective sales personnel.

Step 3 is to select those who have the highest probability of success.

The recruiting Company looks for Qualifications in individuals according to job requirement. They find the best possible sales people to suit the requirement. An applicant looks for compen-sation , Position , Growth , security in a company which acts as a motivation.



What Recruiters/Managers Look For

- Education
- Interview performance
- Sales related experience
- Personal appearance
- References
- Psychological test results
  - aptitude
  - personality
  - skills
- Demographic characteristics
- Personal background
- Current status and lifestyle

Organization for Recruiting and Selection

The organization for recruiting and selection of sales personnel varies from company to company. Company size, executives' personalities, and departmen-tal structure all influence the organization used. Where the sales manager has a personnel staff assistant, recruiting and selection usually is handled entirely within the sales department. Companies with small sales forces sometimes assign sole responsibility for recruiting and selection of sales personnel to the company personnel manager, but this is unusual. It is more common for the personnel department to handle certain, but not all, aspects of recruiting and prelimi-nary screening and for the sales department to handle other aspects of recruiting and screening and to make the hiring decisions.

Placement of responsibility for recruitment and selection of sales personnel in concerns with regional or district sales offices also varies. These functions tend to be centralized at the home office when, the firm requires high-caliber sales personnel, such as those needed to do technical selling. Other factors, for exam-ple, size of regional and district organizations and location of training programs, make it difficult to draw further generaliza-tions. However, decentralized re-cruitment and selection result in reduced interviewing costs and time, and facili-tate the hiring of local applicants for sales work.

The Prerecruiting Reservoir

Because of uncertainties as to when new sales personnel will be needed, many companies have a prerecruiting reservoir. This is a file of individuals who might be recruited when the need arises.

The names of individuals added to the reservoir come from diverse sources. Some come from "volunteer walk-ins"-people who come by the sales department inquiring about job opportunities. Others come from chance re-marks made by people with whom the sales executive comes into contact—at professional meetings, in conversations with customers, over cocktails at the club, seat partners on planes, and the like: Still others come from "centers of influence" that have been developed by the sales executive-the center of influence is a person who occupies a position in which he or she meets many individuals who have high potentials as possible sales person-nel and who often are seek-ing suitable job opportunities. Examples of centers of influence include the: university professor of marketing and sales management, the trade association executive, the placement advisor of a university or community college, and vocational advisors in other educational institutions. Names in the prerecruiting res-ervoir should be reviewed periodically. Those that become badly dated should be culled.

Sources of Sales Force Recruitment

Recruiting Sales Evaluation

One approach to evaluating the sources of recruits is to study those used in the past. Analysis of each source reveals the number of recruits produced, and the ratio of successes to failures. Each source, in other words, is analyzed quantita-tively and qualitatively. One source may have provided numerous recruits but few successes; a second, fewer recruits but a high proportion of successes.

Consider the analysis in Figure 11.1. The source accounting for the largest number of recruits showed a success ratio only slightly more favorable than the ratio for all sources-but it did account for ten of the thirty-five successes re-cruited and, for this reason, management might want to continue using it. Three sources had higher-than-average success ratios, and management should explore ways of increasing the number of recruits from them. Three other sources had very low success ratios, and management should use them sparingly in the future.

A word of caution: These results indicate the experience of only one com-pany and should not be considered typical. Further-more, the definition of suc-cess adopted by a particular management affects the analysis. Here success was defined as "demonstrated ability to meet or exceed sales quotas in two years out of three." Other managements might define success differently.

Figure 11.1 Source Analysis of Soles Personnel Recruited by an Electrical Products Manufacturer

Source	Number of Recruits	% of Total	Number of Successes	Ratio of Successes to Total
Recommendations by own	22	27.50%	10	0.455
Salespeople		'-		
Educational institutions	14	17.50	10	0.715
Sales personnel for	12	15.00	2	0:167
No competing firms				
Employment agencies	10	12.50	3	0.300
Personal acquaintances of	8	10.00	5	0.625
Executives				
Customers' employees	6	7.50	I	0.167
Unsolicited applications	5	6.25	2	0.400
Competitors' salespeople	3	3.75	2	0.670
	-		-	-
	80	100.00%	35	
Ratio of successes to total				0.437
From all sources				

Another word of caution: Reliability of this sort of analysis depends upon the size of the group evaluated. More reliable conclusions can be drawn about the worth of a source produc-ing twenty-two recruits than one producing only three recruits. However, even if only a small number of cases is available, the data may still serve as a helpful, although less reliable, guide in identifying promising sources of new salespeople.

Sources With in the Company

Company Sales Personnel

Many individuals apply for sales jobs because they know company sales personnel, and salespeople's recommendations may consti-tute an excellent source. Often such applicants already know something about company policies, and the fact that they apply indicates a favorable disposition toward the company. Salespeople have wide circles of acquaintances, since both on and off the job, they continually meet new people and have many friends with similar interests. Many of their contacts have potential as sales personnel -indeed; many now sell for other firms: However, some salespeople are not dis-criminating in their recommendations, and their recommendations need careful appraisal. Salespeople are a particularly valuable source of recommendations when jobs must be filled in remote territo-ries; sales personnel in the same or adjacent areas may know more about unique territorial requirements and local sources of personnel than home office executives.

Company Executives

Recommendations of the sales manager, the president, and other company executives are an important source. Sales executives' per-sonal contacts may yield top-caliber people because of their understanding of the needed qualifications. Other executives' recommendations, by contrast, of-ten are based upon personal friendships and represent less objective appraisals. Experience is the way to evaluate each executive's worth as a source of recruits, and the type of analysis shown in Figure 11.2 adapts easily for this purpose.

Internal Transfers

Two additional internal sources are other departments and the non selling section of the sales department. Employees desiring transfers are already familiar with company policies, and the personnel department has considerable detailed information about them. While little is known about their aptitude for selling, they often possess excellent product knowledge. Aptitude for selling, of course; can be tested formally or by trial assignment to the field. Transfers are good prospects for sales positions whenever product knowledge makes up a substantial portion of sales training, since it may be possible to accel-erate field assignments.

Sources Outside the Company

Direct Unsolicited Applications

All companies receive unsolicited "walk-in" and "write-in" applications for sales positions. Some sales managers favor imme-diate hiring of applicants who take the initiative in seeking sales jobs, the reason-ing being that this indicates selling aggressiveness. Others reject all direct appli-cations because they believe the proportion of qualified applicants from this source is low. The most logical policy is to treat volunteer applications the same as solicited applications-applicants not meeting minimum requirements as set forth in job specifications should be eliminated; those meeting these require-ments should be processed together with Other applicants. The aim should be to recruit the best qualified applicants regardless of the sources from which they come. Direct unsolicited applications do not provide a steady flow of applicants; the volume fluctuates with changing business conditions.

Employment Agencies

Sales managers traditionally regard employment agen-cies as unpromising sources. Many use agencies only after exhausting other sources. Many believe that good salespeople neither need nor will use an agen-cy's services. Experience, unfortunately, tends to reinforce such attitudes, be-cause frequently agency referrals' fail to meet sales job specifications. Sometimes this traces to agency deficiencies (such a_ the overzealous desire to receive place-ment fees), but often the fault is that of prospec-tive employers, who may be using unrealistically high job specifications, may not make the company's re-quirements clear, and so on. Experiences with individual agencies need re-viewing periodically, using the pattern of analysis illustrated in Figure 11.2.

Whenever an agency is used, it should receive a clear statement of the job's objectives and a complete rundown of job specifications. The recruiter 'should meet with an agency counselor to assure that pertinent information is furnished and understood. Agencies need time to learn about an employing firm and its unique requirements—considerable gains accrue from continuing relationships with agencies. Agencies often administer batteries of tests, check references, and perform tasks otherwise done by the employer. Of interest to sales Executives is the growing number of agencies that take the initiative in searching' out promis-ing job candidates, employed or not, instead of confining themselves to "volun-teer" applicants.

Sales People Making Calls on the Company

The purchasing director is in con-tact with sales personnel from other companies and is in a position to evaluate their on-the-job performances. The purchasing director meets high-caliber salespeople for whom jobs with the company would be attractive both financially and in other respects. In well-managed companies, the purchasing director, serving as a "center of influence," contributes names to the prerecruiting reservoir.

Employees of Customers

Some companies regard their customers as a recruit-ing source. Customers recommend people in their organizations who have reached the maximum potential of their existing jobs. Such transfers may have a favorable effect upon morale in the customer's organization. A customer's em-ployees should be recruited only with the prior approval of the customer.

Sales Executives' Clubs

Many sales executives' clubs operate placement ser-vices. Salespersons seeking new positions submit personal data sheets that are duplicated and forwarded to members. At club meetings, sales executives have opportunities for informal discussion and exchange of placement information.

Sales Forces of Noncompeting Companies

Individuals currently employed as salespersons for non competing companies are often attractive recruiting pros-pects. Such people have selling experience, some of it readily transfer-able, and for those who have worked for companies in related industries, there is the at-traction of knowing something about the product line. For salespeople in dead-end jobs and those seeking to upgrade their employment, this source provides a channel for career advancement.

Sales Forces of Competing Companies

Because of their experience in selling similar products to similar markets, personnel recruited from competitors' sales forces may require only minimal training. However, competing sales forces are costly sources, since generally premium pay must be offered to entice sales per-sonnel to leave their present positions. Some sales executives, as a matter of pol-icy, refrain from hiring competitors' salespersons-they feel that an individual hired away from one organization for higher pay or other enticements may be similarly tempted in the future. However, most sales executives will consider in-dividuals who have worked previ-ously for competitors even though they now are either working somewhere else or are unemployed.

In considering the recruitment of Individuals currently employed by com-petitors, a key question to answer is why does this person want to leave his or her present position? When the new job will not improve the applicant's pay, status, or future prospects, the desire to change companies may trace to personality conflicts, or instability. But dissatisfaction with a present job may not mean that the fault is the applicant's. If the applicant has sound reasons for switching com-panies, there may be an opportunity to obtain a promising person who is ready for productive work.

Educational Institutions

This source includes colleges and universities, com-munity colleges, vocational-technical institutes, business colleges, high schools, and night schools. It is reasonable to expect that graduates have attained certain educational levels, the amount depending upon the type of school Many have training in general business, marketing, and sales techniques. Schools are a fruit-ful source of new sales personnel at graduation time, and some maintain year-round placement services for their gradu-ates. Recent graduates are new to the labor market and, consequently need not be attracted away from other jobs.

Colleges and universities are important sources of sales and management trainees, and competition is keen for their graduates. Often the graduating sen-ior is in a position to choose from among several job offers. Companies not maintaining close relations with the colleges are at a disadvan-tage, frequently being unable to obtain appointments on overcrowded campus recruiting sched-ules and finding it difficult to attract students away from companies' better known .to the college. Even better known companies face stiff competition in hiring the cream of the graduates. A few companies offer sales training pro-grams to out standing juniors during vacation periods. Thus, the trainee and the company have an opportunity to evaluate each other, and trainees who probe satisfactory are offered jobs upon graduat-ing.

What is the Recruiting Effort?

The sales personnel recruiting effort differs from one company to another, mainly as to the sources of recruits and recruiting methods, and stem from man-agement's size up of the appropriate combination of selling styles. Different sell-ing styles call for individuals with varying qualifications as to type and amount of education, other training, and experience. If trade selling is the basic style, the management seeks individuals with minimal or general education and little or no experience. If missionary selling is the basic style, management looks for higher-caliber individuals with specialized educations (as in science or pharmacy, if the job involves calling on physicians or hospitals) or equivalent qualifications, perhaps gained through experience in a similar job with another company. If technical selling is the basic style, management looks for even higher-caliber in-dividuals with scientific or engineering educations and/or backgrounds. If the selling job also involves new-business selling, management looks for individuals with the required abilities to apply this selling style. Therefore, if the job specifi-cations call for special talents, such as a knowledge of engineering or pharmacy, then management tends to emphasize educational institutions as sources of re-cruits and solicits applicants through personal contacts. Conversely, if trade sell-ing ability is the main job qualification needed, management taps diverse sources and emphasizes indirect recruiting methods (for example, advertising in help wanted columns and respond-ing to "situations wanted" advertisements in news-papers and trade publications).

The scope of the recruiting effort is influenced by the number of recruits desired, which, in turn, is influenced by the size and maturity of the sales organization itself, the sales personnel turnover rate, the forecasted sales volume, dis-tribution channels, and promotional strategy. A large sales organization must re-cruit more new people just to maintain its average strength than is true of smaller organization. Two firms of comparable size (as to sales volume) may have different-sized sales forces, often because one uses a different distribution chan-nel or stresses advertising more in its promotional strategy. As might be ex-pected, companies with high sales personnel turnover rates must do more re-cruiting than those with lower rates.

Personal Recruiting

College Recruiting

Personal recruiting is used for recruiting graduates of ed-ucational institutions. Campus interviewing is often planned as a companywide affair, because this avoids much duplication of effort. Representatives of differ-ent departments do the interviewing, and the personnel department plans and coordi-nates the drive. In many companies an assistant sales manager shares the responsibility for interviewing students with the regional or district sales man-ager located nearest the specific campus. In other cases, home office sales execu-tives rotate campus interviewing responsibilities among themselves; sometimes each returns annually to the same campuses, thus building long-term relation-ships.

College recruiting requires thorough planning. Statements of trainee re-quirements should be mailed to college placement officers early, preferably no later than January. The list of colleges, based primarily upon past interviewing experience, is updated, and interview dates are requested. The best months for recruiting June graduates are February, March, and April and March is the most in demand. If the visit comes too late in the spring, interviewers find that many of the best qualified graduates have already taken jobs. After visiting dates have been confirmed, colleges are sent letters specifying such details as salary, the training program, and starting date of employment. Some recruiters also send copies of promotional materials, company histories, and application blanks.

College placement officers schedule a 20- to 30-minute interview for each student. All interested students are granted interviews, the only screening device used. The most promising candidates are invited to company offices for fol-low-up interviews. However, some campus interviewers have the authority to hire if it appears that promising candidates will be lost through delay.

Recruiting Direct-to-Consumer Sales Personnel

One situation where persona] recruiting sees widespread use in the direct-to-consumer selling industry, crowded with companies that have a difficult time recruiting sales personnel. The type of selling, unattractive to many people, and the uncertainty of earning result in high sales force turnover rates. Experience has taught many of these companies that their best source of new salespeople is their own salespeople, so many (if not most) direct-selling ,companies offer bonuses (sometimes referred to as "bounties") for each new salesperson recruited.

Recruiting Consultants

In many cities, independent firms operate as special-ists in recruiting sales personnel for client firms. These consultants maintain contacts with diverse local organizations (for example, schools, and churches, train-ing specialists, salespersons' dub8, veterans' associations, and alumni associations) and have files identifying possible candidates for sales jobs. Some pre-screen applicants through collecting personal histories, administering aptitude tests, and so on. Companies using recruiting consultants generally provide the appropriate job descriptions and job specifications. Sometimes, recruiting con-sultants are referred to as "headhunters," though this usually implies that the consultant has been commissioned to locate top-ranking executives.

Indirect Recruiting through Advertisement in Newspapers

City newspapers carry numerous advertisements publicizing openings for sales personnel. Such advertisements appear both in classified (want-ad) sections and as display advertising. So great is the number of prospective job candidates reached by a single advertisement that companies often try to reduce the volume of applications. If the employer publishes details about the company and job, fewer obviously unqualified persons will reply. Specific job details vary with the company and its situations, and these should be in the ad if it is to attract good applicants. Some ads give the compensation range of successful company sales personnel. Others explain that the person selected is to replace a regular sales-person in an established territory with active accounts. Still others specify that only highly qualified professional salespeople need apply. Information of this sort helps to convince promising applicants that the opening is legitimate.

Most sales managers favor open over blind advertisements, although mixed practice exists. An open advertisement reveals the company identity; a blind advertisement hides company identity behind a "box number, c/o this pub-lication." The company name, if well known and respected, should be prominently featured to attract the best applicants.

Location of the advertisement in the publication is important. Newspaper advertisements on sports or financial pages are usually more productive but cost more per insertion than those in classified sections. Display ads on a sports page, for example, not only attract unemployed persons looking for work but employed ones who are not in the job market but who can be attracted by better jobs.

When direct-to-consumer sales organizations fail to recruit sufficient sales personnel through offering bonuses to their present salespeople, they general_ use direct-mail recruiting, the mailing list often consisting of the names of former company sales personnel or names purchased from mailing list companies selling mailing lists. In addition, help wanted ads are placed in local news-papers or in publications such as Specialty Salesman. As a last resort, direct-selling companies, especially those with field supervisors, use cold canvass recruiting in open territories.

Recruiting Brochure's

Some companies distribute brochures outlining sales career opportunities to ap-plicants answering recruiting advertisements, as well as those contacted through such centers of influence as career counselors in educational institutions. Effective brochures are written from the viewpoint of the prospective sales recruit.

Besides describing the company and its history, the brochure details the qualifi-cations required for sales jobs, and the salesperson's duties, responsibilities, and advancement opportunities. Short write-ups on those who are and have been successful company salespeople are included. Effective brochures make liberal use of pictures, charts, diagrams, and other presentations-a few even give the telephone number of a "hot line" where the prospect can get more information.

Conclusion

Recruiting the right kind and the right number of sales personnel is an impor-tant responsibility of sales management. Recruiting sources need identifying, both those internal to the company and those external to it. Different selling styles influence both the sources of recruits and recruiting methods, because they call for individuals with varying types and amounts of education, other training, and experience. Personal recruiting is used for recruiting persons graduating from educational institutions and other recent graduates. Personal recruiting by present sales personnel is the main method of securing direct-to- consumer sales personnel, while personal recruiting by independent consultants is widespread in procuring new sales personnel in large metropolitan areas. In-direct recruiting, mainly through placement of advertisements in print media, is used to obtain replacement personnel when only one or a few individuals are needed and by direct-to-consumer sales organizations failing to recruit sufficient sales personnel through personal recruiting methods.

Points to Ponder

The Recruiting and Selection Process

Step 1

Planning for recruitment and selection:

Job analysis
Job qualifications
Job description
Recruitment and selection objectives
Recruitment and selection strategy

→

Step 2

Recruitment: Locating Prospective Candidates

External Sources

Internal Sources

→

Step 3

Selection: Evaluating & Hiring
Screening Resumes and applications
Initial interview
Intensive interviews
Testing
Assessment Centers
Background Investigation
Physical Exam
Selection Decision/ Job Offer

Sources outside the company

- Direct unsolicited applications
- Employment Agencies
- Salespeople making calls on company
- Employees of customers
- Sales executives' club
- Salesforce of non competing companies
- Salesforce of competing companies
- Educational institutions

Recruitment sources within the company

- Company sales personnel
- Company executives
- Internal transfers

Questions

Q1. What do you mean by recruitment reservoir?

Q2. What is the advantage of using employment agencies to get the sales people?

Q3. When should classified advertisements be used to attract sales people?

Q4. What are internal source of recruitment?

LESSON 12
SELECTION PROCESS

Learning Objectives

- To understand the salespeople selection process
- To understand the different interviewing techniques

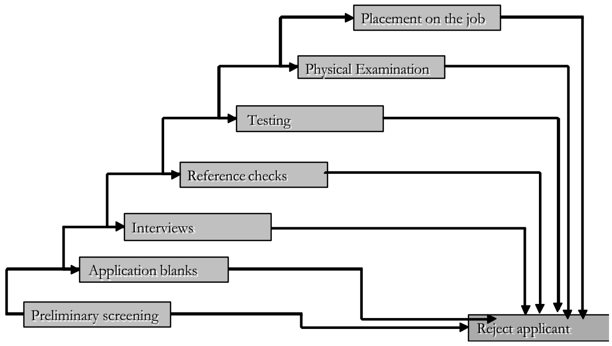
The next step in hiring a salesperson is selection. In this lesson we will study about the selection process.

Selecting Sales Personnel

Selection systems for sales personnel range from simple one-step systems consisting of nothing more than an informal personal interview, to complex multiple-step systems incorporating diverse mechanisms designed to gather information about applicants for sales jobs. A selection system is a set of successive "screens," at any of which an applicant may be dropped from further consideration. Figure 12.1 is an example-at anyone of the seven steps in this tern, a decision to drop the applicant may be made. Employment offers are extended to applicants surviving all seven steps. The order of use of the different screening mechanisms is related more to their helpfulness in terms of the information they secure than to the relative expense in using them.

Companies using multiple-step selection systems differ as to the number of steps and their order of inclusion. Each company designs its selection system to fit its own information needs and to meet its own budgetary limitations. A selection system fulfills its main mission if it improves management's ability to estimate success and failure probabilities. Management, in other words, because has available the information gathered through the selection system, makes more accurate estimates of the chances that a particular applicant will succeed a company sales position. As applicants "survive" through succeeding steps in the system, the additional increments of information enable increasingly accurate estimates of success and failure probabilities. Recognize, however, that no selection system is infallible; all eliminate some who would have succeeded at recommend hiring some who fail.

Typical Steps in the Selection Process



Preinterview Screening and Preuminary Interview

Preinterview screening is for the purpose of eliminating obviously unqualified applicants, thus saving the time of interviewers and applicants. The applicant is provided information about the company and general details about selling positions in it-a well-prepared recruiting brochure does 'this effectively and does not require an employee's time for anything other than to hand it to the applicant. Also most companies ask applicants to complete interview application forms, which obtain information on the applicant's basic qualifications, education, experience, health, and the like. No interview application form should be longer than two pages, and the applicant should be able to complete it in a few minutes. The interview application form fulfills its mission if it enables management to detect the presence or absence of predetermined minimum qualifications. Applicants not possessing these minimum qualifications do not receive appointments for interviews. The preliminary interview can be handled by a low-paid clerk or secretary, so this is generally the lowest-cost selection step.

The preliminary interview is short, perhaps no more than twenty minutes. Questions about the company and the job are answered while the company employee determines whether the applicant meets minimum qualifications. If this hurdle is passed and the applicant expresses interest, he or she is asked to fill out a formal application form, and an appointment is made for one or more formal interviews.

Formal Application Form

The formal application form serves as a central record for all pertinent information collected during the selection process. A formal application is filled out after a preliminary interview indicates that a job candidate has promise as a company salesperson. The application form may be filled out by the applicant personally or by an interviewer who records the applicant's responses. In either case the completed formal application amounts to a standardized written interview, since most of the information that-it contains could be obtained through personal interviews. Sometimes, sections are reserved for later recording of the results of such selection steps as reference and credit checks, testing, and physical examination. Ideally each company should prepare its own formal application form, since no two companies have the same information requirements-information significant for one may be useless for another. But if a company has only a small sales force, and recruits few people, the time and cost of preparing its own application form may warrant the choice of a standard form. Companies using standard forms ignore items inappropriate for them and obtain through interviewing needed additional information.

Certain items of information are always relevant to selection decisions, and these are assembled on the application form. Included are present job, dependents, education, employment status, time with last employer, membership in organizations, previous positions, records of earnings, reasons for leaving last job, net worth, living expenses, and length of job-hunting period.

Final decisions as to the items to include on the form should be based upon analysis of the existing sales force. The names of sales personnel should be arranged along a continuum, the best performer at one end and the worst performer at the other. This list is then divided into three or more parts, for example, good, average, and poor; if the sales force is large, finer subdivisions are justified. In measuring current qualifications, data are collected from sales records, supervisors' evaluations, and similar sources. The next step is to compare good and poor performers according to qualifications possessed by each at the time of hiring. This reveals any factors that differentiate the two groups, and these items should be included on the application form. The validity of this basis of evaluation depends upon the size of the individual groups, and no group should be smaller than thirty.

Objective Scoring of Personal History Items

The total profile, rather than any single item, determines the predictive value of personal history items. Considered singly, few items have value as selection factors, but individuals possessing all the personal history requirements are those most likely to succeed. However, many potentially successful sales-people do not possess all the requirements. One company found that most of its best salespeople were hired between the ages of thirty and thirty-five years, 'yet there were some as young as nineteen and as old as fifty-two. The significance of each personal factor is relative, not absolute. Although thirty to thirty-five may be the preferred age range, applicants outside this age range should receive consideration (since other factors may more than offset the fact that they are outside the desired age range).

Some firms with large sales forces establish objective measures for personal history items. A maximum possible score is assigned for each item, and the points assigned to a particular individual depend upon proximity to the ideal. In one firm fifteen personal history items are used as selection factors, at a maximum value of 10 points each. The maximum score is 150 points, and the cutoff is 100. Successful salespersons in this company all scored over 100 when hired, and the company automatically disqualifies all applicants with scores under 100.

The Interview

The interview is the most widely used selection step and in some companies it comprises the entire selection system. Some personnel experts criticize the interview as an unreliable tool, but it is an effective way to obtain certain information. No other method is quite so satisfactory in judging an individual as to ability in oral communication, personal appearance and manners, attitude toward selling and life in general, reaction to obstacles presented face to face, and personal impact upon others.

Good interviewers avoid covering the same ground as other selection devices. The interviewer reviews the completed application form before the interview and refrains from asking questions already answered. Perusal of the completed application indicates areas that require further questioning.

It is important to sell the applicant on the company, but there are more efficient ways of accomplishing this than through personal interviewing. One is by providing the applicant with a recruiting brochure. Another may be used when several applicants are to be interviewed consecutively, as in college recruiting: the interviewer meets with the whole group and describes general company policies. But it is still necessary to answer questions during interviews.

The job interview can be a trying experience for the applicant. Even for experienced salespersons accustomed to selling themselves and their products daily to strangers, the great importance attached to a job change and the unfamiliarity of the situation may cause nervousness. One way to relieve tension is for the interviewer to begin with questions on the person's family and educational background, subjects about which most people talk freely. One of the interviewer's tasks is to persuade the applicant that the firm is a desirable employer. Throughout the interview, pleasant rapport between interviewer and job applicant should be maintained.

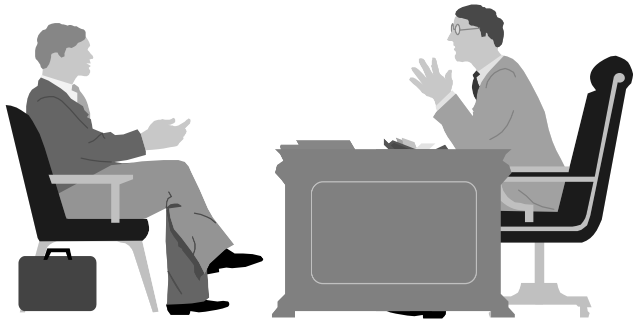
Questions During Interviewing

The Questions asked to the applicant should reflect the following:

- **Attitude:** Ever lose in competition? Feelings? How do you handle customer complaints?
- **Motivation:** How will this job help you get what you want? What obstacles are most likely to trip you up?
- **Initiative:** How do you feel about working alone? How did you get into sales?
- **Stability:** What things disturb you most? What is your most pleasant work experience?
- **Planning:** Give me an idea of how you spend a typical day.
- **Insight:** Tell me about your strengths and weaknesses. How would you size up your last employer?
- **Social skills:** What kind of customer (person) do you get along with best? What methods are effective for dealing with people?

Interviewing Techniques

Let us study about the various interviewing techniques.
Many companies provide specialized training for those doing interviewing. Scientifically designed rating scales and interview record forms help interviewers to guide discussions along productive lines. Interviews have become increasingly important sources of information about applicants and their reactions. The informal, unplanned interview has been giving way in most companies to newer techniques, some of which are described here.



I. Patterned Interview

Here the interviewer uses a prepared outline of questions designed to elicit a basic core of information. The interviewer may work directly from the outline, recording answers as they are given, but this may make the conversation stilted and the applicant nervous. Greater spontaneity results when the interviewer memorizes the outline and records the answers after the interview.

2. Nondirective Interview

In this technique the applicant is encouraged to speak freely about his or her experience, training, and future plans. The interviewer asks few direct questions and says only enough to keep the interviewee talking. The nondirective interview does not prairies answers to standard questions, and much time is spent on outwardly irrelevant subjects. Some personnel experts say that a nondirective technique yields maximum insight into an individual's attitudes and interests. Expert interpretation reveals much about the applicant often including things of which the individual is not consciously aware. This technique's proponents claim that it is the best method for probing an individual's personality in depth. The main drawback is that administering the interview and interpreting the _results demand specialized instruction.

3. Interaction (stress) Interview

The interaction interview simulates the stresses the applicant would meet in actual selling and provides a way to observe the applicant's reactions to them'. This interviewing technique has long been used by sales executives who, in interviewing prospective sales personnel, hand the applicant an ashtray or other object and say "Here, sell this to me." The objective is to see how the applicant reacts to the surprise situation and to size up selling ability.

Interaction interviewing has become a more complex, and sophisticated, technique. In one version, two, interviewers are required-one uses psychological techniques to set up 'the simulated situations, and the other, who is present but not an active participant in the interview observes and records the applicant's reactions. Because of their subtlety, the delicacy involved in their application, and the importance of expert interpretation, the newer kind of interaction interviews should be planned, administered, and interpreted by a trained psychologist.

4. Rating Scales

One shortcoming of the personal interview is its tendency to lack objectivity, a defect that is reduced through rating scales. These are so constructed that interviewers' ratings are channeled into a limited choice of responses. In evaluating an applicant's general appearance, for instance, one much-used form forces an interviewer to choose one of five descriptive phrases: very neat, nicely dressed, presentable, untidy, slovenly. Experience indicates that this results in more comparable ratings of the same individual by different interviewers. One drawback of the rating scale is that its objectivity restricts precise description of many personal qualities. It is good practice to encourage interviewers to explain ratings in writing.

References

References provide information on the applicant not available from other sources. Some employers deny the value of references saying that references hesitate to criticize personal friends, or ex-employees. But the experienced employer reads between the lines, and sees where, for example, the weak candidate is not praised.

Personal contact is the best way to obtain information from references, since facial expressions and voice intonations reveal a great deal, and most people are more frank orally than in writing. When a reference is located at a distance, a telephone call may substitute for personal contact. Solicitation of written recommendations is the weakest approach and should be a last resort.

Applicants tend to name as references those on whom they can rely to speak in their favor. In addition, there is tendency for references to be biased in favor of an applicant. These tendencies are partially offset by contacting persons not listed as references but who know the applicant. These people often are excellent sources 'for candid appraisals and fall into four classifications:

1. Present or former employers: These have observed the applicant under actual work conditions. However, many sales executives do not approach a present employer without the applicant's permission.

2. Former customers: If applicants have selling experience, their former customers are in a position to assess sales ability. It is advisable to contact these individuals without the applicants' assistance. This helps to avoid those who are personal friends of applicants.

3. Reputable citizens:If references suggested by the applicant are used, it is best first to contact those who are reputable, well-known persons. Such people do not stake their reputations on those in whom they have little confidence.

4. Mutual acquaintances: Those who know both the applicant and the employer may give frank evaluations. What is even more important is that the employer is able to judge the worth of such evaluations.

Credit Checks

Many companies run credit checks on applicants for sales positions. When a heavy burden of personal debt is found, it may indicate financial worries interfering with productivity, or a motivating factor serving to spur productivity-to determine which requires further investigation.

In analyzing the credit report, the executive looks for the danger signals chronic lateness in making payments, large debts outstanding for long periods, or a bankruptcy history-any of which signal the need for additional probing. Financial irresponsibility mayor may not be indicative of irresponsibility in meeting job obligations. Information on all aspects of the applicant's behavior, no financial as well as financial, needs considering.

Employment Tests

As used here the term tests refers to a procedure , techniques or measurement instrument for ascertaining characterristics such as aptitudes capabilities , intelligence , knowledge , skills or personality . Sales managers may approach the testing process in any one of several ways. They may decide the following

- Not to use tests
- To administer tests and interpret the results themselves
- To administer tests and have someone else interpret the results .
- To turn the testing over to consulting industrial psychologists.

Sales managers should have the ability to judge the value of tests whether or not they ever use them.

The majority of sales managers use tests as only one part of selection process. The purpose of testing is to determine whether applicants have the traits the company feels leads to selling successfully. In turn, this results in Advantages such as lower turnover and increased performance.

Reliability and Validity

- Selection tests must be reliable and valid.
  - Reliability is the degree to which the tool measures the same thing each time it is used.
    - Example: scores should be similar for the same person taking the same test over time.
  - Validity is the degree to which the test measures what it is supposed to measure
    - Example: how well a physical ability test predicts the job performance of a firefighter.
  - Managers have both an ethical obligation and a legal duty to develop good selection tests.

Types of Tests

Four types of psychological tests are used in selection systems for sales personnel:

- Tests of ability measure how well a person can perform particular tasks with maximum motivation (tests of best performance).
- Tests of habitual characteristics gauge how prospective employees act in their daily work normally (tests of typical performance).
- Interest test measures an individual's interest in a particular type of job.
- Achievement tests measure how much individuals have learned from their experience, training, or education.

Tests of Ability

Tests of ability include tests of mental ability (intelligence tests) and tests of special abilities (aptitude tests). Tests of mental ability, or intelligence tests, are used in a wide range of applications and have higher validity and reliability than most psychological tests. However, they measure primarily abilities that make for success in educational or training situations, namely, language usage and comprehension, and abstract reasoning or problem-solving ability. They do not measure creativeness, originality, or insight. They are measures of mental aptitude, not of general intelligence. Because tests of mental ability are timed tests, they indicate an applicant's ability to learn quickly and to arrive at accurate answers under pressure.

Where there is no other evidence of ability, such as graduation from college, the test of mental ability serves as a screen to eliminate applicants falling below a predetermined level. A wide variety of mental ability -tests- is available.

Certain tests measure special abilities or aptitudes, such as spatial and perceptual abilities, speed and reaction time, steadiness and controlled movement, mechanical comprehension, and artistic abilities. Aptitude tests used individually aid in making selection for some industrial jobs, as illustrated, by the use of perception tests in selecting clerical personnel. But because selling requires diverse aptitudes, and sales job specifications differ even among competing companies, an especially designed battery of aptitude tests is needed for sales personnel.

The procedure for developing a battery of sales aptitude tests is straightforward. The test expert begins with the job specifications (derived, as you will recall, from the job description), checking them to assure that the abilities required for job performance are correctly identified. Then the expert selects existing tests and/or constructs new tests to measure each aptitude. Finally, the test expert develops a scheme for weighting and combining the scores of individual tests.

Empathy and ego drive are essential in good salespeople. Empathy is the ability to feel as others do, to put oneself in another person's shoes. The empathetic salesperson senses the reactions of customers and adjusts to these reactions. Ego drive makes the salesperson want to make the sale in a personal way. The salesperson's self-picture improves by virtue of conquest and diminishes with failure. The good salesperson has a proper balance between empathy and ego drive.

Tests of Habitual Characteristics

These include attitude, personality, and interest tests. Attitude tests are more appropriate as morale-measuring techniques than as selection aids. They ascertain employees' feelings toward working conditions, pay, advancement opportunities, and the like. Used as sales personnel selection' devices" they identify abnormal attitudes on such broad subjects as big business, labor unions, and government. Their validity is questionable, since people often profess socially acceptable attitudes they do not actually have. Attitude tests do not measure the intensity with which particular attitudes are held.

Personality tests initially were used to identify people with psychotic tendencies-and certain tests are useful for this purpose. Subsequently, some have been used for measuring personality traits in normal individuals, or which purpose they have little or no validity or reliability. The basic limitation is the lack of uniform definition for such traits as initiative or aggressiveness. The chief use of the personality test is as a screening device to identify persons with abnormal personalities.

Interest Tests

A basic assumption implicit in the use of interest tests is that a relationship exists between interest and motivation. Hence, if two persons have equal ability, the one with the greater interest in a particular job should be more successful in that job. A second implicit assumption is that interests are constant, that those of a person at age forty are the same as they were at twenty-one.

The interest test is useful for vocational guidance, but it is not a satisfactory selection device. This is because of the opportunity for faking responses individuals may select answers overstating their interest in a particular field.

What proof is there that interest tests help in predicting selling success? Unfortunately, very little! Strong demonstrated that there is a positive but low correlation between interest scores and success in insurance selling. Significant variation has also been found in the interest test scores of successful and unsuccessful salespersons of accounting machines. Otherwise, there is little proof of the value of interest tests as devices for predicting selling success.

Achievement Tests

Achievement tests seek to determine how much individuals know about a subject. Few standardized achievement tests are used by industry, because special job skills require different knowledge. Tests of clerical and stenographic ability are one exception, and civil service examinations are another. For the employer custom designing a test for sales applicants, achievement tests can assess the knowledge applicants possess in such areas as the product, marketing channels, and customer relations. However, as with other psychological tests, test designing is a job for an expert, not an amateur.

Conclusions on Testing

Besides the legal requirements that tests must not be used in ways that discriminate, there are other precautions to observe when incorporating psychology tests into a sales personnel selection system. It is essential to have accurate job specifications, derived from up-to-date and complete job descriptions. A qualified expert's services are required in selecting tests and in devising new ones when, necessary, in determining test validity and in detecting differential validity, in administering the tests themselves, and in interpreting the result. Effective scales executives recognize that psychological testing, although capable of making a valuable contribution, is but one step in a selection system.

Physical Examinations

Since good health is important to a salesperson's success, most companies require physical examinations. Because of the relatively high cost, the physical examination generally is one of the last steps. However, if physical condition is critical to job performance-such as the ability to carry a sales portfolio weighing 20 kilos-a physical examination is positioned early in the selection system. Even in companies requiring entrance physical examinations, poor health often accounts for some separations, but when the examinations are not compulsory, the number is higher.

Conclusion

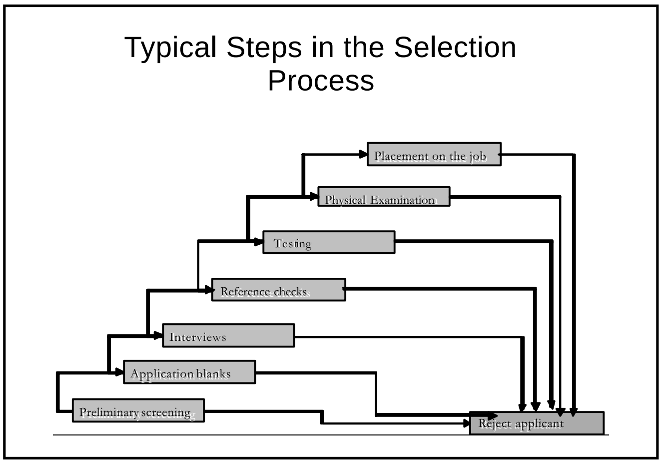
Appropriate selection procedures, and their skillful execution, result in greater selling efficiency. A higher-grade salesperson is produced, and the advantages of having such employees make impressive list-better work quality improved market coverage, superior customer relations, and a lower ratio of selling expense to sales. Good selection fits the right person to the right job, thereby increasing job satisfaction and reducing the cost of personnel turnover. Training costs are reduced, either because those hired are more capable of absorbing training or because they require less training.

The consequences of inappropriate selection policies are higher selling expenses. The misfit salesperson has a higher expense ratio because of lower sales, higher traveling costs, greater sales returns and adjustments, and inefficient distribution of working time. Because misfits rarely stay long with a company, the. Turnover rate rises along with hiring and training costs. Administrative costs go up, since low-grade salespeople require extra motivation and supervision. In short, the unsuccessful salesperson affects the profit picture adversely.

There are also hidden costs of poor selection, costs that cannot be expressed in terms' of money. Customer relations deteriorate, as excessive turnover prevents establishment of close customer-salesperson relationships. Moreover, the effects of poor selection and resulting inadequate sales force performance spread to other departments. Costs rise throughout the business as work is disrupted in such departments as credit, accounting, advertising, and production.

Notes -

Points to Ponder



Types of tests

- **Tests of ability**
- **Tests of habitual characteristics**
- **Interest tests**
- **Achievement tests**

Questions

Q1. Why are sales candidates asked to fill an application blanks?

Q2. Explain why interviews are used to screen applicants?

Q3. Why are employment tests conducted?

Q4. What are the different testing methods?

Q5. Why do firms attempt to validate testing?

LESSON 13
TRAINING OBJECTIVE TRAINING METHODS

Learning Objectives

- To understand the objectives of sales training program
- To know about training content
- To understand the different methods of training
- To understand how training is executed

It is required that the selected salesforce should undergo training. In this lesson let us study how a sales person is trained.

What is Sales Training?

Sales Training- effort put forth by an employer to provide the salesperson job related culture, skill, knowledge, and attitudes that result in improved performance in the selling environment

Planning Sales Training Programs

The purpose of sales training is to achieve improved job performance. In the absence of training, job performance improves with experience. Training substitutes for, or supplements experience, so sales personnel given training reach high job performance levels earlier.

The overall, efficiency of a company's personal-selling operation is influenced by the state of relations with customers and prospects. The sales force plays a crucial role in molding and maintaining these relations. Contrasted with inexperienced sales personnel, experienced sales personnel maintain better continuing relations with established accounts and make better impressions on prospects. Sales training contributes through accelerating (for the newly recruited sales personnel) the process of learning through experience.

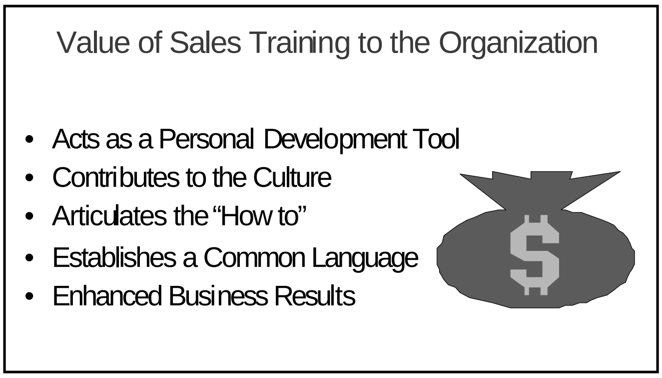
Given appropriate initial training, most recruits become productive sales personnel. Furthermore, continuing sales training improves job performances for both born and made sales personnel.

Modern sales executives, too, consider experience the most valuable road to improved job performance. But they also are convinced that sales training contributes to sales job performance. They regard training as a supplement to, not a total substitute for, experience.

Building Sales Training Programs

There are several types of sales training programs. The most comprehensive and longest is the training program for newly recruited sales personnel. More intensive and shorter programs on specialized topics, as well as periodic refresher courses (collectively known as continuing sales training), are presented for experienced sales personnel. In addition, many companies offer sales training programs for the sales personnel of their distributors and/or dealers. Some programs are designed to develop individuals as sales trainers (full or part time) or as junior-level sales executives (district or branch sales managers). Each type of program serves a different purpose, and its content reflects that purpose.

Building a sales training program requires five major decisions. The specific training aims must be defined, content decided, training methods selected, arrangements made for execution, and procedures set up to evaluate the results. Some sales training specialists refer to these decisions as the A-C-M-E-E decisions-aim, content, methods, execution, and evaluation.



Defining Training Aims

Regardless of the type of sales training program, defining its specific aims (the A in A-C-M-E-E) is the first step in its planning. Defining the general aim is not sufficient. Although, for example we may want to increase the sales force's productivity through training, we must identify what must be done to achieve increased productivity. General aims are translated into specific aims phrased in irrational terms.

Specific aim definition begins with a review of general aims and the means currently employed to attain them. The process cannot be completed until sales management perceives the training needs from which specific training aims derive directly. Training needs, then, must be identified. The following discussion focuses on factors that management considers as it seeks to identify training needs for (1) initial sales training programs and (2) continuing sales training programs.

Identifying Initial Training Needs

Determining the need for, and specific aims of an initial sales training program requires analysis of three main factors: job specifications, individual trainee's background and experience, and sales-related marketing policies.

Job Specifications

The qualifications needed to perform the job are detailed in the job specifications. Few people possess all these qualifications at the time of hiring. The set of job specifications needs scrutinizing for clues to the points on which new personnel are most likely to need training. Other questions related to job performance need considering: How should salespeople apportion their time? Which duties require the greatest proportion of time? Which are neglected? Why? Which selling approaches are most effective? Answers to these and similar questions help in identifying specific training needs of newly recruited sales personnel.

Trainee's Background and Experience

Each individual enters an initial sales training program with a unique educational background and experience record. The gap between the qualifications in the job specifications and those a trainee already has represents the nature and amount of needed training. In all organizations, determining recruits real training needs is essential to developing initial training programs of optimum benefit to company and trainee alike.

Sales-Related Marketing Policies

To determine initial sales training needs, sales-related marketing policies must be analyzed. Differences in products and markets mean differences in selling practices and policies, which in turn, point to needed differences in training programs. For instance, selling a line of machine tools requires emphasis on product information and customer applications, whereas selling simple, no technical products demands emphasis on sales techniques. Differences in promotion, price, marketing channel, and physical distribution all have implications for initial sales training. In the case of promotion, for example, if advertising is not used or is used relatively little, sales training should prepare sales personnel to handle considerable promotional work, but if advertising is used extensively to supplement the sales force's efforts, new sales personnel need to learn how to coordinate their activities with advertising.

Date__________ 19_________

TRAINING STATUS CHART

Name of Salesperson__________________________ Name of Evaluator__________________

1 key elements of the job	2 know this ,and needs no training	3 knows this, but does not do it	4 knows this, tries to do it	5 does not know this, so does not do it	6 Training to be conducted by				
					Immediate supervisor	Immediate supervisor with help on how to do it	Training Specialist	Outside Program	
1)……… 2)……… 3)……… 4)………									

Identifying Continuing Training Needs

Determining the specific aims for a continuing sales training program requires identification of specific training needs of experienced sales personnel. Basic changes in products and markets give rise to needs for training, as do changes in company sales-related marketing policies, procedures, and organization. But even though products and markets change little and company policies, procedures, and organizations remain stable, sales personnel change. Sales management must know a great deal about how sales personnel perform to identify training needs and in turn to define specific aims.

How does management gain this knowledge?

Salespersons reports are, scrutinized for symptoms of needed training. Sales records are inspected to uncover performance weaknesses. Sales personnel are observed personally with a view toward detecting deficiencies. And details contained in the sales job description are compared with the qualifications possessed by individual sales personnel. A clear picture is obtained by completing a chart similar to that in Figure 13.1 for each member of the sales force.

Figure 13.1 chart useful in Assessing Nature of Training Needs for an Individual Salesperson

Deciding Training Content

The content (the C in A-C-M-E-E) of a sales training program, whether an initial or continuing program, derives from the specific aims that management, after analyzing its training needs, formulates. Initial sales training programs are broader in scope and coverage than are continuing programs. Initial programs provide 'instruction covering all important aspects of performance of the salesperson's job continuing programs concentrate of specific aspects of the job where experienced persons have deficiencies. Therefore, the following discussion relates to the content of initial sales training programs.

For an initial sales training program to contribute maximally toward preparing new sales personnel, it must cover all key aspects of the salesperson's job. Content varies from company to company, because of differences in products, markets, company policies, trainees' ability and experience, organizational size, and training philosophies. No two programs are, or should be alike. However, different companies tend to cover the same general topics despite the fact that variations exist in exact content. Every initial sales training program should devote sometime to each of four main areas product data, sales technique, markets, and company information.

Product Data

Some product training is basic to any initial sales training program. Companies with technical products devote more than half their programs to product training. But in many situations, especially with standardized products sold routinely new sales personnel require only minimal product training. In all cases, new salespeople must know enough about the products, their uses, and applications to serve customers information needs. Product knowledge is basic to a salespersons self-confidence and enthusiastic job performance.

Understanding product uses and applications is important. Trainees receive instruction on customers problems and requirements and learn how company products can solve these problems and meet these requirements. Training provides them with full appreciation for buyer's viewpoints. New salespersons learn how to relate company products to the fulfillment of customers' requirements, thus equipping themselves for effective selling.

Many companies, especially those with technical products, include a period of initial sales training at the factory.. The benefits are thorough product knowledge and increased confidence in demonstrating products to customers.

Some training on competitors products is desirable. Salespeople should know the important characteristics of competitors products and their uses and applications. They should know the strengths and weaknesses of competitive products. Thus informed, salespersons gain a decided advantage. They can structure sales presentations to emphasize superior features of the company's products

Sales Technique

Most new sales personnel need instruction in sales techniques. Some sales managers believe, that if an individual has an attractive personality, good appearance and voice, and reasonable intelligence and knows the product, he or she will sell it easily. But the predominant view is that new sales personnel need basic instruction in how to sell.

Markets

The new salesperson must know who the customers are, their locations, the particular products in which they are interested, their buying habits and motives, and their financial condition. In other words, the salesperson needs to know not only who buys what but, more important, why and how they buy. When trainees are not given adequate instruction on the market, they take years to acquire the needed understanding. During this trial-and-error learning, through no fault of their own, productivity is low. In fact, left to their own devices, some trainees never gain important market information. For instance, a salesperson who is unaware of prospects potentials as buyers may neglect completely to canvass them. Markets are always changing, so training in this area should be continuous, the content changing with market changes.

Company Information

Certain items of company information are essential to the salesperson on the job; others, not absolutely essential, contribute to overall effectiveness. The training program should include coverage of all sales-related marketing policies and the reasoning behind them. The sales person must know company pricing policy, for instance, to answer customers questions. The salesperson needs to be fully informed on other policies, such as those relating to product services, spare parts and repairs, credit extension, and customer relations.

The initial training program must equip the salesperson to perform such tasks as recording and submitting customers orders for processing and delivery preparing expense and other reports, handling inquiries, following up on customers' requests, and so forth. Each firm develops its own systems and procedures. If trainees are to perform properly, the initial sales training program must provide the needed instruction. Otherwise, company systems and procedures are learned, if at all, through trial and error.

Selecting Training Methods

The planners next select training methods (the M in A-C-M-E-E). There is a wide variety of methods, but the program content often limits those that are appropriate. If, for example, the content is a new policy on vacations and holidays the training method almost certainly will be the lecture, supplemented, perhaps, with visual aids. In this instance, such methods as role playing and the demonstration would be ruled out. It is important to select those training methods that most effectively convey the desired content.

The training methods are the following

- ➔Lecture
- ➔Personal conference
- ➔Demonstrations
- ➔Role play
- ➔Case discussion
- ➔Impromptu discussion
- ➔Gaming
- ➔On the job training
- ➔Correspondence courses

The Lecture

This ancient instructional method, in use before the invention of printing, is used extensively in sales training. Trainees mainly watch and listen, although some versions of lecturing permit questions. The lecture features passive, rather than active, trainee participation. Its main weakness is that teaching is emphasized more than learning.

Advantages of Lecture Method

A lecture can be effective, provided that the lecturer is able and enthusiastic and uses examples, demonstrations, and visual aids.

Compared with other training methods, the lecture is economical in terms of time required to cover a given topic.

Disadvantages of Lecture Method

Estimates are that the average trainee can immediately recall less than 10 percent of what he or she hears in a lecture using visual aids.

Because of the absence of immediate participant feedback, no lecturer has any immediate or objective means for gauging the effectiveness of a lecture, but must rely on a personal appraisal of its reception, or on volunteered comments by participants.

- Some lecturing in sales training is necessary. If initial sales training is brief, for instance, lecturing may be the only way to cover the desired content. It may be the only practical way to handle instruction when the training group is too large to permit constructive audience participation.
- Lecturing is most appropriate for introductory and orientation sessions and for providing summaries of major topics taught through methods such as case discussion and role playing.
- It is used, in continuing sales training programs for providing new information about the company, its policies, products, markets, and selling programs.

When using the lecture method, learning is improved through a multimedia approach. The room is equipped with two to six projectors and screens, and the entire lecture is projected visually on succeeding screens across the front of the room. Further support is provided by projecting illustrations, charts, and graphs and through sound effects. This version of the lecture increases attention, comprehension, and retention.

The Personal Conference

The potential of this method often goes unrecognized, because many people assume that learning occurs only in structured situations. However, learning occurs in structured and unstructured, formal and informal situations.

In the personal conference, the trainer (often a sales executive or sales supervisor) and trainee jointly analyze problems, such as effective use of selling time, route planning and call scheduling, and handling unusual selling problems. Personal conferences are held in offices, restaurants, bars, motel rooms, and elsewhere. One version, the curbstone conference, takes place immediately after the trainee (accompanied by the trainer) has called upon a customer or prospect. The personal conference s an unstructured and informal method-it varies with the personalities of the trainer and the trainee and the topics discussed.

Demonstrations

The demonstration is appropriate for conveying information on such topics as new products and selling techniques. Demonstrating how a new product works and its uses is effective, much more so than lecturing on the same material. In initial sales training, demonstrating techniques to use in "closing sales" is more effective than is lecturing. Effective sales trainers use demonstrations to the maximum extent-since the beginning of time, showing has been more effective than telling! Demonstrations are generally used with other methods-they enliven an otherwise dull lecture, and they reinforce the interchange in a curbstone conference on, for instance, how to inform the next customer of an impending price increase.

Role Playing

This method has trainees acting out parts in contrived problem situations. The role-playing session begins with the trainer describing the situation and the different personalities involved. The trainer provides needed props, then designates trainees to play the salesperson, prospect, and other characters. Each plays his or her assigned role, and afterward, they, together with other group members and the trainer, appraise each player's effectiveness and suggest how the performance of each might have been improved.

In another version of role playing a training group is given information on, for example, a buyer's objection to a particular product and then is asked to extemporize a solution. Called a "sweat session," this provides individual trainees a chance to apply what they have learned. Post mortem critiques afford opportunities to reinforce what has been learned through participating in, or viewing, the role playing.

Role playing presents few problems,

Those playing roles must become actively and emotionally identified with the characters they portray; aaudience interest must be maintained throughout, even though spontaneous reactions are suppressed. aAchieving these conditions is not easy. It is even more difficult when role players "ham it up" or when there is laughter or other involuntary audience reaction.

This tendency, however, is overcome with repeated use of the method.

More than offsetting the problems are the many benefits of this training method.

- It provides realistic practice in applying what has been learned in other training or by experience.
- It is flexible and adapts to extreme diversity in role-playing situations.
- Role playing lends itself to training new personnel, experienced salespeople, or even mixed groups.
- Trainees learn to accept criticism from others, and the group soon recognizes that sound suggestions benefit everyone.
- When a trainee criticizes another's performance, that individual has an incentive not to perform similarly later..
- Role players gain acting experience, which may help later in handling difficult selling situations.

Case Discussion

This method, originated by business educators as a partial substitute for learning by experience, is widely used in sales training. Write-ups of selling and other problems encountered on the job provide the bases for group discussion. In most sales training situations, however, the cases used are short (one or two pages almost) and trainees are given ten or fifteen' minutes to read them before group discussion starts. Each case either describes a real selling problem or is developed around a situation sufficiently real to stimulate emotional involvement by the trainees.

Trainees discussing a case should identify the issue(s), marshall the relevant facts, devise specific alternatives, and choose the one most appropriate. Most trainers believe that securing a thorough grasp of the problem situation is more essential to learning than the rapid production of solutions. To derive maximum benefit from case discussion, each session should conclude with the drawing of generalizations on lessons learned.

Impromptu Discussion

This method, sometimes called a sales seminar or buzz session, begins with the trainer, group leader, or some member of the sales force making a brief oral presentation on an everyday problem. General give-and-take discussion follows.

Group members gain an understanding of many problems that otherwise is acquired only through long personal experience. Many complexities and implications that might go undetected by individuals are revealed to all, and trainees learn a valuable lesson: fixed selling rules and principles are often less important than are analysis and handling of specific situations. Impromptu group discussion improves the salesperson's ability to handle problems.

Impromptu discussion differs from lecturing. The discussion leader assumes a less dominant role than the lecturer, trainees are active rather than passive participants, learning receives more emphasis than teaching, and the atmosphere is informal and relaxed. These are important advantages, and impromptu discussions are being increasingly used, chiefly in training programs for experienced sales personnel.

For maximum benefit from the impromptu discussion, certain conditions must be met.

- An effective leader or moderator is essential—otherwise, discussion drifts into extraneous subjects or becomes sterile.
- The discussion leader must command the trainees' respect, be skilled in dealing with people, and be well informed.
- The room arrangement is important-it helps in generating discussion, for instance, if all trainees can see each other. It is/important, too, that someone draws conclusions at the close of the discussion.

Impromptu discussion requires considerable time. Most companies schedule sessions for at least a half-day or, more commonly, for a full day. If their aim is to maximize trainee learning of specific points in depth, the impromptu discussion-properly handled-is an effective training method.

Gaming

This method, also known as simulation, somewhat resembles role playing, uses highly structured contrived situations, based on reality, in which players assume decision-making roles through successive rounds of play. A unique feature is that players receive information feedback. In one game, for example, trainees play the roles of decision makers in customers' organizations, using data ordinarily available to make decisions on the timing and size of orders, managing sales forces and advertising efforts, and so on. The results of these decisions then are calculated by referees (using computers) and are fed back for the players to use in the next round of decisions.

Preparation of a game requires research to dig out the needed facts, the incorporation of these into a game model, development of detailed instructions for players and referees and writing of a computer program. Expertness and substantial investments in time and money, then, are required, but partially offsetting this is that, once prepared, a game may be used in many training programs.

Among the advantages of gaming are:

1. Participants learn easily because they involve themselves in game play;
2. Players develop skill in identifying key factors influencing decisions;
3. Games lend themselves readily to demonstrations of the uses and value of such analytical techniques as inventory and other planning models;
4. Games, with their built-in information feedback features, are effective in emphasizing the dynamic nature of problem situations and their interrelationships. .

Among the limitations of gaming are:

1. Usually three or four hours is required for playing , to generate sufficient decision "rounds" to provide the desired learning experience;
2. Since game designs are based on ordinary decision-making processes, their rules often prevent payoffs on unusual or novel approaches; and
3. Players may learn some things that aren't so, a limitation applying especially to poorly designed games. These limitations are overcome through careful game design and administration.

On-the-Job Training

This method, also called the coach-and-pupil method, combines telling, showing, practicing, and evaluating. The coach, sometimes a professional sales trainer but more often a seasoned salesperson, begins by describing particular selling situations, explaining various techniques and approaches that might be used effectively. Next, accompanied by the pupil, the coach makes actual sales calls, discussing each with the trainee afterward. Then, under the coach's supervision, the trainee makes sales calls, each one being followed by discussion and appraisal. Gradually, the trainee works more and more on his or her own, but with continuing, although less frequent, coaching.

Many seasoned salespeople, qualified for coaching, are unwilling to spend the necessary time and effort. This is especially true when personnel are paid commissions on sales. The problem of recruiting coaches, nevertheless, is resolved through paying bonuses for each person coached, or "overriding" commissions on pupil's sales.

On-the-job training is an important part of most initial sales training programs. No more effective way exists for learning a job. This method is appropriate for developing trainees' skills in making sales presentations, answering objections, and closing sales. Training in these selling aspects requires practice, and this method provides expertly supervised practice.

Correspondence Courses

This method is used in both initial and continuing sales training. In the insolence field it is used to acquaint new salespeople with industry fundamentals and to instruct in basic sales techniques. Companies with highly technical products and small but widely deployed sales forces use correspondence courses to acquaint experienced salespeople with new product developments and applications. This method is used also to train non company any sales personnel, such as distributors salespersons, to improve their knowledge of the manufacturer's product line and selling techniques. Few companies use this training method exclusively.

Correspondence training is most appropriate as an interim training method when trainees are scattered geographically. Initial sales training; for example, might be by correspondence courses begun at different times and places; continuing, or follow-up, training might come later through group methods at a central location. Preparing a standardized correspondence course covering technical product data, general company information, selling techniques and markets presents few difficulties other than those of choosing, organizing, and writing up the material. In many companies, particularly in the insurance field, instructional materials are also taped for cassette players.

The greatest problem is to motivate trainees to complete assignments on schedule.

Not only are enrollees engaged, in full-time work requiring that correspondence lessons be done after hours, but few have sufficient self-discipline to study without direct supervision.

It is necessary to provide regular examinations, prizes for completing work on time, or other incentives.

This method does not answer enrollees' questions; hence, successful users arrange for periodic face-to-face discussions.

Shriller problems are met in processing completed assignments, evaluating work, and correcting errors. Despite these administrative problems, correspondence instruction is a useful supplement to other sales training methods.

Executing and Evaluating Sales Training Programs

The execution step (the first E) requires organizational decisions.

Who will be the trainees?

Who will do the training?

When will the training take place?

Where will the site of the training be?

(Who, Who, When, and Where) trainers '-whether full time or on special assignment-must be notified, necessary travel reservations made, and living accommodations arranged.

The "when" decision requires consideration of key time-related factors, and the "where" decision involves appraisal of factors bearing on the training site. In addition, instructional materials need preparing and training aids assembling.

When these things are done, the stage is set for program execution.

Effective program execution depends upon instructional skills as well as coordination of planning and housekeeping details. Program administration involves doing what can be done to produce a training atmosphere conductive to learning.

Organization For Sales Training

The execution step of A-C-M-E-E (the first E) requires four key organizational decisions:

1. Who will be the trainees?
2. Who will do the training?
3. When will the training take place?
4. Where will the training site be?

Who Will Be the Trainees?

Identifying trainees is more complex for continuing than for initial sales training programs. A company identifies the trainees for its initial sales training program when it firms up sales job descriptions and hires sales job applicants.

While continuing sales training programs are prescribed for all personnel in some companies, the general practice is to select trainees according to some criterion. Four criteria are in common use:

1. Reward for good performance,
2. Punishment for poor performance,
3. Convenience (of trainee and trainer), and
4 Seniority (the greater the seniority, the greater the opportunity for added training). Those selected for continuing training should be aware of the criterion used.

Who Will Do the Training?

Initial sales training: Initial sales training is a line function in some companies, a staff function in others. If a line function; responsibility for initial training is assigned to the top sales executive. If a staff functions, responsibility for initial training is given to the personnel director, and sales management has an advisory role. Actually both executives should participate in initial sales training-the sales executives because of selling expertise and the personnel director because of training expertise.

Continuing sales training: Responsibility for continuing sales training resides with the top sales executive. Introduction of new products, adoption of revised sales policies, perfection of improved selling techniques, and similar developments call for training. The top sales executive is in the best position to recognize the need and design and execute appropriate sales training programs. Sales training is a never-ending process, and, regardless of who is responsible for initial training, the sales executive has continuing responsibility.

Sales training staff: Top sales executives usually delegate sales training performance to subordinates. Large sales organizations often have a sales training director, reporting to the top sales executive. The director conducts some training and coordinates that given on a decentralized (and usually part-time) basis by regional and district sales managers. In smaller organizations, some top sales executives handle some training themselves, but, in most

cases, they rely upon others, such as assistant sales managers or district managers, to do the training, Companies without sales training directors often have full-time or part-time: sales trainers, or both. The large sales organization makes efficient use of a fulltime sales training director and sometimes even a full-time staff, but the small organization must rely on executives to train in addition to other duties.

Outside experts: Many companies hire outside experts to conduct portions of sales training programs, generally portions relating to sales techniques. Numerous outside training consultants present sessions on sales techniques (for instance, in prospecting, selling by telephone, or basic ways to meet objections) and, through broad and long experience, achieve high effectiveness. Other outside experts, including university professors and similar "moonlighters," also offer this instructional service.

When Will the Training Take Place?

Timing group versus individual training - Opinion is divided as to the proper timing of group and individual training. Most sales executives contend that newly recruited trainees should receive formal group training before starting to sell. A sizable minority, however, assign trainees to selling jobs before sending them on to sales schools. In support of the minority view, three things can be said:

1. New personnel prove that they can sell before money is spent on their training;
2. New persons are not always, not even usually, hired in groups large enough to justify immediate formal training-people hired between programs can be put to work until the next school begins; and
3. On-the-job experience furnishes needed learning motivation and makes initial training more meaningful.

The minority position, nevertheless, is inappropriate when highly technical products are sold to sophisticated buyers. In such cases, product training is not only important but is best provided through formal group instruction at the outset of trainees' careers.

When there are large numbers of new personnel, group training is the way to train at the lowest cost per person.

Individualized training is conducted in the field office or in the trainee's home. On-the-job training features personal conferences (of the trainer and trainee) and demonstrations (as the trainer explains "this is how to do it"). But not all field training is on-the-job training. In many companies, for example, trainees in the field are enrolled in correspondence and programmed learning courses.

Both types of field training are supervised on-the-job training by a supervisor in person and trainees participating in correspondence and programmed learning courses by mail, phone, or cassette correspondence (convenient for playing in the auto in between calls on customers).

Timing initial sales training programs: Timing of initial sales training depends upon the number of new personnel trained each year, and this, in turn, depends upon the size of the sales force, sales personnel turnover, and management's plans for changing sales force size. With a large number of new personnel, comprehensive highly structured programs are scheduled several times a year, dates being set after consideration of recruiting quotas and deadlines. When the number is small, initial training programs, if held at all, are infrequent. One company with a small sales force recruiting June college graduates schedules initial sales training to begin in late June or early July.

Timing continuing sales training programs: Effective sales management believes that training and learning must be continuous-new information must be assimilated and older concepts modified in the: light of new developments. New products, new refinements of selling techniques, new product applications and uses, new customer problems, new selling aids, new selling, suggestions _all these and other developments require that each salesperson's training continue as long as he or she is on the Job. In some situations, sales personnel are kept abreast of new developments informally, perhaps through field distribution of information bulletins. . But when new developments accumulate, are unusually important, or imply a need for substantial changes in salespersons' attitudes and behavior patterns a formal retraining program is scheduled. Many companies integrate retraining programs into a series of sales meetings or a single sales convention.

Management should assume that sales personnel are eager to improve selling techniques; feel entitled to explanations of policy changes; want to learn how to tie in more closely with advertising programs; and are 'eager to learn about new products, model and design improvements, and market shifts. 'Continuing sales training programs are designed and "sold" as a means of helping salespeople do their jobs more effectively .If it is demonstrated that training results m more take-home pay and increased job satisfaction, salespeople are motivated When salespeople see that these benefits are obtainable through the continuing sales training program, its chances of successful execution are enhanced.

Where Will the Training Site Be?

Some companies hold initial sales training programs at the central offices; others conduct separate programs at branch offices. Each practice has advantages disadvantages.

The centralized program generally provides better product training, but higher costs are incurred in bringing trainees to the central point. In many companies the small number of trainee's does not justify decentralized initial training, and central location is a necessity.

Numerous large companies, by contrast, have the option of decentralized initial training. They can train new salespeople near their future territories and acquaint them early with field selling problems. However, decentralized product training often requires the substitution of motion pictures, slides, and working models so it may be less realistic, less interesting, and less effective than centralized training.

Decentralized programs have even more serious defects. Unless supervised by higher management, their execution tends to be poor, and the trainers, who have other responsibilities and regard training as a sideline, often turn ,in poor teaching performances. Except in a company with a vast pool of administrative and training skills, initial sales-training programs should be at central locations.

Instructional Materials and Training Aids.

Critical to successful execution of sales training programs are the instructional materials and training aids. These vary not only for different companies but for programs with different aims, contents, and methods. Pertinent features and uses of the main types of instructional materials and training aids are discussed in the following sections.

1. Manuals: Often known as workbooks, manuals are used in most group type sales training programs. The best manuals contain outlines or summaries of the main presentations, related reading materials, statements of learning objectives for each session, orienting questions or thought provokers, cases and problems, plus directions for sessions involving role playing or gaming. Many include concise statements of selling, pricing, training of sales personnel, and other policies as well as details on company systems and procedures. Some contain information on the products and their applications.

2 Other printed materials: These include company bulletins, sales and product handbooks, information bulletins, standard texts, technical and trade books, and industry and general business magazines and journals. Company publications are used chiefly to furnish field sales personnel with up-to-date and needed information .

3. Training aids: The most used and indispensable is the blackboard-no training facility should be without one on which to illustrate points, summarize discussions, and the like, adding visual to vocal appeal. Modern substitutes for the blackboard (for example, projector, transparency roll, and screen) offer improvements' such as making it possible for the trainer to face the class even while his or her writing appears on a screen, and conserving time through using prepared diagrams, charts, statistical tables, and so on

The motion-picture projector and film are effective when the training is to explain complex situations. In conveying technical information on installation and operation of new machine tool models

Tape-recording and playback equipment is ideal for training in sales techniques. Actual or simulated sales presentations are taped and played back for individual or group appraisal. Miniature (sometimes concealable) cassette-type recorders make it easy for salespersons to tape their own sales interviews and play them back later. Thus, they gain greater objectivity in appraising their own effectiveness and in finding ways to improve performance.

4. Advance assignments: To conserve time, many programs require trainees to prepare assignments in advance. In some situations, these are reading assignments chosen to provide some minimum comprehension of subjects scheduled for coverage in formal sessions. In other situations, the assignment is to read a case and prepare a plan of action for use in a scheduled session. It is important that trainees understand the purposes of advance assignments and receive clear instructions (most expert trainers recommend written instructions

Evaluating Sales Training Programs

The evaluation step (the second E in A-C-M-E-E) focuses upon measuring program effectiveness. A sales training program represents investments of time, money, and effort-sales management expects returns commensurate with the investment. However, measuring sales training effectiveness is not easy, but it is possible to gauge, somewhat roughly, program effectiveness.

The starting point is to compare the program's aims (the A in A-C-M-E-E) with the results, but the core of the measurement difficulty is in determining training results. Results, such as improved selling performance, for instance, may not show up until months later. Management approaches the measuring problem by making certain comparisons, such as the length of time new sales personnel (who have completed initial sales training) take to attain the productivity level of the experienced salesperson, the performance against standards of trained and untrained sales personnel, and the respective training histories of the best and worst performers. Some companies plot each salesperson's sales records on a before-and-after training basis, generally converting them to market share percentages.

Other approaches to measuring program effectiveness are in use. Some companies use written tests (on a before-and-after training basis) to determine how much trainees have learned. This is appropriate for measuring improvements in amount and depth of product knowledge, for instance, but reveals little about the trainee's ability to apply this in the field. Other firms send observers to work with sales personnel who have completed training programs and to report the extent to which trainees are applying what was taught in programs. Still other companies solicit customers for their reactions to a salesperson's performance after training. None of these approaches produces precise evaluative data. They provide indications as to whether results are positive or not.

Form for Trainee raring of Sales Training Session

Session Review

A brief, candid review of this training session will help you evaluate what can have learned and help us in our efforts to improve the program. Please answer all questions. Do not sign your name; the results are anonymous.
Place an X where appropriate to describe your reactions to each of the following

1.Material covered	Exciting • • • • • • Dull
2.Instruction	Excellent Poor • • • • • •
3.Worthwhileness of material	Great • • • • • • Little
4.Completeness of coverage	very Complete • • • • • • Totally Inadequate

5.how might the session have been improved?

____

____

____

However, any evaluation of training effectiveness based on sales records is an approximation. Territorial sales volumes are inflected not only by personal selling but by advertising, competitors' activities, economic fluctuations, and similar factors. No known analytical technique exists for precise isolation of the influence of these factors.

Management measures the effectiveness of training programs both while they are in progress and upon completion. The purpose is to obtain insight for improving the effectiveness of future programs. Tests and examinations measure trainee retention of materials presented, most appropriately when trainees are to memorize certain information, as product specifications and applications.. There is little value in using tests and examinations for evaluating training in sales techniques: performance in role-playing assignments is a better approach.

Conclusion

The entire production and marketing process culminates in the making of sales, and management's objective in training sales personnel is improved job performance. Effective sales training also assists sales management in discharging its social responsibility for controlling marketing costs. When salespeople perform efficiently, cost savings show up in benefits to consumers as well as to the enterprise. A company's position in its industry is determined importantly by the performance of its sales personnel. Skillfully designed and executed sales training programs have potentials for helping sales personnel to achieve effective job performance.

Notes -

Points to Ponder

Defining Aims

- Identifying training needs
  - Job specification
  - Trainee's background and experience
  - Sales related marketing policies
- Identifying continuing needs.

The training methods are the following

➔Lecture
➔Personal conference
➔Demonstrations
➔Role play
➔Case discussion
➔Impromptu discussion
➔Gaming
➔On the job training
➔Correspondence courses

Training content

- Product data
- Sales technique
- Market
- Company information

Training Execution

- Who will be the Trainees?
- Who will do the training?
- When will the training take place?
- Where will the training site be?

Evaluating sales training

Questions

Q1. Why is it important for salespeople's training to be viewed by salespeople as worthwhile and helpful for this job?

Q2. Discuss the different training methods?

Q3. Why is role playing an effective way of training?

Q4. What are the advantages and disadvantages of On –the-job training?

Q5. What are the preparations required for sales force training execution?

Q6. Why is it necessary to evaluate sales force training program?

LESSON 14
THEORIES OF MOTIVATION

Learning Objectives

- The need to motivate salespeople
- The ways to motivate salespeople
- To understand the different motivation models

In this lesson we will learn why is it necessary to motivate sales people and how it can be done?

Motivating Sales Personnel

The sales executive's job is to get results through company personnel-by making decisions and seeing to it that others carry them out. Put differently, the sales executive's performance depends upon the composite performances of the individuals making up the sales force. Small wonder, then, that sales executives are greatly interested in the factors influencing individual sales personnel to achieve given performance levels.

Assuming that a salesperson has the requisite ability and the skills needed for satisfactory job performance, what causes that salesperson to expend the necessary effort? The answer is locked up in the behavioral concept known as motivation-what causes people to behave as they do. Behavioral scientists agree that motivation is goal-directed behavior aimed toward achieving given results, which, in turn, provide rewards in line with the goal.

High productivity in a sales force comes about neither naturally nor accidentally. Some sales personnel are self-starters, requiring little external incentive, but they are the exceptions. Most sales personnel require motivation to reach and maintain satisfactory performance levels.

Meaning of Motivation

Motivation is goal-directed behavior, underlying which are certain needs or desires. The term "needs" suggests a lack of something that reaching the goal could satisfy, while the term "desires" suggests positive ardor and strength of feeling. The complex of needs and desires stemming from within, individuals leads them to act so as to satisfy these needs and desires.

Specifically, as applied to sales personnel, motivation is the amount of effort the salesperson desires to expend on the activities associated with the sales job, such as calling on potential accounts, planning sales presentations, and filling out reports. Expending effort on each activity making up the sales job leads to some level of achievement on one or more dimensions of job performance-total sales volume, profitability, sales to new accounts, quota attainment, and the like.

Who wants what from motivation?

The person

- Health & well-being, safety/order, social affiliation/ acceptance, recognition & rewards (extrinsic/intrinsic, stimulus & incentive. Feelings of self-worth/value, command of destiny, realisation of personal aspirations/ expectations. Equity. Power. Affiliation

The employer

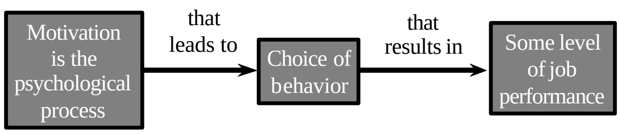
- Trusted, reliable employees who give their all,
- Ability to construe employee motivation, needs & drives + relate to: effort, economic efficiency, performance, retention, loyalty & commitment, membership culture, empowerment, obligation-duty, participation & contribution, work design, better teams .

To most people motivation suggests the level or amount of energy directed by someone toward a single task or goal .In business , motivation is used as a synonym for productivity . A sales person is motivated if job performance exceeds the level expected by the firm .

Motivation is a term originally derived from the latin word mover which means to 'move'but has been expanded to include the various factors by which human behaviour is activated. In any discussion about the motivation of sales-people , the following questions need to be answered:

1. What affects salesperson's behaviour ?
2. What infuences the intensity of behaviour ?
3. What directs the person's behaviour ?
4. How is the behavior maintained over time ?

A sales manager seeks to influence salespeople to do certain activities , to work hard to reach activity goals and to do so over the long haul and not occasionally.



The Motivation-Behavior-Job Performance Sequence

Why Salespeople Need Motivation ?

Most sales personnel require motivation to reach and maintain acceptable performance levels. They require motivation as individuals and as group members. As individuals, they are targets for personalized motivational efforts by their superiors. As members of the sales force they are targets for sales management efforts aimed toward welding them into an effective selling team. Four aspects of the salesperson's job affect the quality of its performance. The following discussion focuses on these aspects; each is an important reason why sales personnel require additional motivation.

Inherent Nature of the Sales Job

- Salesman meets many prospects some of whom are difficult to deal with .
- Competition is high because many compete for the same business and they meet numerous turndowns .

- Targets are set high by superiors.
- Sales people spend considerable time away from home.

These conditions cause salespersons to become discouraged, to achieve low performance levels, or even to seek nonselling positions. The inherent nature of the sales job, then, is the first reason that additional motivation is required.

Salesperson's Role Conflicts

The salesperson must try to satisfy the' expectations of people both within the company (in the sales department and elsewhere) and-in customer organizations. There is linkage with four groups: (1) sales management,(2) the company organization that handles order fulfillment, (3) the 'customers, and (4) other company sales personnel. Each group imposes certain' behavioral expectations on the salesperson, and, in playing these different roles, the. Salesperson faces role conflicts .

Not much can be' done to reduce the role conflicts of sales personnel. Some evidence exists that experienced sales personnel perceive significantly less, role conflict than do those with less experience. This suggests that a salesperson's perceptions of and ability to cope with, role conflict are influenced not only by experienced but by the effectiveness, of sales training. It also suggests that those who become experienced sales personnel may cope better with role conflict than those leaving the sales organization earlier.

So improving sales training effectiveness and revising selection criteria are two roads to reducing, the impact of role conflict on sales force morale.

Tendency Toward Apathy

Those who, year after year, cover the same territory and virtually the same customers, lose interest and enthusiasm. Gradually their sales calls degenerate into routine order taking. Because they know' the customers so well, they believe that good salesmanship is no longer necessary. Their customer approach typically becomes: "Do you need anything today, Joe?" They fail to recognize that friendship in no way obviates the necessity for creative selling and that most customers do not sell themselves on new products and applications. The customer's response, as often as not, is: "Nothing today, Bill." Later a competing salesperson calls on the same account, uses effective sales techniques, and gets an order.

Many salespeople require additional motivation to maintain continuing enthusiasm to generate renewed interest in their work.

Maintaining a Feeling of Group Identity

The salesperson, working alone, finds it difficult to develop and maintain a feeling of group identity with other company salespeople. Team spirit, if present at all, is weak. Thus, the contagious enthusiasm—conducive to improving the entire group's performance-does not develop.

If sales management, through providing added motivation, succeeds in developing and maintaining team spirit, individual sales personnel strive to meet group performance standards. Few people who consider themselves members of the sales team want to appear as poor performers in the eyes of their colleagues. Providing the kind of working atmosphere in which all members of the sales force feel they are participating in a cooperative endeavor is not easy-nevertheless, effective sales management works continuously to achieve and maintain it.

Need Gratification and Motivation

Behavioral research studies show that all human activity-including the salesperson's job behavior-is directed toward satisfying certain needs (that is, reaching certain goals). Patterns of individual behavior differ because individuals seek to fulfill different sets of needs in different ways. Some salespersons, in other words, are more successful than others because of the differing motivational patterns and amounts and types of efforts they exert in performing their jobs.

How particular individuals behave depends upon the nature of their fulfilled and unfulfilled needs modified by their environmental and social backgrounds.

Needs are either primary or secondary.

Primary needs are the inborn or physiological needs for food, water, rest, sleep, air to breathe, sex, and so on, the fulfillment of which are basic to life itself. Until primary needs are satisfied, other needs have little motivational influence.

Secondary needs arise from an individual's interaction with the environment, and are not inborn but develop with maturity. Secondary needs include those for safety and security, belongingness and social relations, and self-esteem and self-respect.

Hierarchy of Needs

A .H. Maslow, a psychologist, developed a theory of motivation based on the notion that an individual seeks to fulfill personal needs according to some hierarchy of importance. He suggests the general priority of need fulfillment shown in Figure 14.1

1. **Physiological:** Like needs for shelter, hunger, thirst, sex and other bodily needs.
2. **Security:** Needs for protection and safety from emotional and physical harm .
3. **Social:** Needs like friendship, accompany, acquisitions.
4. **Esteem:** Internal esteem factor like self-respect, autonomy, and achievement and external factors like status, recognition, and attention.
5. **Self-actualization:** The drive to become what one is capable of becoming includes growth, and self-fulfillment

Maslow suggests that after an individual gratifies basic physiological needs, he or she proceeds to strive to fulfill safety and security needs, then belongingness and social relations needs, and so on-the individual's level of aspiration rising as needs on higher levels are satisfied.

Not every individual and certainly not every salesperson, of course, establishes the order of priority of need fulfillment suggested by Maslow. Some sales personnel, for instance, appear to assign earlier priority to filling the esteem need (for self-respect) than they do to filling the need for social relation within a group.

After meeting basic physiological needs, it probably is impossible for most individuals to satisfy fully their needs on any higher level-needs seem to multiply along with efforts to satisfy them. As a particular need is satisfied, it loses its potency as' a motivator, but other unfulfilled needs, some of them new, gain in potency. Individuals continually try to fulfill ever-larger portions of their need structures, and the unsatisfied portions exert the strongest motivational pull.

What, then, motivates salespeople?

Salespersons' motives for working vary according to the nature and potency of the unsatisfied portion of their individual hierarchies of needs. We must also recognize, however, that some of the salespeople's needs are filled off the job as well as on it. One salesperson works because of the need for money to feed a family; another because the job is seen as a means for gaining esteem of others; still another because of a need to achieve (self-actualization) to the maximum of one's abilities, seeing job performance as a means to that end.

If sales management knew the makeup of the unsatisfied portion of a salesperson's hierarchy of needs at a particular time, it could determine the best incentives.

The fact that an individual has needs causes him or her, consciously or not, to formulate goals in terms of them. If management can harmonize the individual's goals with those of the organization, then individual behavior is channeled along lines aimed at achieving both sets of goals.

For a salesperson worried about providing for a child's education, an important individual goal becomes that of obtaining money to remove the uncertainty. If management sees how furnishing the salesperson with an opportunity to earn more money will also further the attainment of organizational goals (perhaps that of increasing the size of orders), then offering the salesperson the chance to earn more money for obtaining larger orders is a powerful incentive.

Figure 14.1

Money, however, loses its power as an incentive once the individual has gratified physiological needs and most safety and security needs. Other incentives (for example, a chance for promotion, which is one way to fulfill esteem and self-respect needs) become increasingly effective. The promise of more money becomes a weaker incentive the farther up in the hierarchy an individual's unfulfilled needs are pushed. Whatever power a larger income retains is related to unfulfilled esteem and self-actualization needs and the extent to which income can gratify them. Of course, too, the threat of receiving a lower income, a negative incentive, endangers the fulfilled part of an individual's need structure, and to the extent that this threat exist, money continues to have power as an incentive.

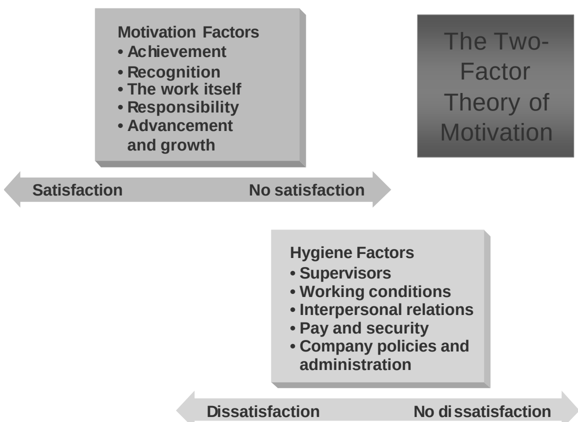
Notice that whereas motives are internal to the individual, incentives are external. Sales management influences the behavioral patterns of sales personnel indirectly through the incentives it offers.

Motivation-Hygiene Theory

Frederick Herzberg and his co-researchers developed the motivation-hygiene theory. According to this theory the factors that lead to motivation and job satisfaction are not the same as those leading to apathy and job dissatisfaction. In other words, the contention is that job dissatisfaction is not the opposite of job satisfaction-two separate groups of needs are involved, one related to job satisfaction and the other to job dissatisfaction. While most needs have potentials for influencing the relief of job dissatisfaction and the increase of job satisfaction, each need serves predominantly either a hygiene or motivator purpose.

Deficiencies in fulfilling the **hygiene needs** cause job dissatisfaction. These needs relate to the working environment, compensation, fringe benefits, type of supervision, and other factors extrinsic to the job.' Fulfilling the hygiene needs does not lead to job satisfaction, but in the achievement of a neutral point known as a fair day's work. Performance at this point does not result from motivation.

At the "fair day's work" point, the individual is ripe for influence by the **motivation factors**, ones intrinsic to the job itself. These factors reflect needs for personal growth, including achievement, recognition, nature of the job itself, responsibility, and opportunities for advancement. The motivation factors represent needs that, when fulfilled, lead to job satisfaction.



Motivation-hygiene theory has two important implications for sales management. The first is that management must see that the job provides the conditions that prevent job dissatisfaction (to get a fair day's work from the salesperson). This means that management needs to provide an acceptable working environment, fair compensation, adequate fringe benefits, fair and reasonable supervision, and job security. The second implication is that management provide opportunities for achievement, recognition, responsibility, and advancement (to motivate performance beyond that of a fair day's work).

Achievement-Motivation Theory

David McClelland, in association with other researchers, developed achievement-motivation theory. According to this theory, if a person spends considerable time thinking about doing his or her job better, accomplishing something unusual and important, or advancing his or her career, that individual has a high need for achievement (nAch). Those who have high need for achievement (1) like problem situations in which they take personal responsibility for finding solutions (ones in which the possibilities of reaching them are reasonable), (2) tend to set attainable achievement goals, and (3) want feedback on how they are doing.' In practical terms, nAch is a motivation to exceed some standard of quality in personal behavior-individuals who are self-motivated and who continually strive to improve their performance are in this category." Many individuals like this are attracted to personal selling jobs, especially those where compensation is largely in the form of commissions-jobs characterized by opportunities to influence outcomes through personal efforts, challenging risks, and rapid feedback of results.

What are the implications for sales management? If individuals with high nAch can be the best performers in the company's sales jobs, then management might target its recruiting toward such people. McClelland and his co investigators used the Thematic Apperception Test (TAT) in their research on achievement, so management might consider including the TAT in the sales selection system. But management would want to make certain that the sales job environment was one in which high achievers flourish.

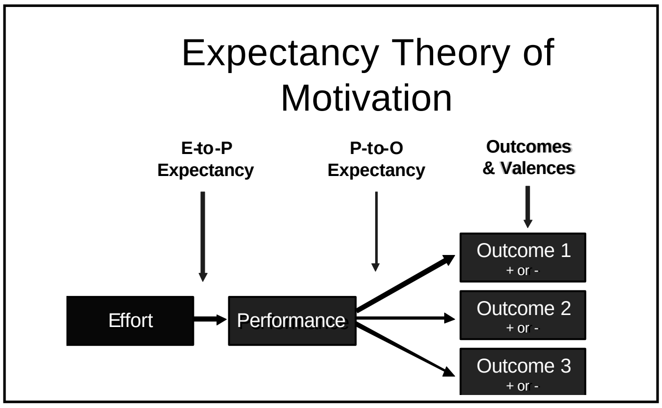
The fact that nAch drives individuals to act from an internally induced stimulus is noteworthy. People with high nAch are self-starters-they require little external incentive to succeed and constantly challenge themselves to improve their own performances. Such people do not require motivation by management other than that of providing the right kind of job environment. Understanding the concepts behind nAch, and the conditions that individuals high in nAch seek in their jobs, helps to explain and predict the behavior of sales personnel.

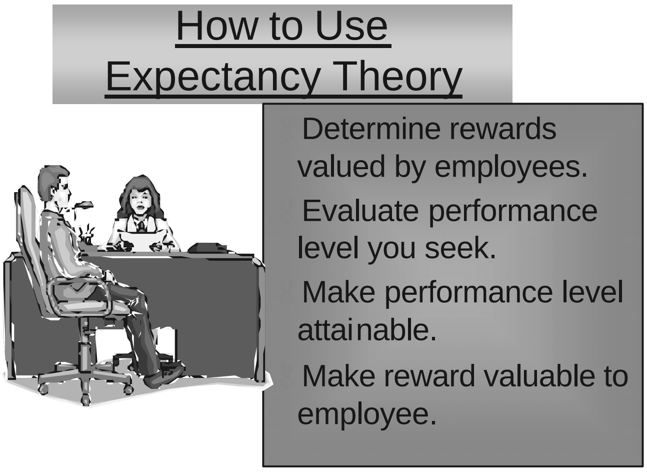
Expectancy Model

- Expectancy Theory
  - Motivation depends on how much we want something and how likely we are to get it.
  - Assumes that:
    - Behavior is determined by a combination of personal and environmental forces.
    - People make decisions about their own behavior in organizations.
    - Different people have different types of needs, desires, and goals.
    - People choose among alternatives of behaviors in selecting one that that leads to a desired outcome.
    - Motivation leads to effort, when combined with ability and environmental factors, that results in performance which, in turn, leads to various outcomes that have value (**valence**) to employees.
- Elements of Expectancy Theory
  - Effort-to-Performance Expectancy
    - The employee's perception of the probability that effort will lead to a high level of performance.
  - Performance-to-Outcome Expectancy
    - The employee's perception of the probability that performance will lead to a specific outcome—the consequence or reward for behaviors in an organizational setting.
  - Valence
  - An index of how much an individual values a particular outcome.
  - It is the attractiveness of the outcome to the individual.
  - Attractive outcomes have positive valences and unattractive outcomes have negative valences.
  - Outcomes to which an individual is indifferent have zero valences.
  - For motivated behavior to occur:
    - Both effort-to-performance expectancy and performance-to-outcome expectancy probabilities must be greater than zero.
    - The sum of the valences must be greater than zero.

The strength of an individual's motivation to behave in a certain way (in terms of efforts) depends upon how strongly that individual believes that these efforts will achieve the desired performance patterns (or level). If the individual achieves the desired performance, then how strongly does the individual believe that the organization's rewards/punishments will be appropriate for that kind of performance, and to what extent will this satisfy the individual's needs (goals)?

The expectancy model raises motivational issues of concern to sales management. Does the company reward structure provide what sales personnel want? Do individual sales personnel perceive the kinds and amounts of effort management anticipates that they will make to attain set performance levels? How convinced are individual sales personnel that given performance patterns lead to given rewards?





Sales management, however, must recognize that this model is concerned with expectations. Sales personnel need counseling to view their own competencies realistically. They also need sales management's support in developing the skills that lead to improved performance.

Let us study how salespeople can be motivated?

Three elements affecting motivation can be found within the organizational environment

- The individual salesperson
- The sales job
- The organization environment

The individual salesperson

- Unique needs of each individual salesperson
- Positive reinforcement
- Once financial security is met, appeal to other needs
- If time restraints make it impossible for the sales manager to learn and respond to the needs of each salesperson, then segment the sales force in clusters
- Explain the job requirements and expectations

To motivate individual salesperson

- Train the salespeople to be professionals
- Provide the incentives necessary for salespeople to want to do their best
- Sales management should provide rewards that are:
  - Simple
  - Immediate
  - Frequent
  - Related to the special act
- Sales management should be cognizant of the motivational value of personal visits, personal phone calls and letter, and small, intimate sales meetings

The sales job

- Sufficient product information
- Communication
- Help each salesperson set reasonable goals and design plans to attain those goals, and provide feedback
- Positions should be challenging, have some authority, and provide some freedom
- Recognize the frequent adversities faced by the salesperson
- Prevent job dissatisfaction by providing a fair basic compensation plan, helpful and constructive supervision, acceptable fringe benefits, and job security

The organization environment

- Take an active role in developing the motivational processes
- Provide a participative environment
- Must communicate and maintain an open, constructive, and relaxed environment where trust, faith, and fairness are openly practiced
- Through formal and informal channels, communicate that the salespeople are mature, professional individuals involved in significant, meritorious work
- Communicate clearly the relationship between performance and recognition
- Once the desired level of income has been reached, salespeople typically strive to satisfy such needs as status, prestige, recognition, the need to win, and opportunity to serve, and the respect and affection of management and peers
- Four important aspects that unsuccessful salespeople do not have:
  - Positive attitude
  - Personal goals
  - Time organization
  - Enthusiasm

Three facets of non monetary motivation:

- Recognition
- Awards
- Special communications

Recognition

- Recognize everyone
- Recognize publicly
- Record the recognition
- Involve top management
- Make it personal
- Don't use negative recognition
- Put the winner in the center

Award: is physical evidence that the receiver can take home and show friends, family, and peers

- Personal and fit the occasion
- Distinctive
- Show that the individual level of achievement is consistent with the organization's goals
- Can be honorary job titles

Special communications

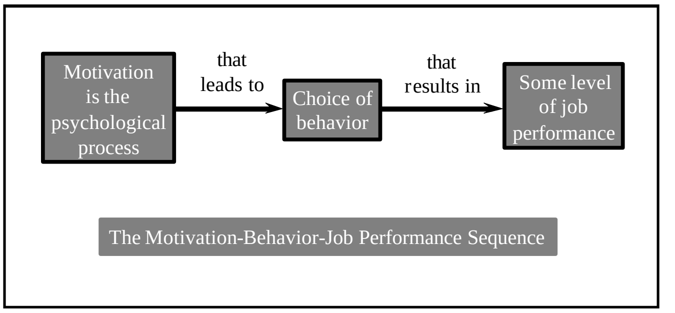
- Newsletters
- Articles or news features about special efforts made
- Pictures of the top salespeople
- Spot for award recognition
- Individual letters/special telephone calls

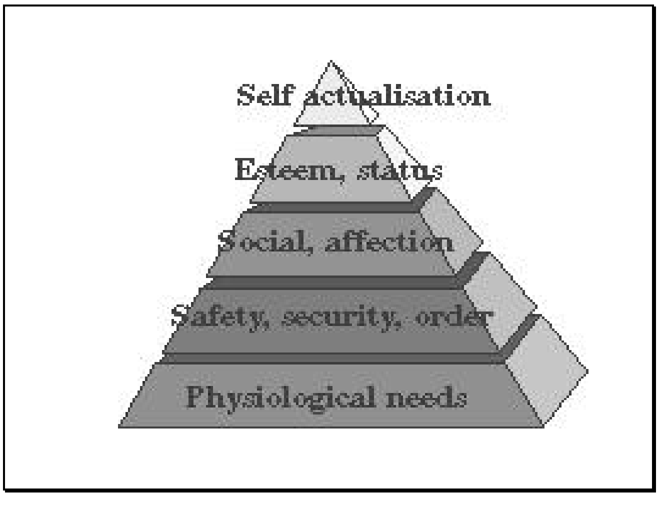
Conclusion

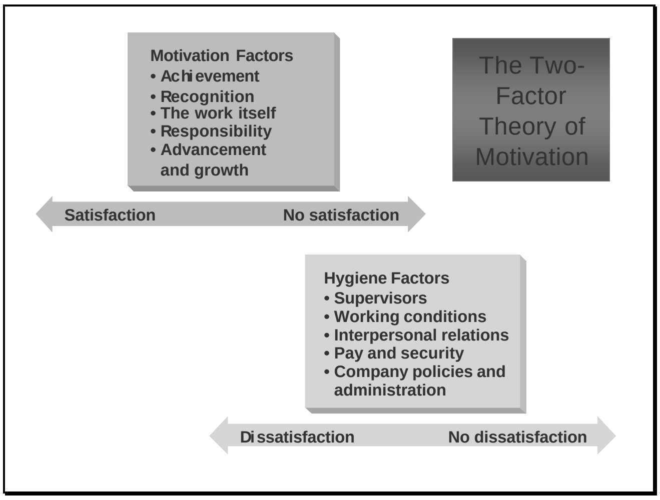
Motivating sales personnel is an important aspect of sales force management. Sales personnel require additional motivation because of inherent nature of the sales job, role conflicts, the natural tendency toward apathy, and difficulties in building group identity. The concepts of need gratification and interdependence assist in understanding the complexities of motivating sales personnel. Implementing motivational efforts requires that sales executives be skilled leaders, rather than drivers, of sales personnel. It demands that they be skilled in interpersonal and written communications. Satisfactory job performances develop out of deep understanding of motivational forces and processes, effective leadership, two-way communications, and effective handling of relationships.

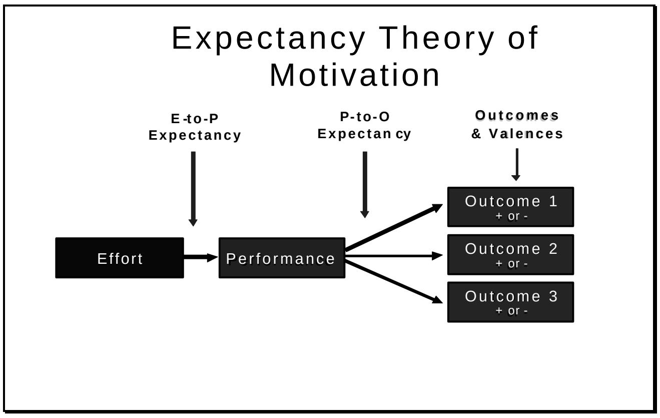
Notes -

Points to Ponder









Questions

Q1. What is meant by motivation?Why is it such an important concept for sales Managers to understand and learn how to use?What is meant by motivation?Why is it such an important concept for sales Managers to understand and learn how to use?

Q2. What is Maslow's motivation theory? How is it helpful in motivating salespeople?

Q3. Describe the Motivation Hygiene theory?

Q4. How salespeople can be motivated ?

LESSON 15
DEVISING COMPENSATION

Learning objectives

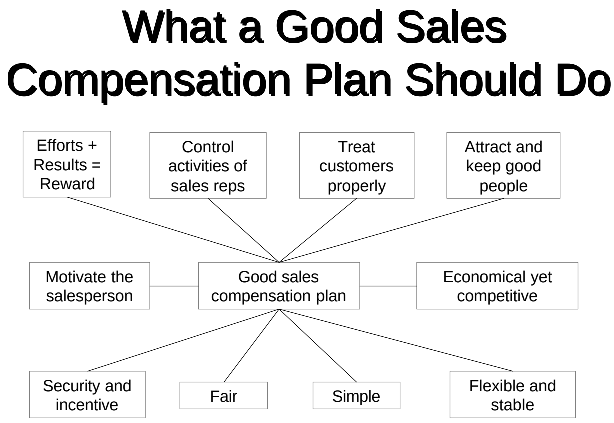
- To understand the importance of good compensation plan.
- How to devise a compensation plan for salespeople

In this lesson we will study how sales compensation is devised? In the next lesson we will study the different ways of compensation.

Compensating Sales Personnel

Compensation is one of the most important tools for motivating and retaining field salespeople. However , designing compensation plans tends to be a derivative rather than a lead process. For example, a paper distributor faces a mature market with average gross margins of 18 to 20 percent. Salespeople are paid commissions of 20 percent of gross margin to center their attention on boosting distributor profits. Although this plan looks good, gross profit growth mysteriously results in a decline in net profits. The sales reps would rather focus on small orders they can turn around quickly than spend time working for the big order. However, the small orders have higher processing and delivery costs. Thus, growth in small orders raises overhead faster than the increase in gross profit. The paper distributor needs a plan that will maintain gross profit margins and also reach its goals for net profits. To meet both goals, the distributor must create a plan that links commission rates to gross profit and order size. Instead of one gross margin commission of 20 percent, the distributor needs to vary the size of commissions with the size of the gross margin percentage achieved on each order and on the gross margin dollars earned on each order. The result is a plan that ties reps' commissions to their true contribution to the company's profit goals.

This example shows that compensation plans must be custom designed to meet the goals of individual firms. It also shows that the natural desire of salespeople to make money for themselves sometimes conflicts with the firm's need to control expenses. This means you have the difficult task of designing compensation programs that motivate salespeople to reach company goals without bankrupting the firm at the same time. Since 30 to 40 percent of all sales reps are unhappy with their compensation plans at anyone time, you are continuously challenged to come up with a better program.



The sales compensation plan is an essential part of the total program for motivating sales personnel. A sales compensation plan, properly designed, has three motivational roles:

1. Provide a living wage,
2. Adjust pay levels to performance, thereby relating job performance and rewards (in line with expectancy motivation theory), and
3. Provide a mechanism for demonstrating the congruency between attaining company goals and individual goals (also in line with expectancy theory).

A properly designed sales compensation plan fits a company's special needs and problems, and from it flows attractive returns for both the company and its sales personnel. Sales and growth goals are reached at low cost, and profits are satisfactory. Sales personnel receive high pay as a reward for effective job performance, and esprit de corps is high.

In established companies it is rarely necessary to design new sales compensation plans, and sales executives concern themselves mainly with revising plans already in effect. Most changes are minor, instituted to bring the plan and marketing objectives into closer alignment. If, for example, additional sales effort is needed for the factory to operate at optimum-capacity, an adjustment in compensation may be required. This could mean paying- bonuses on sales over the quota, paying additional compensation for larger orders or for securing new accounts, or revising commission rate schedules. Any change, of course, could be either temporary or permanent.

There are two situations where total overhauling of compensation plans are in order.

One is the company whose sales force already has low morale, perhaps because of the current compensation plan. If the plan is at the root of the morale problem, drastic change is appropriate. A second situation calling for a complete revamping of the sales compensation plan occurs when a company is anticipating the cultivation of new and different markets.

The problems in these two situations are like those in the newly organized company, which must build its sales compensation plan from scratch-in both cases management_ must consider many factors, the nature and number of which vary with the company and the situation, but usually include the types of customers, the marketing channels characteristics of the products, intensity of competition, extent of the market and complexity of the selling task.

Requirements of A Good Sales Compensation Plan

A good sales compensation plan meets seven requirements.

i. It provides a living wage, preferably in the form of a secure income. Individuals worried about money matters do not concentrate on doing their jobs well.
ii. The plan fits with the rest of the motivational program-it does not conflict with other motivational factors, such as the intangible feeling of belonging to the sales team.
iii. The plan is fair-it does not penalize sales personnel because of factors beyond their control-within the limits of seniority and other special circumstances, sales personnel receive equal pay for equal performance.
iv. It is easy for sales personnel to understand-they are able to calculate their own earnings.
v. The plan adjusts pay to changes in performance.
vi. The plan is economical to administer.
vii. The plan helps in attaining the objectives of the sales organization.

Devising A Sales Compensation Plan

Whether contemplating major or minor changes or drafting a completely new sales compensation plan, the sales executive approaches the project systematically. Good compensation plans are built on solid foundations.

Define the Sales Job

The first step is to reexamine the nature of the sales job. Up-to-date written job descriptions are the logical place to start. If job descriptions are outdated, if they are not accurate, or if complete descriptions of the sales job objectives and work are not given, then a revision is in order. The effective sales executive asks: Does this description convey a realistic picture of what the salesperson is supposed to accomplish and to do? If there are no written sales job descriptions, they are prepared.

Other aspects of company operations are considered in relation to their impact upon the sales job. Sales department objectives are analyzed for their effect on the salesperson's job. Sales volume objectives, for instance, whether in dollars, units of product, or numbers of dealers and distributors, are translated into what is expected of the sales personnel, as a group and individually. The impact of sales-related marketing policies is determined. Distribution policies, credit policies, price policies, and other policies affect the salesperson's job. Current and proposed advertising and sales promotional programs assist in clarifying the nature of the salesperson's goals, duties, and activities.

Consider the Company's General Compensation Structure

Most large companies, and many smaller ones, use job evaluation systems to determine the relative value of individual jobs. It focuses on the jobs, without considering the ability or personality of individuals who do the work. Its purpose is to arrive at fair compensation relationships among jobs.

There are four job evaluation methods. Two are not quantitative: simple ranking and classification or grading. The other two are quantitative: the point system and the factor-comparison method.

Simple ranking: In this inexpensive job evaluation method, widely used by small businesses, an executive committee sorts job descriptions in the order of worth. This is done without considering the individuals currently in the jobs or their compensation levels. No attempt is made to determine critical factors inherent in the jobs; only overall appraisals of the relative worth of different jobs are made.

Classification or grading: This approach utilizes a system of grades and grade descriptions, against which individual jobs are compared. The grades, sometimes called classes, are described in terms of job responsibility, skills required, supervision given and received, exposure to unfavorable and hazardous working conditions, and similar characteristics. Job descriptions are then classified into appropriate grades-this is done by an executive committee or by personnel specialists. The basic process is to compare job descriptions with grade descriptions. All jobs within a grade are treated alike with respect to base compensation.

Point system: The point system is the most widely used job evaluation method. It involves establishing and defining the factors common to most jobs that represent the chief elements of value inherent in all jobs. The specific factors chosen differ from one company to another, but generally include mental and physical skills, responsibility, supervision given and received, personality requirements, and minimum education required. Each factor is assigned a minimum and maximum number of points, different ranges being associated in line with the relative importance of the factors. Next, appraised factor scores are combined into a total point value. Finally, bands of points are decided upon and become the different compensation classes. Less arbitrary judgment is required than under the classification method; the use of point values makes it possible to determine the gap, or distance, between job classes.

Factor-comparison method: This method resembles the point system but is more complex. It utilizes a scheme of ranking and cross-comparisons to minimize error from faulty judgment. In a process similar to that used in the point system, the factor-comparison method employs selected factors and evaluation scales. However, the scale values are in dollars and cents, and no' upper limit exists to the valuation that can be assigned to anyone factor. A selected number of key jobs, typical of similar jobs throughout the company, are then evaluated; factor by factor .This is done by arranging them in rank order, from highest to lowest for each, factor. As a check against this judgmental evaluation, the compensation dollars actually paid for each job are allocated to the factors; the allocation automatically establishes the relationship among jobs for each factor. The judgment ranking and the ranking by allocation of compensation are compared and differences are reconciled, or else the jobs are removed from the key list. On the basis of the dollar amounts assigned to the several factors making up key jobs, additional jobs are evaluated and their monetary values for each factor interpolated Into the scale. This procedure is repeated until all jobs are evaluated.

Job evaluation and sales positions: Job evaluation occurs whenever decisions are made about the relative worth of jobs, and it is inescapable in organizational life. If, for example, the owner of an automobile dealership decides that the new car sales manager should be paid more than the service manager, the jobs have been evaluated. So informal job evaluation exists in firms not using formal job evaluation.

Traditionally, sales executives have opposed using formal job evaluations to determine the compensation levels of sales personnel. They contend that compensation levels for sales personnel are more closely related to external supply-and-demand factors than to conditions inside the company. Sales personnel enjoy greater job mobility than most other employees, and are in everyday contact with potential employers.

Consider Compensation Patterns In commodity and Industry

Because compensation levels for sales personnel are related to external supply and-demand factors, it is important to consider prevailing compensation patterns in the community and industry. Management needs answers to four questions:

1. What compensation systems are being used?
2 What is the average compensation for similar positions?
3. How are other companies doing with their plans? And
4. What are the pros and cons of departing from industry or community patterns?

If there is a companywide formal job evaluation program, it should take into account the current rates for sales positions in the community and industry. A program for setting compensation of sales personnel is sound only if it considers the relation of external compensation practices to those of the company. Effective sales executives maintain constant vigilance against the possibility that the pay of sales personnel will get out of line with that paid for similar jobs in the community or industry.

Determine Compensation Level

Management must determine the amount of compensation a salesperson should receive on the average. Although the compensation level might be set through individual bargaining, or on an arbitrary judgment basis, neither expedient is recommended. Management should ascertain whether the caliber of the present sales force measures up to what the company would like to have. If it is too low, or if the company should have lower-grade people than those currently employed, management should determine the market value of sales personnel of the desired grade. Management weighs the worth of individual persons through estimating the sales and profit dollars that would be lost if particular salespeople resigned.. Another consideration is the compensation amount the company can afford to pay. The result of examining these and other factors pertinent to the situation is a series of estimates for the total cost of salespeople's compensation.

In some firms, companywide formal job evaluation programs are used to set compensation levels for sales positions. The procedure recommended earlier serves as a check on the compensation levels prescribed through job evaluations. Any discrepancies should be reconciled. When the job evaluation program is sound, there should be few, if any, discrepancies.

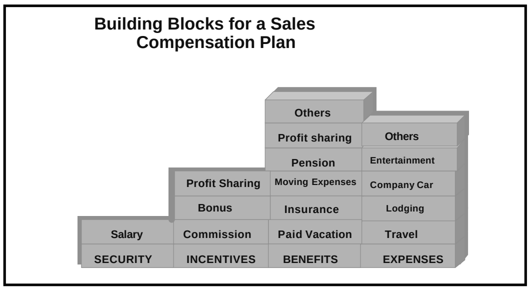
It is not unusual to find that two companies operate under similar selling conditions but with different sales compensation levels. Sales personnel in one company earn more than those who do essentially the same work in another company. Relatively speaking, the first group of salespeople is overcompensated. What explains such situations?

- Sometimes, management does not know the true worth of individual sales personnel.
- In other cases, management regards some sales personnel as indispensable .
- In still other cases, sales managers are biased in favor of high compensation for selling jobs.

Provide for the Various Compensation Elements

A sales compensation plan has as many as four basic elements:

1. A fixed element, either a salary or a drawing account, to provide some stability of income;
2. A variable element (for example, a commission, bonus, or profit-sharing arrangement), to serve as an incentive;
3. An element covering the fringe or "plus factor," such as paid vacations, sickness and accident benefits, life insurance, pensions, and the like; and
4. An element providing for reimbursement of expenses or payment of expense allowances. Not every company includes' all four elements. Management selects the combination of elements that best fits the selling situation. The proportions that different elements bear to each other vary. However, most companies split the fixed and variable elements on a 60:40 to an 80:20 basis.'



Special Company Needs and Problems

A sales compensation plan is no panacea for marketing ills, but it is often possible to construct a plan that increases marketing effectiveness. If a company's earnings are depressed because sales personnel overemphasize low-margin items and neglect more profitable products, it may be possible, despite the existence of other managerial alternatives, the adjust the compensation plan to stimulate the selling of better balanced orders. Specifically, variable commission rates might be set on different products, with the higher rates applying to neglected products.

Or, as another example, a firm might have a "small-order" problem. It is possible to design compensation plans that encourage sales personnel to write larger orders. Commission rates can be graduated so that higher rates apply to larger orders. However, it is desirable to supplement such a revised compensation plan with a customer classification and call scheduling system, enabling management to vary call frequency with account size.

As still another example, a company may want to obtain more displays or local advertising by retailers. The presence or absence of point-of-purchase displays can spell the difference between marketing success or failure. Securing retail displays is a task that sales personnel may neglect, especially if they are paid commissions based on sales volume. To overcome this tendency, an incentive payment for obtaining retail displays is often incorporated in the compensation plan.

Numerous other possibilities exist for using the compensation plan to help solve special company problems. Plans may assist in securing new customers and new business. Repeated tampering with the sales compensation plan frequently results in complex and difficult-to-administer plans.

Consult the Present Sales Force

Management should consult the present sales personnel, inasmuch as many grievances have roots in the compensation plan. Management should encourage sales personnel to articulate their likes and dislikes about the current plan and to suggest changes in it. Criticisms and suggestions are appraised relative to the plan pr plans under consideration. But at this point, management compares the caliber of the present sales force with that of the people whom it would like to have. If the present salespeople are not of the grade that the company wishes to attract, their criticisms and suggestions are of limited usefulness. Since, however, nearly every sales force has some people of the desired caliber, more weight can be attached to their opinions than to those of others.

Reduce Tentative Plan to Writing and Pretest it

For clarification and to eliminate inconsistencies the tentative plan is put in writing. Then it is pretested. The amount of testing required depends upon how much the new plan' differs from the one in use. The greater the difference, the more thorough is the testing.

Pretests of compensation plans are almost always mathematical and usually computerized. Past payrolls, perhaps for a year or two, are reworked to check operation of the proposed plan against experience under the old system. Analysts compare what happened with what would have happened had the new plan been in effect. If the sales pattern has shown considerable fluctuation, calculations are made for period's representative of average, good, and poor business.

Then a look is taken into the future. Utilizing sales forecast data, new and old plan') are applied to future periods. The plan is tested for the sales force as a group and _or individuals faced with unique selling conditions. Analysis reveals whether the plan permits earning in line with the desired compensation level. If deficiencies show up, the plan may not be at fault; weaknesses can trace to the way territorial assignments have been made or to inaccuracies in sales forecasts, budgets, or quotas.

To conduct a pilot test, several territories representative of different sets of selling conditions are selected. The 'proposed plan is applied in each one long enough to detect how it works under current conditions. Pilot tests are invaluable for 'spotting possible sources of trouble and other deviancies.

Revise the Plan

The plan is then revised to eliminate trouble spots or deficiencies. If alterations are extensive, the revised plan goes through further pretests and perhaps another pilot test. But if changes have been only minor, further testing is not necessary.

Implement the Plan and Provide for Follow-up

At the time the new plan is implemented, it is explained to sales personnel. Management should convince them of its basic fairness and logic. The sales personnel are made to understand what management hopes to accomplish through the new plan and how this is to be done. Details of changes from the old plan, and their significance require explanation. All sales personnel should receive copies of the new plan, together with written examples of the method used for calculating earnings. If the plan is at all complex, special training sessions are held and aimed at teaching sales personnel how to compute their own earnings. If sales personnel do not understand the plan or certain of its features, such as quotas and variable commission bases, they may think that the company is taking unfair advantage of them. Inadequate understanding of the sales compensation plan is common and often a cause of low morale. No effort is spared to make certain that everyone on the sales force fully comprehends the compensation plan and its workings.

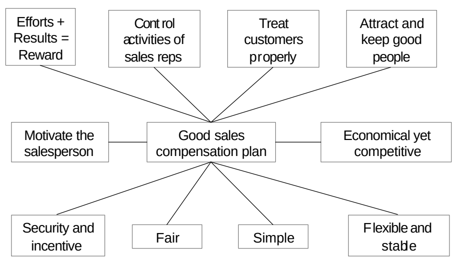
Provisions for follow-up are made. From periodic checkups, need for a further adjustment is detected. Periodic checks provide evidence of the plan's accomplishments, and they uncover weaknesses needing correction.

Points to Ponder

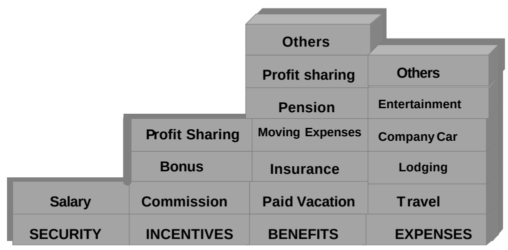
Devising a sales compensation plan

- Define the sales job.
- Consider the company's general compensation structure
- Consider compensation pattern in community and industry
- Determine compensation level
- Provide for various compensation elements
- Special company needs and problems
- Consult the present sales force
- Reduce tentative plan to writing and pretest it.
- Implement the plan and provide for follow up

What a Good Sales Compensation Plan Should Do



Building Blocks for a Sales Compensation Plan



Questions

Q1. What is the requirement of a good sales compensation plan ?

Q2. What are the different methods of job evaluation?

Q3. Why is it important to consider compensation pattern in industry to set compensation for the sales people?

Notes -

LESSON 16
TYPES OF COMPENSATION PLANS, FRINGE BENEFITS

Learning Objectives

- To understand about the different types of compensation plans
- To understand about straight salary plan and its advantages and disadvantages
- To understand about straight commission plan and its advantages and disadvantages
- To understand about combination salary plan and its advantages and disadvantages
- To understand about fringe benefits

In this lesson we will study about the different types of compensation plans.

Types of Compensation Plans

The, four elements of compensation are combined into hundreds of different plans, each more, or less unique. But if we disregard the "fringe benefit" and "expense reimbursement" elements:-as is entirely reasonable, since they are never used alone-there are only three basic types of compensation plans: straight salary, straight commission, and a combination of salary and variable elements.

Straight-Salary Plan

The straight salary is the simplest compensation plan. Under it, salespersons receive fixed sums are regular intervals (usually each week or month but sometimes every two weeks), representing total payments for their services. The straight salary was once the most popular sales compensation plan, but it has been declining in importance. Such plans are more common among industrial-goods companies than among consumer-goods companies. Firms that formerly used the straight salary have tended to combine a basic salary with a variable element-that is, they have switched to combination plans.

In spite of the trend away from its use, sometimes the straight-salary plan is appropriate. It is the logical compensation plan when the selling job requires extensive missionary or educational work, when salespeople service the product or give technical and engineering advice to prospects or users, or when salespeople do considerable sales promotion work. If nonselling tasks bulk large in the salesperson's total time expenditure, the straight-salary plan is worthy of serious consideration.

Straight-salary plans are commonly used for compensating salespeople heavily engaged in trade selling. These jobs, in which selling amounts to mere order taking, abound in the wholesale and manufacturing fields, where consumer necessities are distributed directly to retailers. Frequently, too, the straight-salary method is used for paying driver-salespersons selling liquor and beverages, milk and bread, and similarly distributed products.

From management's standpoint, the straight-salary plan has important advantages. It provides strong financial control over sales personnel, and management can direct their activities along the most productive lines. Component tasks making up salespersons' jobs can be recast with minimum opposition from those affected, so there is flexibility in adjusting field sales work to changed selling situations. If sales personnel prepare detailed reports, follow up leads, or perform other time-consuming tasks, they cooperate more fully if paid straight salaries rather than commissions. Straight-salary plans are economical to administer, because of their basic simplicity, and compared with straight-commission plans, accounting costs are lower.

The main attraction of the straight-salary plan for sales personnel is that stability of income provides freedom from financial uncertainties inherent in other plans. In addition, sales personnel are relieved of much of the burden of planning their own activities (the practice of providing detailed instruction, for example, on routing and scheduling, generally goes along with the straight salary plan). And, because of its basic simplicity, sales personnel have no difficulty in understanding straight-salary plans.

The straight-salary plan, however, has weaknesses. Since there are no direct monetary incentives, many salespeople do only an average rather than an outstanding job. They pass up opportunities for increased business, until management becomes aware of them and orders the required actions. Unless the plan is skillfully administered, there is a tendency to under compensate productive salespeople and to overcompensate poor performers. However, many of the straight-salary plan's weaknesses are minimized through good administration.

Sales Force Compensation Methods

Straight Salary

- Management is able to exercise greater control over the sales force (compared to straight commission).
- Appropriate when personnel in selling roles are required to provide design and engineering assistance.
- *Motivator/problem solver* and *relationship/value creator* roles are appropriate for straight salary compensation.
- Creates stability of sales employees.
- Does not tie financial rewards to sales results – may attract personnel who are security oriented instead of achievement oriented.

In administering a straight-salary plan, individual sales personnel are paid, insofar as possible, according to their relative performance.

All sales personnel need rating not only on their achievement of sales and cost goals but on their performance of each assigned duty. The total evaluation of an individual is a composite of the several ratings, weighted according to relative importance. Persons rated as average are paid average salaries. Salaries of below-average and above-average sales personnel are scaled to reflect the extent to which their performances vary from the average. Each individual's performance is regularly reviewed and upward adjustments made for those showing improvements, and downward adjustments made for those with deteriorating performances.

STRAIGHT SALARY

➔ **Advantages:**
- ➔ Simple
- ➔ Encourages customer service
- ➔ Protects income
- ➔ Facilitates team selling
- ➔ Gives sales managers maximum flexibility in changing salesperson's priorities on short notice

➔ **Disadvantages:**
- ➔ Limits ability to use compensation as a tool to shape behavior
- ➔ Increases fixed selling costs
- ➔ Lowers salesperson's incentive
- ➔ Does not attract successful aggressive" stars"
- ➔ "Stars" subsidize others

Straight-Commission Plan

The theory supporting the straight-commission plan is that individual sales personnel should be paid according to productivity. The assumption underlying straight-commission plans is that sales volume is the best productivity measure and can, therefore, be used as the sole measure. This is a questionable assumption.

The straight-commission plan, in its purest form is almost as simple as the straight-salary plan, but many commission systems develop into complex arrangements.

Straight commission plans fall in to one of two broad classifications:

1. Straight commission with sales personal paying their own expenses. Advantage may or may not be made against earned commissions.
2. Straight commission with the company paying expenses, with or without advances against earned commissions.

There is a general away from the straight –commission plan, and today no more than 6 or 7 percent of all companies use such plans. The straight commission plan is used in situations where nonselling duties are relatively unimportant and management emphasizes order getting. Straight–commission plans are common in clothing , textile , and shoe industries and in drug and hardware wholesaling. Firms selling intangibles, such as insurance and investment securities, and manufacturers of furniture, office equipment, and business machines also are frequent users of straight –commission plans.

Sales Force Compensation Methods

Straight Commission

- Most appropriate where repeat efforts are necessary to sustain customer purchases.
- Rewards are linked to short-term, repeated performance.
- Sellers will likely concentrate on customers that have a patterns of frequent and substantial purchases.
- Inappropriate during new product introductions.
- May not work well for sophisticated products where missionary work is needed.
- Compensation variability/volatility may create problems for the sellers.

The straight-commission plan has several advantages. The greatest is that it provides maximum direct monetary incentive for the sales person to strive for high-level volume. The star salesperson is paid more than he or she would be under most salary plans. And low producers are not likely to be overcompensated. Straight –commission plans, in addition provide a means for fast control –all direct selling expenses , except for traveling and miscellaneous expenses(which are reimbursable in some plans),fluctuate directly with sales volume changes and sales compensation becomes virtually an all variable expanse. The straight commission plan also is characterized by great flexibility- by revising commissions' rates applying to different products, for instance it is possible to stimulate sales personnel to emphasize those with the highest gross margins

STRAIGHT COMMISSION

➔ **Advantages:**
- ➔ Attracts high-performing salespeople
- ➔ Forces non-performers to leave organization
- ➔ Compensations costs are completely variable
- ➔ Easy to understand and administer
- ➔ Encourages maximum sales efforts
- ➔ Minimizes need for supervision by treating employee much like an independent contractor

➔ **Disadvantages:**
- ➔ Severely limits ability to direct salespeople's efforts, require non-selling activities, modify territories, etc.
- ➔ Encourages short-term orientation
- ➔ Salespeople can obtain a high level of income from mature territories
- ➔ Fosters salesperson's pursuit of the greatest payoff for the least effort to maximize income
- ➔ Can create conflict between the rep's dependence on volume and the principal's ability or willingness to fill every order
- ➔ Generates little loyalty

However the straight – commission method has weaknesses provides little financial control over sales people's activities, a weakness further compounded when they pay their own expenses. Salespersons on straight commission often feel that they are discharging their own expenses. salespersons on straight commission often feel that they are discharging their full responsibilities by continuing to send in customers orders .They are careless about transmitting reports, neglect to follow up leads, resist reduction in the size of sales territories, consider individual accounts private property, shade prices to make sales, and may use high-pressure tactics with consequent loss of customer goodwill. Moreover ,unless differential commission rates are used, sales personnel push the easiest-to-sell low margin items and neglect harder –to sell high –margin items. Finally, some salespersons' efficiency may decline because of income uncertainties. If a sales force has many financially worried salespeople; management may have to invest considerable time, effort, and money to buoy up their spirits.

Determining commission base: One important aspect of designing a straight commission system is to select the base on which to pay commission. Company selling policies and problems strongly influence selection of the base. If obtaining volume is the main concern, then total sales is the base. If sales personnel make collections on sales, commissions are based on collections. If a firm has excessive order cancellations, commissions can be based upon shipments, billings, or payments. To control price cutting by sales personnel, some companies base commissions on gross margins. Other companies use net profits as the base, seeking simultaneously to control price cutting, selling expense, and net profit.

Combination Salary-and-Incentive Plan

Salary plus commission: Most sales compensation plans are combinations of salary and commission plans. Most developed as attempts to capture the advantages and offset the, disadvantages of both the salary and commission systems.

Where the straight-salary method is used, the sales executive lacks a financial means for stimulating the sales force to greater effort. Where the straight commission system is used, the executive has weak financial control over nonselling activities. By a judicious blending of the two basic plans, management seeks both control and motivation. Actual results depend upon management's skills in designing and administering the plan. Unless there is skillful adjustment of salary and commission, weaknesses of both basic systems reappear.

Strengths and weaknesses of combination plans: A well-designed and administered 'combination plan provides significant benefits. Sales personnel have both the security of stable incomes and the stimulus of direct financial incentive. Management has both financial control over sales activities and the apparatus to motivate sales efforts. Selling costs are composed of fixed and variable elements; thus, greater flexibility for adjustment to changing conditions exists than under the commission method. Nevertheless, selling costs fluctuate some with the volume of business. There are beneficial effects upon sales force morale. Disagreements on pay increases and territorial changes are less violent than under a straight-commission plan. Further, if salespeople realize that the company shares their financial risks, a cooperative spirit develops between them and the company.

The combination plan, however, has disadvantages. Clerical costs are higher than for either a salary or a commission system. More records are maintained and in greater detail. There are risks that the plan will become complicated and that sales personnel will not understand it.

Sometimes a company seeking both to provide adequate salaries and to keep selling costs down uses commission rates so low that the incentive feature is insufficient to elicit needed sales effort. But, if the incentive portion is increased, salespeople may neglect activities for which they are not directly paid. Therefore, the ratio that the base salary and the incentive portion bears to the total compensation is critical. As mentioned earlier, most companies split the fixed and variable elements on a 60:40 to an 80:20 basis.

Sales Force Compensation Methods

Combination Plan

- Most frequently used form of compensation.
- Salary portion of compensation corresponds to management's needs for the sales staff to perform administrative duties, while the commission portion encourages increased selling effort.
- The commission portion of the compensation is paid as it is earned, as opposed to a bonus (most likely paid on a quarterly or annual basis).

SALARY & COMMISSION

- Advantages:
  - Attracts salespeople with skills beyond pure selling abilities
  - Enables company to compete with employers offering alternative careers
  - Helps retain employees during tough times
  - Permits inclusion of non-sales activities
- Disadvantages:
  - Can be so complex, it is difficult to understand and administer
  - Can dilute emphasis on key results because of a tendency to try to control too many specific activities of salespeople

Use of Bonuses

Bonuses are different from commissions-a bonus is an amount paid for accomplishing a specific sales task; a commission varies in amount with sales volume or other commission base. Bonuses are paid for reaching a sales quota, performing promotional activities, obtaining new accounts, following up leads, setting up displays, or carrying out other assigned tasks. The bonus, in other words, is an additional financial reward to the salesperson for achieving results beyond a predetermined minimum.

Bonuses are never used alone-they always appear with one of the three main sales compensation methods. If used with the straight salary, the plan resembles the combination plan. If used with the straight commission, the result is a commission plan to which an element of managerial control and direction has been added. If used with the combination salary and commission plan, the bonus becomes a portion of the incentive income that is calculated differently from the commission.

- *Bonus plans can't operate alone, they have to be part of a combination plan*
- *Bonuses are often based on achieving quotas*
- *Quotas on virtually anything can be used including sales, profit and activity based accomplishments*

Certain administrative actions are crucial when a bonus is included in the compensation plan. At the outset, the bonus conditions require thorough explanation, as all sales personnel must understand them. The necessary records must be set up and maintained. Procedures for keeping sales personnel abreast of their current standings relative to the goals are needed. In addition, any bonus misunderstandings or grievances arising should be dealt with fairly and tactfully.

Deriving Compensation Plans from Marketing Strategies

Marketing Strategy	Objectives	Sales Tasks	Recommended Compensation Plan
Build	Build sales volume	Call on prospective and new accounts Provide high service levels, particularly presale service Product / market feedback	Salary plus incentive
Hold	Maintain sales volume Consolidate market position through concentration on targeted segments Secure additional outlets	Call on targeted current accounts Increase service levels to current accounts Call on new accounts	Salary plus commission or bonus
Harvest	Reduce selling costs Target profitable accounts	Call on and services most profitable accounts only and eliminate unprofitable accounts Reduce service levels Reduce inventories	Salary plus bonus
Divest/ liquidate	Minimize selling costs and clear out inventory	Inventory dumping Eliminate service	Salary

Fringe Benefits

Fringe benefits, which do not bear direct relationships to job performance, range from 25 to 40 percent of the total sales compensation package. Some are required by federal and state law for example, payments for social security premiums, unemployment compensation, and worker's compensation. Most, however, the company provides for other reasons: to be competitive with other companies in the industry or community, to furnish reasons for employees to remain in the company's service, and to comply with what employees expect as fringe benefits.

Figure below shows fringe benefits currently offered by U.S. companies. As the variety of fringes has expanded, individual fringes have been added that appeal more to some groups than others-people with bad teeth are the ones most interested in dental insurance, while those with children are the ones most interested in plans for paying educational tuition fees for dependents. Similarly, given a choice between supplemental life insurance and increased retirement benefits from the savings plan, a fifty-nine-year-old probably would pick the latter, ' but a thirty-two-year-old father of five might opt for the life insurance.

An increasing number of companies offer a "cafeteria" approach to fringe benefits. In this approach, the company offers a core of basic benefits-the benefits required by law plus other traditional benefits, including paid vacations, medical, disability, and death benefits and a retirement program. Employees then use credits (based on age, pay, family status, and years of company service) to obtain optional benefits not included in the core; this lets employees select those benefits that best fit their needs. Because needs for benefits change,

Fringe Benefits Compendium of Types Available to Sales Personnel in Some Companies

Time	Organization dues
Holidays	Trade association
Vacations	Civic clubs
Sick leave	Country clubs
Personal leave	Professional association
Sabbaticals	
Pregnancy leave	Miscellaneous
	Automobile
Retirement Problems	Use of vacation spot
Social security (mandatory)	Parking
Pension plan'	Dry cleaning and laundry
Profit sharing	Lunches (all or part)
Salary reduction plans	Secretarial services
	Employee stock purchase plan
Insurance and 'medical	Company-provided housing
Physical examinations	Legal services
Medical payments and	Financial counseling
reimbursements	Tuition for continuing education
Hospitalization insurance	programs ,
Dental insurance	Financial support for dependents'
Disability insurance	Education Credit unions Discounts
Life insurance	for purchases of company products
Travel insurance	Child care payments
Accident insurance	Matching funds to charities and
Worker's compensation	schools Company, social events
(mandatory)	Company sports tournaments
Unemployment insurance	Retirement counseling
(mandatory)	Career counseling
Cancer insurance	Payment of moving expenses
Psychotherapy expense	

Employees are given opportunities to change their selection of those benefits that best fit their needs. Because needs for benefits change, employees are given opportunities to change their selections. Companies using the cafeteria approach also have "awareness programs" aimed at making employees aware of the benefits available.

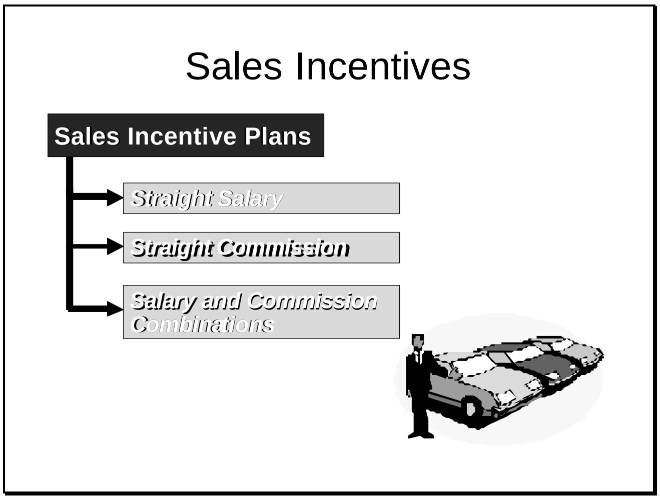
Conclusion

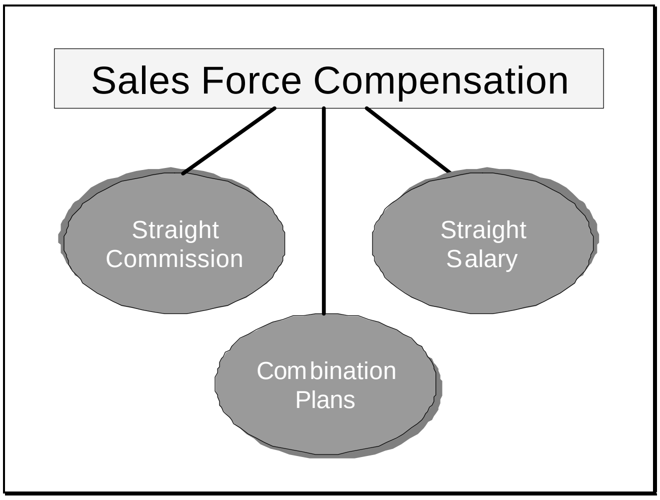
The sales compensation plan is an essential part of the total program for motivating sales personnel. Sales compensation plans' play three motivational roles: (1) to provide a "living wage" (thereby contributing-in line with Herzberg's motivation-hygiene theory-to the lack of job dissatisfaction if not to job satisfaction), (2) to relate pay to job performance (in line with the expectancy theory of motivation), and (3) to demonstrate the congruency between attainment of company goals and goals of individual sales personnel (also in line with expectancy theory).

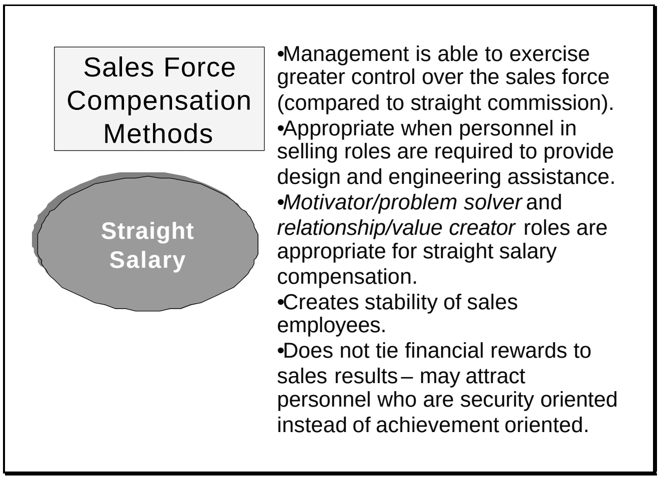
The basic sales compensation elements (salary, commissions and/or bonuses, or some combination thereof) should be in amounts large enough to provide the living wage and sufficiently flexible to adjust for changes in job performance. The fringe benefit elements, supplementary items not related to job performance and generally not payable in cash, need to be chosen and administered carefully-sales personnel, like other employees, increasingly look upon the fringes as customary and expected.

Appropriately chosen arid skillfully administered sales compensation policies facilitate sales force management. They affect the relative ease of building and maintaining an effective sales force. They attract promising recruits and encourage satisfactory performers to remain on the job. This helps to hold down the sales personnel turnover rate, which, in turn, increases the return from sales training. The direction and control of sales force activities, in general, become increasingly more effective. In short, effective implementation of appropriate sales compensation policies and practices reduces time and effort devoted to other aspects of sales force management.

Points to Ponder







Sales Force Compensation Methods

Straight Commission

- Most appropriate where repeat efforts are necessary to sustain customer purchases.
- Rewards are linked to short-term, repeated performance.
- Sellers will likely concentrate on customers that have a patterns of frequent and substantial purchases.
- Inappropriate during new product introductions.
- May not work well for sophisticated products where missionary work is needed.
- Compensation variability/volatility may create problems for the sellers.

Bonus Plans

- Bonus plans can't operate alone, they have to be part of a combination plan
- Bonuses are often based on achieving quotas
- Quotas on virtually anything can be used including sales, profit and activity based accomplishments

Sales Force Compensation Methods

Combination Plan

- Most frequently used form of compensation.
- Salary portion of compensation corresponds to management's needs for the sales staff to perform administrative duties, while the commission portion encourages increased selling effort.
- The commission portion of the compensation is paid as it is earned, as opposed to a bonus (most likely paid on a quarterly or annual basis).

Questions

Q1. What are the advantages and disadvantages of straight salary compensation plan?

Q2. When should a firm use straight commission?

Q3. Explain the advantages of combination plan?

Q4. Why are fringe benefits so important to salespeople?

Q5. Can companies pay salespeople too much ? too little ? Why?

LESSON 17 UNIT - 5
STANDARDS OF PERFORMANCE QUALITATIVE, QUANTITATIVE

Learning Objectives

- To understand the importance of performance standard in sales force control
- To understand the different quantitative performance standards
- To understand the different qualitative performance standards

In this lesson we study about the different performance standards set for Sales force which helps the Management in control function.

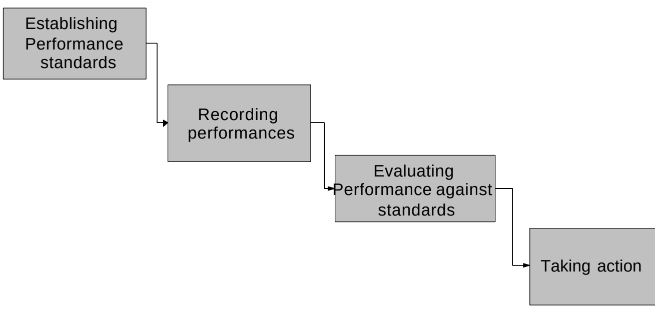
Controlling Sales Personnel

What part does controlling play in sales force management? To answer this, let's review what is involved in the management process. We'll do this in what is normally visualized, at least in the literature, as a sequence of activities performed more or less in chronological order.

The management process starts when top management makes known the company's goals, and department heads, including the top sales executive, use them to derive departmental objectives. For the sales department, the next step is to formulate policies and plans to achieve these objectives. Then, the sales management group maps out sales programs and campaigns, determines specific methods and procedures, and takes other needed actions, including making indicated changes in the sales organization to execute the policies and implement the plans. In performing these activities, sales executives coordinate the department's activities with each other and with related activities performed other departments and by distributive outlets in the marketing channels. Up to this point, then, sales executives focus upon planning, organizing, and coordinating.

Four steps remain in the management process-some refer to it as the "management cycle." They are

Steps in control process



These four steps constitute what is known as control.

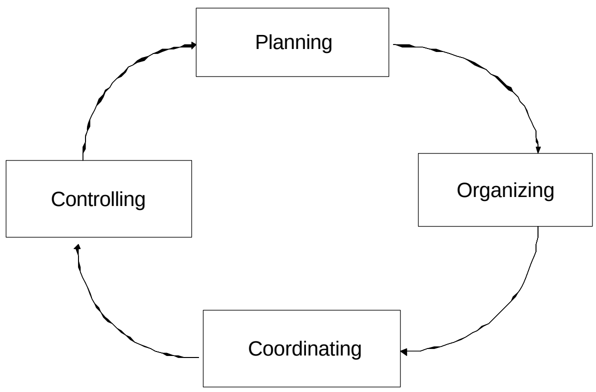
In this lesson we will discuss the first step and in the next two lessons the other steps will be covered.

Control, then, has both static and dynamic facets. The first three steps, static, enable sales management to measure the progress toward achieving departmental objectives. If the fourth step in control-action-is not forthcoming the three static steps cannot contribute maximally to sales management, despite the information they provide. Yet the "action" step, the dynamic facet of control, is frequently neglected. By taking the indicated actions, sales management keeps the department "on course."

Depending upon specific circumstances, sales management may decide

(1) To take "no action" now
(2) To take action aimed to increase the degree of attainment of objectives
(3) To revise the policy or plan or the strategies used in their implementation to facilitate achievement of objectives
(4) To lower or raise the objectives or the standards or criteria used for measuring their degree of attainment, to make them more realistic.

The managerial functions-planning, organizing, coordinating, and controlling-are not performed in an unchanging straight-line sequence. The order of performance is circular, and nowhere is this better illustrated than in the controlling phase.



→ The decision to set sales performance standards (the first step in control) requires planning. Planning, in turn, means deciding where the sales department is going (that is, setting the objectives) and determining how the department is to get from where it is to where it wants to be.

→ The initiation of control through standard setting is realistic only when the capabilities of the sales organization are taken into account; it does little good to set performance standards beyond the capabilities of the sales force.

→ For control to reach maximum effectiveness, management must coordinate sale planning with sales efforts. After sales force control is set in motion, more planning, organizing, and coordinating are required. Indeed, the benefits of dynamic control, the initiating of action based on comparisons of actual performances with the standards, are not realized unless sales management takes further planning, organizing, and coordinating steps.

Standards of Performance

Setting standards of performance requires consideration of the nature of the selling job. In other words, sales job analysis is necessary to determine job objectives, duties and responsibilities, and the like. Performance standards are designed to measure the performance of activities that the company considers most important.

Some unique sales jobs exist. The mainframe computer "salesperson," for example, is both a management consultant and a system analyst. Evaluating the job performance of a computer salesperson requires standards that measure not only skill in new-business selling but, even more basically, effectiveness as a management consultant and skill as a system analyst. It is important to recognize the nature of the selling job before selecting standards of performance.

Setting sales performance standards requires considerable market knowledge. It is important to know the total sales potential and the portion that each sales territory is capable of producing. Marketing intelligence must provide evaluations of competitors' strengths, weaknesses, practices, and policies. Management must know the selling expenses in different territories. These items all bear on the setting of performance standards, especially quantitative standards.

Sales management takes still other factors into account in setting performance standards. Sales planning is reappraised to assure that it is the best possible under the circumstances. The policies and procedures being used to carry the personal-selling portion of the marketing program into effect are reviewed for appropriateness. Adjustments are made for the strengths and weaknesses of the individual sales personnel and for the differences in their working environments. Sales management puts together a combination of sales performance standards to fit the company's needs, its marketing situation, its selling strategy, and its sales organization.

Purpose of Salespersons Performance Evaluation

1. To ensure that compensation and other reward disbursements are consistent with actual salesperson performance
2. To identify salespeople that might be promoted
3. To identify salespeople whose employment should be terminated and to supply evidence to support the need for termination
4. To determine the specific training and counseling needs of individual salespeople and the overall sales force
5. To provide information for effective human resource planning
6. To identify criteria that can be used to recruit and select salespeople in the future
7. To advise salespeople of work expectations
8. To motivate salespeople
9. To help salespeople set career goals
10. To improve salesperson performance

Relation of Performance Standards to Personal-Sellng Objectives

Standards of sales performance facilitate the measurement of progress made toward departmental objectives. Specific objectives vary with changes in the company's marketing situation, but are reconcilable with the general objectives of volume, profit, and growth. For instance, a general objective might be to add $10 million to sales volume, a figure in itself of little assistance for operating purposes. But using this objective as a point of departure, management drafts plans to expand sales volume by $10 million. Through analysis of market factors, management may conclude that $10 million in additional sales can be made if two hundred new accounts are secured. Experience may indicate that 1,000 calls on prospects must be made to add 200 new accounts. Thus, in successive steps, the general sales volume objective is broken down into specific operating objectives. Performance standards are then established for the business as a whole and, ultimately, for each salesperson. These standards are used to gauge the extent of achievement of general and related specific objectives.

The first quantitative standard that any firm should select is one that permits comparisons of sales volume performance with sales volume potential. From the sales department's standpoint, the volume objective is the most crucial and takes precedence over the profit and growth objectives. Before profits can be earned and growth achieved, it is necessary to reach a certain sales volume level. It is entirely logical for sales management first to develop a standard to gauge sales volume performance.

Quantitative performance standards also measure success in achieving profit objectives. Profits result from complex interactions of many factors, so the modicum of control over profits provided through the standard for sales volume is not enough. Standards to bring some or all factors affecting profit under sales management's control should be set. Performance standards, then, are needed for such factors as selling expense, the sales mixture, the call frequency rate, the cost per call, and the size of order.

Setting quantitative performance standards to gauge progress made toward growth objectives is even more complex. Growth objectives are met to some extent through the natural momentum picked up as a company approaches maturity, but performances by sales personnel impact upon growth. In an expanding economy, where the gross national product each year is larger than that in the year before, it is reasonable to expect individual sales personnel to show annual sales increases. However, this assumes that marketing management keeps products, prices, promotion, and other marketing policies in tune with market demand and that sales management's efficiency is continuously improved. If these are logical assumptions, then the standards needed for individual sales personnel (besides successively higher sales volume and profit quotas each year) relate to such factors as increased sales to old accounts, sales to new accounts, calls on new' prospects, sales of new products, and improvements in sales coverage effectiveness.

Quantitative Performance Standards

Most companies use quantitative performance standards. The particular combination of standards chosen varies with the company and its marketing situation. Quantitative standards, in effect, define both the nature and desired levels of performance. Indeed, quantitative standards are used for stimulating good performance well as for measuring it.

Quantitative standards provide descriptions of what management expects. Each person on the sales force should have definitions of the performance aspects being measured and the measurement units. These definitions help sales personnel make their activities more purposeful.

A single quantitative standard, such as one for sales volume attainment, provides an inadequate basis for appraising an individual's total performance. In the past the performances of individual sales personnel were measured solely in terms of sales volume. Today's sales managers realize that it is possible to make unprofitable' sales, and to make sales at the expense of future sales. In some fields-for example, industrial goods of high unit price-sales result only after extended periods of preliminary work, and it is not only unfair but misleading to appraise performance over short intervals solely on the basis of sales volume.

Sales personnel have little control over many factors affecting sales volume. They should not be held accountable for "uncontrollable" such as differences in the strength of competition, the amount of promotional support given the sales force, the potential territorial sales volume, the relative importance of sales to national or "house" accounts, and the amount of "windfall" business secured. Ample reason exists for setting other quantitative performance standards besides that for sales volume.

Each company selects that combination of quantitative performance standards that fits its marketing situation and selling objectives. If necessary, it develops its own unique standards designed best to serve those objectives. The standards discussed here are representative of the many types in use.

Let us now discuss the different quantitative standards that can be set :

- Quotas
- Selling expense ratio
- Territorial net profit or gross margin ratio
- Territorial market share
- Call-frequency ratio
- Calls per day.
- Order call ratio
- Average cost per call
- Average order size
- Nonselling activities

Quotas

A quota is a quantitative objective expressed in absolute terms and assigned to a specific marketing unit. The terms may be dollars, or units of product; the marketing unit may be a salesperson or a territory. As the most widely used quantitative standards, quotas specify desired levels of accomplishment for sales volume, gross margin, net profit, expenses, performance of nonselling activities, or a combination of these and similar items.

When sales personnel are assigned quotas, management is answering the important question: How much for what period?

The assumption is that management knows which objectives, both general and specific, are realistic and attainable. The validity of this assumption depends upon the market knowledge management has and utilizes in setting quotas. For instance, the first step in setting sales volume quotas is to estimate future demand for the company's products in each sales territory-hence, sales volume quotas can be no better than the sales forecast underlying them. When sales volume quotas are based upon sound sales forecasts, in which the probable strength of demand has been fully considered, they are valuable performance standards

Selling Expense Ratio

Sales managers use this standard to control the relation of selling expenses to sales volume. Many factors, some controllable by sales personnel and some not, cause selling expenses to vary with the territory, so target selling expense ratios should be set individually for each person on the sales force. Selling expense ratios are determined after analysis of expense conditions and sales volume potentials in each territory. An attractive feature of the selling expense ratio is that the salesperson can affect it both by controlling expenses and by making sales.

The selling expense ratio has several shortcomings. It does not take into account variations in the profitability of different products-so a salesperson who has a favorable selling expense ratio may be responsible for disproportionately low profits. Then, too, this performance standard may cause the salesperson to over economize on selling expenses to the point where sales volume suffers. Finally, in times of declining general business, selling expense ratios inhibit sales personnel from exerting efforts to bolster sales volume.

Selling expense ratio standards are used more by industrial-product companies than by consumer-product companies. The explanation traces to differences in the selling job. Industrial-product firms place the greater emphasis on personal selling and entertainment of customers; consequently, their sales personnel incur higher costs for travel and subsistence.

Territorial Net Profit or Gross Margin Ratio

Target ratios of net profit or gross margin to sales for each territory focus sales personnel's attention on the needs for selling a balanced line and for considering relative profitability (of different products, individual customers, and the like).

Managements using either ratio as a quantitative performance standard, in effect, regard each sales territory as a separate organizational unit that should make a profit contribution. Sales personnel influence the net profit ratios by selling more volume and by reducing selling expenses. They may emphasize more profitable products and devote more time and effort to the accounts and prospects that are potentially the most profitable.

The gross margin ratio controls sales volume and the relative profitability of the sales mixture (that is, sales of different products and to different customers), but it does not control the expenses of obtaining and filling orders.

Net profit and gross margin ratios have shortcomings. When either is a performance standard, sales personnel may "high-spot" their territories, neglect the solicitation of new accounts, and overemphasize sales of high-profit or high-margin products while underemphasizing new products that may be more profitable in the long run.

Both ratios are influenced by factors beyond the salesperson's control. For instance, pricing policy affects both net profit and gross margin, and delivery costs, which also affect both net profit and gross margin, and delivery costs, which also affect both net profit and gross margin, not only vary in different territories but are beyond the salesperson's control. Neither ratio should be used without recognition of its shortcomings.

Territorial Market Share

This standard controls market share on a territory-by-territory basis. Management sets target market share percentages for each territory. Management later compares company sales to industry sales in each territory and measures the effectiveness of sales personnel in obtaining market share. Closer control over the individual salesperson's sales mixture is obtained by setting target market share percentages for each product and each class of customer or even for individual customers.

Call-frequency Ratio

A call-frequency ratio is calculated by dividing the number of sales calls on a particular class of customers by the number of customers in that class. By establishing" different call-frequency ratios for different classes of customers, management directs selling effort to those accounts most likely to produce profitable orders. Management should assure that the interval between calls is proper-neither so short that unprofitably small orders are secured nor so long that sales are lost to competitors. Sales personnel who plan their own route and call schedules find target call frequencies helpful, inasmuch as these standards provide information essential to this type of planning.

Calls Per Day

In consumer-product fields, where sales personnel contact large numbers of customers, it is desirable to set a standard for the number of calls per day. Otherwise, some sales personnel make too few calls per day and need help in planning their routes, in setting up appointments before making calls (in order to reduce waiting time or the number of cases where buyers are "unavailable"), or simply in starting their calls early enough in the morning and staying on the job late enough in the day. Other sales personnel make too many calls per day and need training in how to service accounts. Standards for calls per day are set individually for different territories, taking into account territorial differences as to customer density, road and traffic conditions, and competitors' practices.

Order Call Ratio

This ratio measures the effectiveness of sales personnel in securing orders. Sometimes called a "batting average," it is calculated by dividing the number of orders secured by the number of calls made. Order call ratio standards are set for each class of account. When a salesperson's order call ratio for a particular class of account varies from the standard, the salesperson needs help in working with the class of account. It is common for sales personnel to vary in their effectiveness in selling to different kinds of accounts-one person may be effective in selling to small buyers and poor in selling to large buyers, another may have just the opposite performance pattern.

Average Cost Per Call

To emphasize the importance of making profitable calls, a target for average cost per call is set. When considerable variation exists in cost of calling on different sizes or classes of accounts, standards are set for each category of account. Target average cost per call standards also are used to reduce the call' frequency on accounts responsible for small orders.

Nonselling Activities

Some companies establish quantitative performance standards for such nonselling activities as obtaining dealer displays and cooperative advertising contracts, training distributors' personnel, and goodwill calls on distributors' customers. Whenever nonselling activities are critical features of the sales job, appropriate standards should be set. Since quantitative standards for nonselling activities are expressed in absolute terms, they are, in reality, quotas.

Multiple quantitative performance standards

It is widespread practice to assign multiple quantitative performance standards. A company can assign different quantitative standards for a sales person.

Qualitative Performance Criteria

Certain aspects of job performance, such as personal effectiveness in handling customer relations problems, do not lend themselves to precise measurement, so the use of some qualitative criteria is unavoidable. Qualitative criteria are used for appraising performance characteristics that affect sales results, especially over the long run, but whose degree of excellence can be evaluated only subjectively. Qualitative criteria defy exact definition. Many sales executives, perhaps most, do not define the desired qualitative characteristics; instead, they arrive at informal conclusions regarding the extent to which each salesperson possesses them. Other executives consider the qualitative factors formally, one method being to rate sales personnel against a detailed checklist of subjective factors such as that shown in Figure 17.1

Companies with merit-rating systems differ on the desirability of using numerical ratings. Most numerical scoring systems are in companies that rate sales personnel primarily for detecting needed adjustments in compensation. Companies that use merit rating primarily to improve and' develop individual salespersons usually do not use numerical scoring systems.

Figure 17.1 Form Used For Qualitative Analysis of Salesperson Performance

SALES PERFORMANCE ANYLYSIS

NAME………………………………………………………………… DATE………………………….

JOB FACTORS PROBLEM FAIR AVER GOOD SUPERIOR

PRODUCT KNOWLEDGE
AWARENESS OF CUSTOMER NEEDS
RELATIONSHIP WITH CUSTOMERS
NUMBER OF SALES CALLS
QUOTA PERFORMANCE
SERVICE FOLLOW-UP

PERSONAL FACTORS

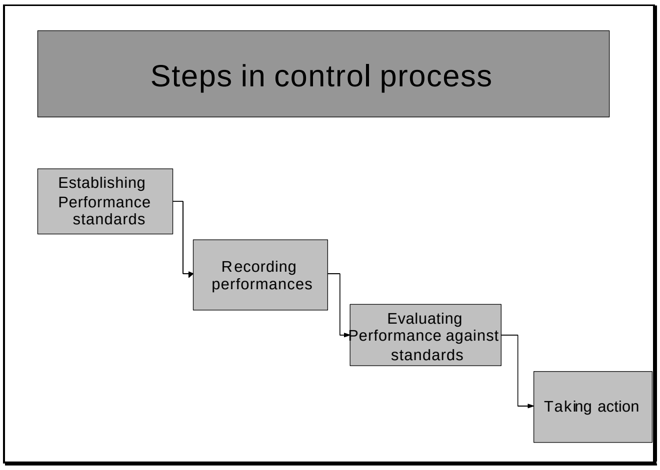
PUNTUALITY
GENERAL ATTITUDE
DRESS & APPERANCE
DILIGENCE
COOPERATION
ACCURACYADAPTABILITY
RELIABILITY

STORAGE POINT…………………………………………………………………………………………..
………
WEAKES POINT…………………………………………………………………………………………..
………
COMMENTS……………………………………………………………………………………………..
………

SIGNATURE

Executive judgment plays the major role in the qualitative performance appraisal. Written job descriptions, up to date and accurate, are the logical points of departure. Each firm develops its own set of qualitative criteria, based upon the job descriptions; the manner in which these criteria are applied depends upon the needs of management.

Points to Ponder



Purposes of Salesperson Performance Evaluations

1. To ensure that compensation and other reward disbursements are consistent with actual salesperson performance
2. To identify salespeople that might be promoted
3. To identify salespeople whose employment should be terminated and to supply evidence to support the need for termination
4. To determine the specific training and counseling needs of individual salespeople and the overall sales force
5. To provide information for effective human resource planning
6. To identify criteria that can be used to recruit and select salespeople in the future
7. To advise salespeople of work expectations

Quantitative performance standards.

- **Quotas**
- **Selling expense ratio**
- **Territorial net profit or gross margin ratio**
- **Territorial market share**
- **Call-frequency ratio**
- **Calls per day**.
- **Order call ratio**
- **Average cost per call**
- **Average order size**
- **Nonselling activities**

Qualitative performance standards

Questions

Q1. What is the purpose of setting performance standards?

Q2. What is the relation of performance standard to personal selling objective?

Q3. Describe selling expense ratio as a performance standard?

Q4. What is

i. Call frequency ratio

ii. Standard as Calls per day

iii. Order call ratio ?

Q5. What is qualitative performance standard?

1. To take "no action" now
2. To take action aimed to increase the degree of attainment of objectives
3. To revise the policy or plan or the strategies used in their implementation to facilitate achievement of objectives
4. To lower or raise the objectives or the standards or criteria used for measuring their degree of attainment, to make them more realistic.

LESSON 18
RECORDING OF ACTUAL PERFORMANCE

Learning objectives

- To understand the different types of reports to be made up by sales people
- To understand how the performance is measured
- To understand the different ways of evaluating salespeople

Let us now discuss the second step in control process

Recording Actual Performance

Sales management's next task is to measure actual performance. Emphasis in this phase of control, in other words, shifts to gathering performance information. It is necessary to define information needs, determine the information sources, and collect the information.

The choice of performance standards dictates the information needed. However, with increasingly sophisticated management information systems, the choice of performance standards is based as much on information availability as on the desire to use certain standards. It is good practice to review periodically the sales performance standards in use and the availability of other information that might permit use of different or additional standards.

There are two basic sources of performance information: sales and expense records and reports of various sorts. Almost every company has a wealth of data in its internal sales and expense records, but this information frequently requires reworking, or reprocessing, before it is useful for sales control purposes. Reclassified according to sales management's information needs, sales and expense data contribute to the determination and measurement of actual performances.

The methods of obtaining needed information depend upon the sources. Internally generated information, such as that from the data-processing installation, is provided on a routine basis, or in response to requests for special tabulations. Information obtainable only from sales personnel or field sales management personnel is gathered through formal reports; such information is also obtained through personal observation-by trips to the field or through field sales supervisors.

System of Field Sales Reports

The fundamental purpose of field sales reports is to provide control information. Good communications require interaction between those preparing and those receiving reports. A good field sales reporting system provides both for communication from the field to headquarters and from the headquarters to the field.

Field sales reports provide sales management with a basis for discussion with sales personnel. They indicate the matters on which salespeople need assistance. The sales executive uses field sales reports to determine whether sales personnel are calling on and selling to the right people, and whether they are making the proper number of calls.

A good field sales reporting system assists sales personnel in their self improvement programs. Recording accomplishments in written form forces individuals to check their own work

Purposes of field sales reports. The purpose a report is to serve determines the nature of the information it contains and the frequency of its transmittal. The general purpose of all field sales reports is to provide information for measuring performance; many reports, however, provide additional information. Consider the following list of purposes served by field sales reports:

1. To provide data for evaluating performance-for example, details concerning accounts and prospects called upon, number of calls made, orders obtained, days worked, miles traveled, selling expenses, displays erected, cooperative advertising arrangements made, training of distributors' personnel, missionary work, and calls made with distributors' sales personnel.
2. To help the salesperson plan the work-for example, planning itineraries, sales approaches to use with specific accounts and prospects.
3. To record customers' suggestions and complaints and their reactions to new products, service policies, price changes, advertising campaigns, and so forth.
4. To gather information on competitors' activities-for example, new products, market tests, changes in promotion, and changes in pricing and credit policy.
5. To report changes in local business and economic conditions.
6. To log important items of territorial information for use in case sales personnel leave the company or are reassigned.
7. To keep the mailing list updated for promotional and catalogue materials.
8. To provide information requested by marketing research-for example, data on dealers' sales and inventories of company and competitive products.

Types of Sales Force Reports

Reports from sales personnel fall into six principal groups.

1. Progress or Call Report

Most companies have a progress or call report. It is prepared individually for each call or cumulatively, covering all calls made daily or weekly. Progress reports keep management informed of the salesperson's activities; provide source data on the company's relative standing with individual accounts and in different territories, and record information that assists the salesperson on revisits. Usually the call report form records not only calls and sales, bill more detailed data, such as the class of customer or prospect, competitive brands handled, the strength and activities of competitors, best time to call, and "future promises."

2. Expense report

Because most sales personnel are reimbursed for expenses and itemized expense records are required for income tax purposes, most companies have an expense report. From sales management's standpoint, the purpose is to control the nature and amount of salespersons' expenses. This report also helps the salesperson exercise self-control over expenses. The expense report reminds salespersons that they are under moral obligation to keep expenses in line with reported sales-some expense report forms require salespersons to "correlate" expenses with sales. The details of the report form vary with the plan for reimbursing expenses.

Weekly Expense Report

Name____

Week Ending__________________________________

Date	From/To (or place at)	Meals(including) SELF		Entertainment		Miscellaneous		Daily Totals	
						Descript	Amount		
M									
T									
W									
T									
F									
S									
S									

Itemize below   Amount to be reimbursed

I hereby certify that the above expenses represent monies spent for legitimate business only

Approval___________________

Signed___________________________

3. Sales Work Plan

The salesperson submits a work plan (giving such details as accounts and prospects to be called upon, products and other matters to be discussed, routes to be traveled, and hotels or motels) for a future period, usually a week or a month . The purposes are to assist the salesperson in planning and scheduling activities and to inform management of the salesperson's whereabouts. The work plan provides a basis for evaluating the salesperson's ability "to plan the work and to work the plan."

4. New-Business or Potential New-Business Report

This report informs management of accounts recently obtained and prospects who may become sources of new business. It provides data for evaluating the extent and effectiveness of development work by sales personnel. A subsidiary purpose is to remind sales personnel that management expects them to get new accounts. Comparing the information secured with data in company files, management evaluates the effectiveness of prospecting.

5. Lost-Sales Report

This report provides information for evaluating a sales-person's abilities to keep customers and to sell against competition. Lost sales reports point the way to needed sales training, changes in customer service policies, and product improvements. The salesperson reports the reasons for the loss of the business; but receipt of a lost-sales report also causes management to consider further investigation.

6. Report of Complaint and/or Adjustment

This report provides information for analyzing complaints arising from a salesperson's work, complaints by class of customer, and cost of complaint adjustment. This assists management in detecting needed product improvements and changes in merchandising and service practices and policies. These data also are helpful for decisions on sales training programs, selective selling, and product changes

Reports from Field Sales Management

In decentralized organizations, field sales executives have an important part in setting sales performance standards. Branch and district sales managers and, in some cases, sales supervisors assist in establishing sales volume quotas for salespeople who, in many companies, also are consulted on their own quotas. Branch and district sales managers, in addition, play roles in breaking down branch and district sales volume quotas to quotas for individual sales personnel, and to products or product lines and/or to types of customers—occasionally, even to specific accounts. At the district level, especially in larger companies, profit and/or expense quotas are sometimes set for individual sales personnel and by product line.

The district sales manager's planning report is called a district sales plan, often prepared by compiling, with or without revisions, sales work plans, and covering the work or results that each district salesperson expects to accomplish during the month, quarter, or year ahead. District sales plans usually require the district sales manager to suggest standards for appraising his or her own performance, for example, the recruiting of a certain number of new sales personnel and the carrying out of some amount of sales training. District sales plans are subject to review and to revision by higher sales executives.

Field sales executives have responsibility for reporting information on personnel performance. Since they are in the most frequent contact with the sales force, they are well placed to observe individual sales personnel in the field. Consequently, field sales executives prepare "sales personnel evaluation" reports, often of the merit-rating type, which gather information on qualitative sales performances. In some companies, this is called a "progress report" and includes qualitative information on personnel performance and data comparing individual performance to quantitative standards. Sales personnel evaluation reports are prepared either periodically or each time a district sales manager or supervisor works with a salesperson.

Who should evaluate sales people?

The primary evaluator should be sales persons' immediate supervisor because this person has direct knowledge having actually worked with the sales person. For some companies the immediate supervisor completes the entire evaluation including recommendations for pay raises and promotions. The evaluations and recommendations are then sent to the manager's immediate supervisor for final approval. The manager's supervisor accepts the recommendations without question.

In majority of organizations several managers evaluate each salesperson. The simplest approach is for the district manager and the regional sales manager to arrive at the evaluation. The other district managers in the region also may express their opinion when the region's entire management group gets together periodically.

Review is necessary

1. To make certain that the appraisal form has been filled out properly.
2. To check against personal bias or errors in judgment.
3. To rate the rater's ability to set performance standards and to evaluate sales personnel.

When sales people be evaluated?

Sales people should be evaluated at the end of each performance cycle. A performance cycle is a period related to specific product goals or job activities. For example consumer-goods manufacturers typically have some products they want to emphasize periodically. They may have six performance cycles during the year. Every two months sales force is given specific sales goals for five to ten different products. These goals should be compared with results after each cycle. In addition sales people are monitored monthly for other products they sell.

These periodic performance evaluations provide the input for semiannual and annual performance evaluations. They provide important feedback to both management and sales people. A minimum of one formal evaluation should be completed yearly for each salesperson.

Number of Reports

The optimum number of reports is the minimum necessary to produce the desired information. Holding down the number of reports is important, since they are generally made out after the selling day. Report preparation places demands on free time, and, unfortunately, the best people often have the least time. All reports are reviewed from time to time to determine whether the information is worthwhile. When a new report is proposed, the burden of proof of its need is upon its advocates. Information obtainable through other means at no higher cost should not be gathered through field sales reports. Some companies, in assessing the worth of a sales report, discontinue it without notice or insert intentional errors in the form, thus learning whether the report ill essential and the use, if any, made of the information.

Design and Construction of Reports

Each field sales report should be as short as is consistent with its purpose. This is especially important for those submitted by sales personnel-whenever possible, the form should provide for easy checking off of routine informational items. Similarly, sales report forms should be of conveniently portable size and shape.

Information on field reports should be so arranged that it can easily be summarized. There should also be set routines for transferring information onto other records.

Detail Required in Sales Reports

The amount of detail required in sales reports varies from firm to firm. A company with many sales personnel covering a wide geographical area needs more detailed reports than does a company with a few salespeople covering a compact area. The more freedom that sales personnel have to plan and schedule their activities, the greater should be the detail required in their reports. However, and in apparent contradiction, commission sales personnel are asked for less detail in reports than are salaried salespeople, probably because management feels that it has less power to direct their activities. In general, the higher the caliber of sales personnel, the less is management's need for details. High-caliber people are expected to exercise self-control, thus reducing the need for detailed formal reporting.

Evaluating-comparing Actual Performances with Standards

Evaluating the Sales Force

The job of sales managers is not complete until the total effort of the sales force is evaluated. First, it is important to determine if the sales function is meeting its quantitative objectives. If not, the sales manager must figure out the causes. Individual salesperson performance is normally measured against sales quotas for individual sales territories, even when compensation plans do not include bonuses or commissions based on quotas. Other quantitative measures, such as number of sales calls and sales reports, may also be used in the evaluation.

Many firms also evaluate their sales force on qualitative indicators of performance such as salesperson attitude, product knowledge, and communication skills. Increasingly, as firms focus on relationship management, the level of customer satisfaction is a strong qualitative measure of superior salesperson performance.

The most difficult step in sales force control is the evaluation step-the comparing of actual performances with standards. This is more than a mechanical comparison; this step is difficult because evaluation requires judgment. The same standards cannot be applied to all sales personnel-there are differences in individual territories, their sales potentials, the impact of competition, and the personalities of sales personnel and their customers. It is possible to take territorial differences into account by setting individual performance standards for each territory, but it is not possible to adjust fully for differences in the personalities of the salesperson and the clientele. Furthermore, complications often develop in relating individual performances to standards, for example, when two or more salespersons work on the same account or when an account deals both with the salesperson and the home office.

Evaluating sales personnel requires both a comparison of performance with quantitative standards and an appraisal against qualitative performance criteria. Sales personnel with poor performances, as gauged by quantitative standards, may be making offsetting qualitative contributions. Individuals who do not reach sales quotas or keep to prescribed call schedules, for instance, may be building for the future by cementing relations with distributors and dealers. Evaluating performance of sales personnel requires judgment and deep understanding of market factors and conditions.

Judgment enters into the evaluation of sales personnel in still other ways. Performance trends, as well as the current record, are relevant-an individual showing improvement but with still substandard performance needs encouragement. There is always the chance, too, that something is wrong with a standard when an individual continually fails to reach a standard, management should investigate whether the standard has been set too high.

In comparing actual results with projected results, the general procedure in scientific work is to set up tests that measure the variable under observation while taking account of the effects of other variables. In the evaluation of sales personnel it is not possible to set up such tests. Each salesperson's performance results from complex interactions of many variables, some beyond the control of either the salesperson or of management. The time element changes and so do the sales personnel, the customers, general business conditions, competitors' activities, and other variables. However, some companies measure the impact of particular variables on personnel performance through careful design of experimental and control groups.

Sales persons performance evaluation approaches

1. Most evaluate on an annual basis
2. Most combine input and output criteria which are evaluated using quantitative and qualitative measures
3. When used, performance standards or quotas are set in collaboration with salespeople
4. Many assign weights to different objectives and incorporate territory data.
5. Most use multiple sources of information
6. Most are conducted by the field sales manager who supervises the salesperson
7. Most provide a written copy of the review and personal discussion

Performance evaluation forms

Periodically each manager is supplied with performance appraisal forms for evaluating each salesperson. Several different types of appraisal forms exists and each can have numerous variations. We will discuss some of the ways to evaluate salespersons performance.

a. Graphical Appraisal Scales

It is the most commonly used form for evaluating salesperson's performance.The manager fills out a form appraising a salespersons selling skills.

1. Selling skill	excellent	☐ 4	☐ 3	☐ 2	☐ 1	☐ 0	poor
2. Selling skill	4 ☐ outstanding	3 ☐ Above Average	2 ☐ Average	1 ☐ Below Average			

The table above shows formats for such evaluation. The manager is evaluating salespersons selling skills . Two methods are shown.

b. Descriptive Statements is a method of performance appraisal requiring the manager to provide a detailed , written description of each salespersons performance . Typically the manager has five to ten categories to evaluate such as selling ability , management potential , goal attainment , territorial management. The manager is usually required to use this descriptive statements to rank the salespeople .

c. Management by Objectives: Is a result based evaluation program . Salespeople are given objectives and their actual results are compared with the objectives to evaluate their performance

If salesperson has achieved objectives of three out of four criteria , the salesperson should explain to management why the specific product goal was not obtained and what is being done to make sure this objective will be reached in future.

d. Behaviorally Anchored rating scales Referred to as BARS represent an attempt to improve evaluation that use descriptive cues or adjectives. With BARS critical incidents distinguish among values on the scale . The BARS evaluation method makes each performance category easy for the manager to interpret because each includes a detailed explanation of exactly what rating means. Such evaluation methods tend to be more reliable and valid , thus reducing rating errors. Also the response categories directly represent job tasks. Thus manager can better explain evaluation to the individual involved.

A Behaviorally Anchored Rating Scale for evaluating ability to obtain Individual product

sales goals

Name Rohit

Place X on Appropriate Rating Scale

Outstanding	9	Salesperson reaches all individual product sales goals
Above average performance X	7	Salesperson consistently reaches an above average number of individual product sales goals
Average performance	5	Salesperson works to reach each individual product sales goals and can be expected to reach the district's average number of goals
Below average performance	3	Salesperson has difficulty meeting the district's average number of individual product sales goals.
Poor performance	0	Salesperson reaches few if any individual product sales goals.

The example above shows that Rohit has been evaluated as an above average in reaching company's individual product sales goals.

e. 360 Degree Feedback A new evaluation method which is becoming more popular among sales managers is called 360 degree feedback. Managers obtain feedback from an employee's peers , assistants , clients and even sales manager's supervisors in preparation for a performance review.

360-Degree Feedback System

- Salesperson is evaluated by multiple raters
- Helps salespeople better understand their ability to add value to their organization and their customers

Effective job performance is essential for organisations to stay in business and for salespeople to keep their jobs. Performance evaluations are periodically conducted with each salesperson to determine success or failure in meeting past goals and to develop plans for obtaining future goals. The primary evaluator is salesperson's immediate supervisor.

Companies must develop performance criteria that are measurable, practical, relevant and stable. Firms use both quantitative and qualitative performance criteria. Evaluation method must effectively measure performance.

Performance evaluation serves to reward effective performers and penalize ineffective salespeople. Many difficulties can be corrected if performance evaluations are effectively conducted. The manager and salesperson must be prepared for for the evaluation. Both should view evaluation positively. Performance should be honestly and openly reviewed. At the end of evaluation the manager should summarize the salesperson's past performance and together they should outline future performance objectives.

Points to Ponder

Purpose of field sales report

- To provide data for evaluating performance
- To help the salesperson plan the work
- To record customers' suggestions and complaints
- To gather information on competitors' activities
- . To report changes in local business and economic conditions.
- To log important items of territorial information
- To provide information requested by marketing research

Types of sales force reports

- **Progress or call report**
- **Expense report**
- **Sales work plan**
- **New-business or potential new-business report**
- **Lost-sales report**
- **Report of complaint and/or adjustment**

Sales persons performance evaluation approaches

- Most evaluate on an annual basis
- Most combine input and output criteria which are evaluated using quantitative and qualitative measures
- When used, performance standards or quotas are set in collaboration with salespeople
- Many assign weights to different objectives and incorporate territory data.
- Most use multiple sources of information
- Most are conducted by the field sales manager who supervises the salesperson
- Most provide a written copy of the review and personal discussion

360-Degree Feedback System

- Salesperson is evaluated by multiple raters
- Helps salespeople better understand their ability to add value to their organization and their customers

Performance evaluation forms

- **Graphical appraisal scales**
- **Descriptive statements**
- **Management by objectives**
- **Behaviorally anchored rating scales Referred to as BARS**

Questions

Q1. Discuss who should evaluate salespeople and why?

Q2. What is the purpose of sales report?

Q3. What are the different types of field sales reports?

Q4. What are the different types of performance evaluation forms?

LESSON 19
EVALUATION AND CONTROL THROUGH ACTION AND SUPERVISION

Learning Objectives

- To understand how salespeople can be controlled by supervision
- To understand who should supervise
- What should be the qualification of a supervisor

Let us now discuss the last step of salesforce control process

The evaluations, or comparisons of actual performances with standards, tempered and adjusted by executive judgment, point the way to needed action. If performance and standards are in alignment the decision may be: no action needed. Otherwise, the three alternatives are

1. Adjust performance to the standards, thus increasing the degree of attainment of objectives;
2. Revise the policy and/or plan, or the strategies used for their implementation, to fit better the achievement of objectives.
3. Lower or raise the objectives or the standards and/criteria used in measuring their degree of attainment to make them more realistic.

The actions resulting from these decisions, in turn, are conditioned by the executive's judgment, experience, knowledge of the situation, and administrative skill.

Controlling Sales Personnel Through Supervision

Management also controls sales personnel through supervision. Regardless of who does the supervising, the objective is to improve the job performances of sales personnel. The executive with supervisory responsibilities establishes working relations with sales personnel for purposes of observing, evaluating, and reporting on performance; correcting deficiencies; clarifying responsibilities and duties; providing motivation; informing sales personnel of changes in company policy; helping to solve business and personal problems; and continuing sales training. Clearly, sales supervision is concerned mainly with the action phase of control-action aimed at enhancing personnel contributions to the achievement of objectives.

How much supervision is enough? Too much is as bad as too little. It is difficult to prescribe how much supervision is enough, but there are some conditions under which supervision is needed. Among these conditions are:

- Sales personnel turnover rate excessive in a branch, district, or other organizational unit.
- High turnover of accounts.
- Increased complaints from customers.
- Mail or phone orders increasing for no known reasons.
- Low ratio of orders to sales calls.
- Total number of calls very low or very high.
- Increasing ratio of selling expenses to sales in an organizational unit.
- Low morale, as implied by negative attitude toward company, lack of enthusiasm, signs of restlessness and job hunting.

These conditions can trace to the wrong kind of supervision as well as to too much or too little supervision. While this list is useful for appraising the effectiveness of sales supervision, those doing the appraising must recognize that many of these conditions may have their roots in deficiencies in other phases of sales force management. It sometimes happens, too, that a company upgrades the quality of its sales personnel and fails to adjust the pattern of supervision. The selling task in many companies has changed so that it is now high-level, key account selling, and this demands independent, self-reliant, highly educated sales personnel who can and must make their own decisions! When management brings in highly trained and self-reliant people to meet the new selling challenge, traditional supervision and the attitudes that underlie it-stifles those whom management seeks to encourage: What worked for so long is wrong for the more dynamic assignment of the newer type of person. The type of supervision, in other words, should be adjusted to the type of person in the selling job-when the type of person changes, so should the type of supervision.

Who Should Supervise?

Depending upon the company and its organization, sales personnel may be supervised by

- home office personnel,
- branch or district managers,
- field sales supervisors.

Put another way, sales supervision may be either through executives as one of their job responsibilities, or through specialists whose jobs are mainly supervising. If the sales force is small and experienced, sales supervision is generally through the top sales executive or an assistant. Necessarily, control through home office supervision is minimal, but it may be enough, especially when the sales organization is small and permits the development of close relations among sales personnel and executives and when little sales training is required.

Companies having decentralized sales organizations sometimes assign the supervision responsibility to branch or district managers. Customarily promoted from the ranks, branch managers are presumably well prepared to supervise; field sales personnel. However, even in companies with elaborate field sales organization, limitations exist on the amount of supervision that branch managers: should exercise. In practice, the branch manager is often a local general manager more than a specialized sales executive and in this capacity is responsible for the local conduct of all the company's affairs, not only for managing sales personnel but for warehousing, extending credit and making collections, providing service, and performing other work. Branch managers spend most of their time attending to details, so it is unusual for them to devote much time to personal supervision of sales personnel. But they should spend some time. Especially when branch managers have large numbers of sales personnel under them, the time they can spend with each one is limited, and, as is true of supervision emanating from the home office, they rely mainly upon sales personnel to supervise themselves.

Qualifications of Sales Supervisors

Sales supervisors generally are selected from among the sales force, but beside having the qualifications required for selling success, they need other qualifications. They must be good teachers. They must recognize training needs, know how to train, be patient with those who have less skill, and be tactful in point out better ways of doing things. As vital links in the chain of communication go-betweens for higher sales management and the sales force alike-they must understand the needs and problems of both and reconcile them in the field.

They must be skilled in handling people and be equipped to deal with many complex situations. Beyond these supervisory duties, some companies expo; sales supervisors to sell certain accounts personally, this being one way to motivate them to keep up to date on field selling techniques. The field sales supervisors job is difficult and, in most companies, one with comparatively low pay. Nevertheless, many salespersons are eager for promotions to supervisory positions, since they often are stepping stones to higher positions.

The Supervision Activity

Supervision refers to actual overseeing and directing day to day activities of salespeople. A manager can supervise salespeople in two ways: indirectly and directly.

Indirect supervisory methods A sales manager may be responsible for 3 to 12 salespeople. This is a lot of people to oversee. Most sales organisations employ the following methods to indirectly help their manager stay abreast of their people's day to day activities:

- Call reports let the manager know which customers and prospects were contacted and on what day. Many call reports have a brief description of the salesperson's activities and accomplishment for each call.

Sales Call report

CALL REPORT

DATE____________19________

Customer ______________________________________

Street ______________________________________

city______________________________state______________________

Persons Contacted______________________________Title:______________________

TYPE OF CUSTOMER **SELLING STEPS TAKEN**

? Road Contractor ? Catalogs
? Building Contractor ? Movie
? water and Sewer Contractor ? View Machine Demonstration
? Governmental
? Industrial ? service
? Utility ? Entertained
? Mining and Quarry ? Other______________________
? Other______________

INTERESTED IN

? NEW ? USED ? RENTAL
? Euclid ? Thew ? Gardner-Denver ? Pioneer ? Bros
? Rogers ? Dynahoe ? Coastel ? other________

FOLLOW UP PLAN:______________________________________

Date of next call:__________________

REMARKS:______________________________________
:______________________________________
:______________________________________

Sales person:______________________________ ? Add to Mailing List

WHITE-HOUSTON PINK –BRANCH YELLOW - SALESPERSON

- Expense reports show where the salesperson spent the money, how much traveling was done.
- Compensation directs sales personnel's activities. Commissions, bonuses, and contests influence the time and effort salesperson's invest in their jobs.
- Sales analysis report shows what was sold and how much was sold.

The methods described above are indirect methods for supervision. The best way to supervise people is, however , is with direct methods.

Direct supervisory methods Three common methods for directly supervising people are the telephone or e-mail, sales meetings, and working with each salesperson.

- The telephone and e-mail are essential tools for contacting salespeople and for salespeople to talk with the manager. Both are faster and cheaper than traveling to see a salesperson.
- Sales meetings take place frequently, often once a month. This is a great time to provide information, training, and inspection.
- Work withs, often occurring once a month refer to the manager 's routine visits with each salesperson. The manager meets with each person in his or her sales territory for reasons such as:
- Troubleshooting- calling on a specific account to handle a specific problem.
- Joining the sales pro in a team effort in which both combine their selling talents to close a certain account.
- Training a seasoned sales pro to sell a new product or an established product in a new way.
- Introducing a seasoned salesperson to a new territory.

Conclusion

Discussion in the last two lessons and this lesson focused upon the part that control plays in the sales force management process. The following outline summarizes the different phases in this process.

1. Company goals are defined, and appropriate objectives for the sales department are derived. .
2. To facilitate achievement of objectives, departmental policies are formulated and plans designed.
3. To execute the policies and implement the plans, promotional programs and campaigns are mapped out, specific methods and procedures are determined and other needed actions, such as making indicated alterations in the sales organization, are taken.
4. Various sales department activities are coordinated with each other and with related activities performed by other organizational units and middlemen.
5. Quantitative performance standards are set, and criteria for appraising qualitative aspects of performance are selected.
6. Actual performance is recorded.
7. Actual performance is compared with quantitative performance standards and qualitative performance criteria, and judgment is reached on the significance of variations.
8. Indicated actions are taken after deciding
   a. To "take no action" at this time.
   b. To increase the degree of attainment of objectives.
   c. To revise the policy and/or plan, or the various strategies used in their implementation, to better fit the achievement of objectives. d. To lower or raise objectives or the standards and/or criteria used in measuring their degree of attainment, to make them more realistic.

In that they deal specifically with evaluating and supervising-sales personnel, the last four steps comprise "control," the first three being static, whereas the action step (phase 8) is dynamic. Adoption and successful operation of appropriate control procedures for a sales department results in greater effectiveness, which ultimately shows up in greater sales volume at more profit and less cost per sales dollar.

Effective procedures for evaluating and supervising sales personnel assure that sales department objectives are reached with minimum effort. Evaluating and supervising are concerned with monitoring the balance between standards and actual performance. Both are instrumental in achieving sales force control.

Points to Ponder

Conditions under which supervision is needed

- → Sales personnel turnover rate excessive in a branch, district, or other organizational unit.
- → High turnover of accounts.
- → Increased complaints from customers.
- → Mail or phone orders increasing for no known reasons.
- → Low ratio of orders to sales calls.
- → Total number of calls very low or very high.
- → Increasing ratio of selling expenses to sales in an organizational unit.
- → Low morale, as implied by negative attitude toward company, lack of en-thusiasm, signs of
- restlessness and job hunting.

Who should supervise

- home office personnel,
- branch or district managers,
- field sales supervisors.

Sales Call report

CALL REPORT

DATE____________19________

Customer ____

Street ____

city______________________________state_______________

Persons___________________________Title:______________

Contacted

TYPE OF CUSTOMER

? Road Contractor

? Building Contractor

? water and Sewer Contractor

? Govermental

? Industrial

? Utility

? Mining and Quarry

? Other________________

SELLING STEPS TAKEN

? Catalogs

? Movie

? View Machine Demonstration

? service

? Entertained

? Other________________________

INTERESTED IN

? NEW

?Euclid ? Thew

? Rogers ? Dynahoe

? USED

? Gardner-Denver

? Coastel

? RENTAL

? Pioneer ? Bros

? other_________

FOLLOW UP PLAN:____

Date of next call:____________________

REMARKS:____

:____

:____

Sales person:___________________________ ? Add to Mailing List

WHITE-HOUSTON PINK–BRANCH YELLOW - SALESPERSON

Direct supervisory methods

- Telephone
- E-mail
- Sales meetings
- Work withs

Questions

Q1. What are the conditions that lead to salesforce supervision?

Q2. What are the direct methods of supervision ?

Q3. What are the indirect methods of supervision?

LESSON 20
PURPOSE OF SALES BUDGET

Learning Objectives

- To understand the purpose of budgeting
- To understand how budget is determined
- To understand the different types of budget
- To understand the budget making procedure

Sales Budge

Salespeople underestimate how much they spend and overestimate how much they sell.

Andy Cohen, *Sales & Marketing Management,* October 1996

The budgetary process and its offspring, the budget, are the very core of the planning-control structure of most large companies. At the end of each year, top management of most firms requires the organization to prepare a plan for operations during the coming year. Such operational plans are developed by each operating unit (marketing, sales, production, finance, research, etc.) according to the basic sales and profit targets for the year given them by top management. Each department head then develops a detailed plan of what the unit must do to achieve these goals. The plan also includes a detailed itemization of the costs of doing those things-the projected costs. The projected costs ultimately are the basis for the budgets discussed. The budgetary process is a lengthy, time-consuming managerial task. It is not much fun. But it must be done!

The sales forecast provides the basis for developing company operating plans. Everything is keyed to the level of expected sales activity. The budgets are essentially based on the sales forecast. If the forecast is wrong, the resulting budgets will have to be revised often to reflect actual sales results.

A budget is simply a tool, a financial plan, that an administrator uses to plan for profits by anticipating revenues and expenditures. By using various planning procedures management hopes to guide operations to a given level of profit on a certain volume of operations.

Budgetinc and Strategic Planning

Just how does budgeting fit into strategic and operational planning? The answer is that the budget reflects the dollar manifestation of the plan. It is quite difficult to put dollar costs to those plans and make them all result in a profit. The budget is the planner's governor. It forces a reality on the planner that is mandatory for profitable operation. Ultimately all plans must be quantified into dollars and checked against realty.

Purposes of Budgeting

The budget is very important for the successful operation of the sales force. It serves several purposes including planning, coordination, and evaluation, each of which is discussed in this section.

Planning

Companies formulate marketing and sales objectives. The budget determines how these objectives will be met. The budget is both a plan of action and a standard of performance for the various departments. Once the budget is established, the department can begin organizing to realize that plan. This is especially important to salespeople. It is through a detailed breakdown of the sales budget among products, territories, and customers that sales reps learn what management expects of them.

Coordination

Maintaining the desired relationship between expenditures and revenues is important in operating a business. The objective of a business is to buy revenues at a reasonable cost, and a budget establishes what this cost should be. If sales of $5 million are forecast, management can establish how much it can afford to pay for that revenue. If the company wants a profit of 10 percent on sales, then $4.5 million can be paid to "buy" the $5 million in revenue. Part of the $4.5 million would go to the production and administrative departments, and another portion would be available to operate the sales department. Thus the budget enables sales executives to coordinate expenses with sales and with the budgets of the other departments. The budget also restricts the sales executives from spending more than their share of the funds available for the purchase of revenues. Hence the budget helps to prevent expenses from getting out of control.

Evaluation

Any goal, once established, becomes a tool for evaluation of performance. If the organization meets its goals, management can consider the performance successful. Hence the sales department budgets become tools to evaluate the department's performance. By meeting the sales and cost goals set forth in the budget, a sales manager is presenting strong evidence of his or her success as an executive. The manager who is unable to meet budgetary requirements is usually less well regarded.

Determining the Sales Budget

Determining expenditure levels for each category of selling expense is very difficult.Two methods for determining budget levels are discussed below

Budgeting by Percentage of Sales Method

Many business people plan and control their enterprises by percentages. Using this method, the manager multiplies the sales , forecast by various percentages for each category of expense. The resultant product then becomes the dollar amount budgeted for each of the respective categories.

The percentages used for each category may be based on the manager's experience and/or feelings about what portion of the sales dollar can or must be spent 'on each business function to achieve 'the desired profit. The percentages might also be based on published industry averages for expense categories. These published averages should be used only as guidelines which must be adjusted to reflect the unique aspects of the particular organization. These percentages are then used in controlling sales and their costs.

Of course there are no guarantees that setting the budgets using these percentages will lead to optimal performance. In fact the expense allocations, using this method, will follow the direction of change in sales. For example, if sales are forecasted to decline, then the budget allocations for all expense categories will decrease as well. This mayor may not be the optimal allocation to counter the sales decline. Additionally, the effectiveness of this method is dependent on the firm having accurate sales forecasts.

Despite the limitations, the manager knows that if expenses are kept within their percentage budgets, final operations will come out as planned.

Budgeting by the Objective and Task Method

In the objective and task method, the manager starts with the sales objectives, which are specified in the sales forecast. Then the manager determines the task that must be accomplished in order to achieve the objectives and estimates the costs of performing those tasks. These costs will be reviewed in light of the company's overall profit objective. If the costs are too high, the manager may be asked to find a different way of achieving the objective or some adjustment may be made to the original objective. This iterative process continues until management is satisfied with both the objectives and the means of achieving them. Many firms use some variation of the objective and task method.

The American Marketing Association, a nonprofit association of marketing professionals and academics, uses an objective and task .method to develop its budget. Its budgeting process starts with forecasts of membership revenue and publication sales. Then the senior managers estimate the costs, of the programs designed to achieve the forecasted revenues. If the projected expenses exceed revenues, adjustments in costs, programs, and revenues are made until the budget is balanced.

Budgets for Sales Department Activities

Sales executives are responsible for formulating three basic budgets: the sales, selling-expense, and sales department administrative budgets.

The Sales Budget

The sales budget is the revenue or unit volume anticipated from sales of the firm's products. This is the key budget. It is the basis of all operating activities in the sales department and in the production and finance areas. The validity of the entire budgetary process depends on the accuracy of this one sales budget. If it is in error, all others will also be in error.

The sales budget is based on the sales forecast, which was discussed in the previous chapters but the sales budget calls for extreme detail. Every single product sold by the firm must be accounted for. It does little good to tell production planners that $100,000 worth of small parts will be needed. 'I'hey must be told specifically what small parts will be sold, in what quantities, and when.

Management estimates the sales of each product, and often makes separate forecasts for each class of customer and each territorial division. Budgets for territories and classes of customers usually are of interest only to sales executives. Other departments normally need only the sales budget for product divisions.

To some extent a sales budget can become a self-fulfilling prophecy. You predict that 100 units of Model 101 will be sold in January, so 100 units are produced to be sold in January. While sales of that item may fall short of the goal, they cannot exceed it, for that's all there is to sell. Moreover, there is considerable pressure to make the planned sales figure a reality. Thus, once the sales budget is set, management digs in to make it become fact.

The Selling-Expense Budget

The selling-expense budget anticipates the various expenditures for personal-selling activities. These are the salaries, commissions, and expenses for the sales force. This is not a difficult budget to develop. If the salespeople are on a straight commission, the amount of the revenue allotted for compensation expense will be determined by the commission rate. Experience clearly indicates how much money must be set aside for expenses. If sales reps are paid a salary, the process merely requires compiling the amounts, taking into consideration any raises or promotions to be made during the coming period. Any plans for sales force expansion also should be anticipated in this budget.

The selling expense budget must be closely coordinated with the sales budget. Suppose the sales budget calls for the introduction of a new product line that requires considerable retraining of the sales force and the addition of a new service department. The expense budgets must reflect those needs. What will it cost to accomplish each line in the sales budget? That is essentially the question the sales manager must answer in preparing the selling-expense budgets that will accompany the sales budget.

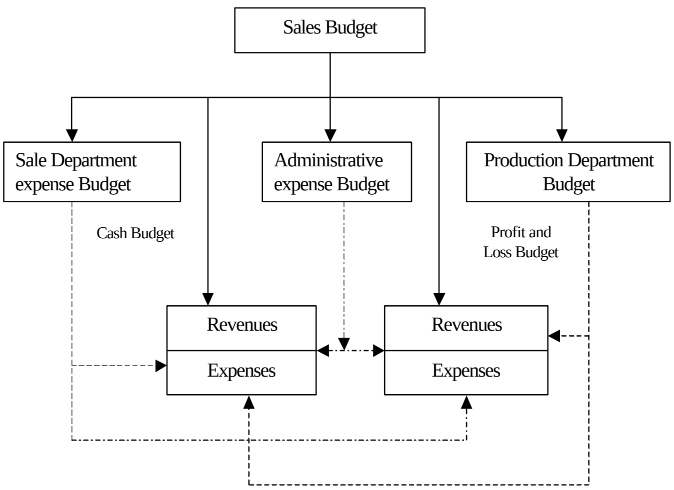
The Administrative Budget

In addition to having direct control over management of the sales force, the typical sales executive is also an office manager. Ordinarily the staff includes sales department secretaries and office workers; the total staff can be large. There may be several assistant sales managers, sales supervisors, and sales trainers under the sales manager. Budgetary provisions must be made for their salaries and their staffs. Management must also budget for such sales office operating expenses as supplies, rent, heat, power and light, office equipment, and general overhead. These costs constitute the administrative budget.

The Budgeting Process for the Firm

Everything starts with the sales budget, described earlier. From it, data flow in five directions. Figure shows the flow of information from one budget to another. The sales budget provides the basis for the various sales department budgets, such as advertising, selling expenses, and sales office expenses. Sales budget figures also flow directly to the production department. Here the total production budget is established, and from that the various materials and labor budgets are determined. The financial officer also uses anticipated sales figures from the sales budget to prepare the cash and the profit and loss budgets. The cash budget is a tool used to determine how many dollars will flow into and out of the firm each month. This budget is necessary because of the time lag between expenditure and receipt of funds. It is necessary to layout money for materials, labor, advertising, and selling expenses many months prior to selling the merchandise. Then, after sales of the goods, it may he several months before the firm receives cash. The financial officer must ensure that the firm has sufficient cash to enable it to finance the lag between the expenditure and receipt of funds.

The financial officer also Uses the anticipated net sales figure as the beginning of the profit and loss budget. The budgets for sales department expenses, production, and general administrative expenses all flow into the profit and loss and cash budgets to determine the expected costs of operation. Thus all budgets are summarized in the profit and loss and cash budgets. Errors in the sales department budgets have a twofold effect on the financial plan. First, the revenues will not be correct. Second, expenses will be out of line because the sales budget determines the production and administrative expenses.



Flow of information from Sales Budget to other Budgets

Budget Periods

Budgets are commonly created for yearly, semiannual, and quarterly periods. Some firms prepare budgets for all three periods; others prefer to operate on an annual basis, thereby reducing the amount of paperwork required.

The quarterly budget forces a reappraisal of the firm's position from times a year, thereby decreasing the likelihood that operations will get out of control. Many companies find a quarterly system advisable because that is roughly their operations conversion cycle.

Garment makers usually have four conversion cycles per year. That is, they put out four different lines of goods, one for each season, and find it convenient to budget for each

selling season. The main advantage of a short planning period is that it is more likely to be accurate. The shorter the forecasting period, the less likelihood there is that the estimate will be disturbed by unforeseen developments. In deciding which period to use, a firm must balance the degree of control with the costs of compiling the budgets.

The Budget-Making Procedure

The first step in the budgetary process is to translate the sales forecasts into the work that must be done to achieve the forecast. This is no easy task. The firm may want, to introduce a new type of product, since existing product is now obsolete. What does that mean in terms of the people needed (staff requirements) ? What will it do to office expenses, field-selling costs, trade show commitments, and so on?

Each administrative unit must determine how much money it will need to meet the performance goals set for it. This is usually done by (1) surveying each of the activities the unit must perform, (2) determining how many people will be required to accomplish the job, and (3) figuring what materials and supp1ies will be needed for them to do the job properly.

Many sales managers use the previous year's budget as a starting point. Then they take into account any changes in sales strategies and what those will cost to implement. They also get as much information as possible from their salespeople about changes in their territories which may necessitate changes in the budgets. Once the sales department budgets are compiled into one major budget, it is forwarded to the financial executive, who disseminates the information to the other departments.

The due dates on various budgets must be staggered if the budgeting program is to be a success. The sales department budget must be in the hands of the financial officer before final preparation of the production budget, since the production budget is completely dependent on the sales budget. Compiling all the budgets into the overall cash and profit and loss budgets can be done only after all other work on the plans of the organization has been completed.

Meetings, compromises and much hand-wringing are all part of the budgeting process. This "give and take" process can be seen in the comments of the sales manager for American Paging in Minnesota: 'Our senior corporate managers meet for an entire week to hammer out our budget. Generally, we'll fight for what's necessary and they deliver the objectives they expect.

Administrative heads tend to be overly generous in their estimates of funds they will need for the coming year. Few managers relish working on tight budgets, yet in well-managed organizations all budgets are tight. As noted by Bill Thorne, president of Morris Paper Company, "If you have a limited budget, it forces you to pay closer attention to the value of your dollar and the quality you expect in return."

Every aspect of this process has become more efficient with the use of computers. With computer spreadsheets, it is possible to make changes in one part of the budget and see the impact of those changes on all other parts of the budget immediately.

Sound planning procedures dictate that each administrative head sign off on all plans and budgets. That is, they agree that they will make it happen.

Managing with Budgets

Once prepared and in operation, the budget becomes one of the manager's regularly used tools. The previous month's actual sales and expenses come back from the accounting department by the middle of the present month. All figures that are over budget are marked for attention. Some of the accounts that are over budget are understandable; the manager knows the reason and either accepts it or knows that the matter will be corrected ill the near future. If there are others which are significantly over budget and the manager does not know why, he will investigate the overage and take corrective action if necessary.

Notes -

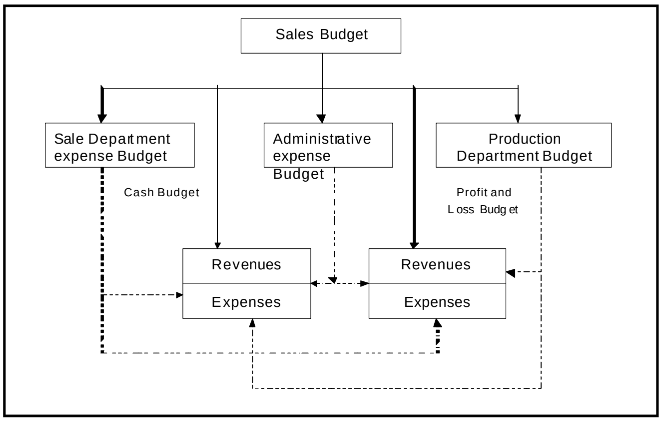
Points to Ponder

PURPOSES OF BUDGETING

- Planning
- Coordination
- evaluation

DETERMINING THE SALES BUDGET

- **Budgeting by Percentage of Sales Method**
- **Budgeting by the Objective and Task Method .**



Questions

Q1. Can budgets be prepared without an accurate forecast?

Q2. You feel your sales people are underpaid. You request a large increase in the budget for them but it was denied in the conference with other vice presidents, who all wanted pay increases for their people. You still feel strongly that more money is needed if sales force is to be kept effective. What would you do about this situation?

Q3. What are the two methods of determining sales budget?

LESSON 21
OBJECTIVE IN USING QUOTAS

Learning Objectives

- To understand the meaning of quotas
- To understand the purpose of quotas
- To understand relation between quotas, sales forecast and sales budget
- To understand the different types of quotas

In this lesson we will study about the quota which is set for salespeople and its purpose.

Quotas

Quotas are quantitative objectives assigned to sales organizational units individual sales personnel, for instance. As standards for appraising selling effectiveness, quotas specify desired performance levels for sales volume; such budgeted items as expenses, gross margin, net profit, and return on investment; selling- and nonselling-related activities; or some combination of these items. Sales management sets quotas for organizational units, such as individual sales districts and sales personnel. In some companies, sales management sets quota for middlemen, such as agents, wholesalers, and retailers. Quotas set for sales regions, or other marketing units on higher organizational levels, are customarily broken down and reassigned to lower-level units like sales districts, or IT individual sales personnel. All quotas have a time dimension-they qualm:" what management expects within a given period.

Quota can be defined as

- Sales quota represents a specific sales goal that an individual is responsible for satisfying over a period of time, usually a year. Specifically, quotas measure and define the appropriate accomplishment level desired from an individual by management

Quotas are devices for directing and controlling sales operations. Their effectiveness depends upon the kind, amount, and accuracy of marketing information used in setting them, and upon management's skill in administering the quota system. In effective systems, management bases quotas on information derived from sales forecasts, studies of market and sales potentials, and cost estimates. Accurate data are important to the effectiveness of a quota system, but in and of themselves, they are not sufficient; judgment and administrative ski: 8!' required of those with quota-setting responsibilities. Soundly administered quotas based on thorough market knowledge are effective devices for directing controlling sales operations.

Purposes of Sales Quotas

Sales quotas serve several useful purposes, as shown in Figure and discussed below.

To indicate stronger weak spots in the selling structure: When accurate quotas are established for each territory, management can determine the extent of territorial development by whether or not the quota is being reached. If the sales total significantly exceeds the predetermined standards, management should analyze the reasons for this variance. If the sales in a district fail to meet the quota, this failure tells management that something has gone wrong. Of course, it does not tell why the failure occurred. It may be that competition is stronger than expected, the salespeople have not done a good selling job, or the potential was overestimated.

To furnish goals and incentives for the sales force: In business, as in any other walk of life, individuals usually perform better if their activities are guided by standards and goals. It is not enough to say to a salesperson, "We expect you to do a good selling job." It is much more meaningful to express this expectation in a specific quota consisting of a given dollar sales volume or number of new accounts to be acquired during the next month. Without a standard of measurement, sales reps cannot be certain their performance is satisfactory. A recent survey found that sales relative to quota is the most widely used performance criterion by which salespeople are judged.

To control salespeople's activities: A corollary to the preceding point is that quotas. enable management to direct the activities of the sales force more effectively than would otherwise be possible. Through the use of the appropriate type of quota, executives can encourage a given activity such as selling high-margin items or getting orders from new customers. The sales reps are not likely to know which area of activity should be stressed unless management tells them. Swissotel North America wanted their salespeople to spend a greater percentage of their time with customers, so management instituted a quota of six quality sales calls per day for each rep.

To evaluate productivity of salespeople: Quotas provide a yardstick for measuring the general effectiveness of sales representatives. By comparing a rep's actual results with his or her quota, management can evaluate that person's performance. Quota performance also provides guidance for field supervisors by indicating areas of activity where the sales force needs help. Decisions on whether to give salespeople promotions or raises are often based largely on their performance in relation to their quotas.

To improve effectiveness of compensation plans: A quota structure can playa significant role in a sales compensation system. Quotas can furnish incentives to salespeople who are paid straight salary. A sales rep knows, too, that a creditable performance in meeting 3.ssigned quotas reflects favorably on him or her when it is time for a salary review.

In some cases, salespeople receive a bonus if they achieve a certain quota or they may receive a commission on all sales above some preset level (or quota) of sales. At Disney, for example, the reps earn commissions if they exceed ambitious quotas set by the company for the number of hotel rooms booked. Inequities in territorial potential may cause inequities in compensation unless a firm establishes a quota system. In one territory, a person may get a $1,500 monthly salary plus a 5 percent commission on sales over a quota of $10,000. In a district that presents low potential and a more difficult selling job, the sales rep may have the same arrangement, except that the commission starts when the rep reaches a quota of only $7,000 each month.

To control selling expense: Management can often encourage expense control by the use of expense quotas alone, without tying them to the compensation plan. Some companies gear payments for the salespeople's expenses to a quota. For instance, a business may pay all the expenses of a sales rep up to 8 percent of sales. Other companies may set an expense quota and let the salespeople know their effectiveness is being judged in part by how well they meet it.

To evaluate sales contest results: Sales quotas are used frequently in conjunction with sales contests. Salespeople rarely have equal opportunities in a contest unless management makes some adjustment to compensate for variation in territorial potentials and workloads. Using the common denominator of a quota, management can ensure each participant a reasonably equal chance of winning, provided the quota has been set accurately.

Let us now see the relation between

Quotas, the Sales Forecast, and the Sales Budget

Relationships among quotas, the sales forecast, and the sales budget vary from company to company. Relationships depend not only upon the procedures used in forecasting, budgeting, and quota setting but upon how the planners integrate these three procedures. The greater the integration, the more effective quotas are as devices for controlling sales efforts. Planning a company sales effort begins with a sales forecast and evolves naturally into a sales budget, thus setting the stage for the controlling phase, which involves, among other things, determination of quotas for use as performance standards.

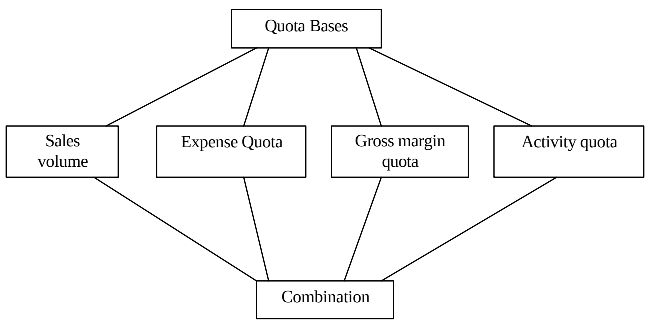
A review of the sales planning process is in order. Basically, a sales forecast is a sales estimate tied to a marketing program and assuming certain environmental factors. When management arrives at the sales estimate, it has, in effect, decided the sales volume objective; then, after determining the expenses of obtaining this sales level, management computes the net profit contribution, brings all these figures together into a sales budget, and sets the objective for net profit. Management now decides how much of the estimated sales volume should come out of each territory, how much expense should be incurred in each, and how much profit contribution each should produce. Here management determines quantitative objectives, such as quotas, to assign to individual sales personnel (or to other organizational units of the sales department, or to distributive outlets). However, as is made clear later, setting quotas is not a matter of simply dividing companywide estimates into smaller parts.

Different types of quotas are set .

Differences in forecasting and budgeting procedures, management philosophy, selling problems, and executive judgment, as well as variations in quota-setting procedures, cause each firm to have somewhat unique quotas. Ignoring small differences, however, quotas fall into four categories:

1. Sales volume quota
2. Budget quota
3. Activity quota
4. Combination quota

Types of sales quotas



So what is Sales Volume Quotas ?

The sales volume quota is the oldest and most common type. It is an important standard for appraising the performances of individual sales personnel, other units of the sales organization, and distributive outlets. Sales volume quotas communicate managements' expectations as to "how much for what period." Sales volume quotas are set for geographical areas, product lines, or marketing channels or for one or more of these in combination with any unit of the sales organization, the exact design depending upon what facets of the selling operation management wants to appraise or motivate.

The smaller the selling unit, the more effective a quota is for controlling sales operations. Setting a sales volume quota for a sales region, for example, obtains some direction and control, but setting sales volume quotas for each sales territory in the region obtains much more. Setting sales volume quotas for smaller selling units makes it less likely that good or bad sales performance, in one aspect of the selling operation will be obscured by offsetting performance in other aspects. The same holds for sales volume quotas on products or time periods-more direction and control are secured by setting quotas for individual products rather than for entire product lines, and for short periods rather than long.

Sales volume quotas see extensive use. Sales executives set them and the sales volume objective dominates other objectives. Before profits are earned, some sales volume level must be attained. It is entirely logical for sales management first to set standards for sales volume performance. Sales personnel readily grasp the significance of sales volume quotas. However, sales management should not deemphasize earning of profits or conserving on selling expense. Sales volume alone, although important, is not sufficient-profits are necessary for survival.

The following are the types of sales volume quotas

Dollar sales volume quotas: Companies selling broad product lines set sales volume quotas in dollars rather than in units of product. These companies meet complications in setting unit quotas and in evaluating sales performance for individual products. A key advantage of the dollar terminology is that the dollar sales volume quotas relate easily to other performance data, such as selling expenses, through ratios or percentages. In addition, when products have no established prices, and sales personnel have discretion in cutting prices, either dollar volume quotas or combined dollar and unit volume quotas assure that sales personnel do not cut prices too deeply to build unit volume.

Unit sales volume quotas: Sales volume quotas in units of product are used in two situations. One is that in which prices fluctuate considerably; in this situation, unit sales volume quotas are better yardsticks than are dollar sales volume quotas. If a product is now priced at $80 a unit, 600 units sold means $48,000 in sales, but if the price rises by 25 percent (to $100 a unit), only 480 units sold brings in the same dollar volume.

The second situation occurs with narrow product lines sold at stable prices. In this situation, dollar volume and unit volume quotas might both appear appropriate, but, especially if unit prices are high, unit quotas are preferable for psychological reasons-sales personnel regard a $1 million quota as a higher hurdle than a forty-unit quota for machines priced at $25,000 each.

Point sales volume quotas: Some companies use sales volume quotas expressed in "points." A company using point volume quotas might consider each $100 sales as worth 1 point, it might value unit sales of product A at 5 points and of product B at 1 point, or it might convert both dollar and unit sales into points. Companies use point volume quotas because of problems in using dollar or unit volume quotas. Porter-Cable Machine Company, for instance, once used dollar volume quotas, but sales personnel often attained most of their quotas through selling only one or two easy-to-sell products. Management initiated a program whereby products were put into eight different categories, according to relative profitability. Then individual point volume quotas were set for each category, and bonus points were awarded for sales over quota in each category. Sales personnel had to meet all the point volume quotas before becoming eligible for b0nus points. In appraising performance, management regarded a 150 percent total point volume attainment with 4 bonus points as less meritorious than a 120 percent point volume attainment with 5 bonus points. The new quota system led to a more profitable sales mixture.

Budget Quotas

Budget quotas are set for various units in the sales organization to control expenses, gross margin, or net profit. The intention in setting budget quotas is to make it clear to sales personnel that their jobs consist of something more than obtaining sales volume. Budget quotas make personnel more conscious that the company is in business to make a profit. Expense quotas emphasize keeping expenses in alignment with sales volume, thus indirectly controlling gross margin and net profit contributions. Gross margin or net profit quotas emphasize margin and profit contributions, thus indirectly controlling sales expenses.

Expense quotas: The setting of dollar expense quota plans for reimbursing sales force expenses were analyzed earlier, so discussion here focuses on using expense quotas in appraising performance. Hardly ever are expense quotas used in lieu of other quotas; they are supplemental standards aimed toward keeping expenses in line with sales volume. Thus, expense quotas are used most often in combination with sales volume quotas.

Frequently, management provides sales personnel with financial incentives to control their own expenses. This is done either by tying performance against expense quotas directly to the compensation plan or by offering "expense bonuses" for lower expenses than the quotas. Expense quotas derive from expense estimates in territorial sales budgets. But to reduce the administrative burden and misunderstandings, expense quotas are generally expressed not in dollars 1 but as percentages of sales, thus directing attention both to sales volume and the \ costs of achieving it.

Setting expense quotas as sales volume percentages presents some problems. Variations in coverage difficulty and other environmental factors, as well f! as in sales potentials, make it impractical to set identical expense percentages for tall territories. Then, too, different sales personnel sell different product mixes, so some incur higher expenses than others, again making impractical the selling of identical expense percentages. But most important is that selling expense does not vary directly with sales volume, as is implicitly assumed with the expense percentage quota. Requiring that expenses vary proportionately with changes in sales volume may reduce selling incentive. It may happen, for in- stance, that selling expenses amount to 3 percent of sales up to $700,000 in sales, but obtaining an additional $50,000 in sales requires increased expenses of $2,500, which amounts to 5 percent of the marginal sales increase.

Clearly, management should not arbitrarily set percentage expense quotas. Analysis of territorial differences, product mixes in individual sales, and expense variations at various sales volume levels should precede actual quota setting. Furthermore, because of difficulties in making precise adjustments for these factors, and because of possible changes in territorial conditions during the operating period, administering an expense quota system calls for great flexibility.

The chief attraction of the expense quota is that it makes sales personnel more cost conscious and aware of their responsibilities for expense control. They are less apt to regard expense accounts as "swindle sheets" or vehicles for padding take-home pay. Instead, they look upon the expense quota as one standard used in evaluating their performance.

However, unless expense quotas are intelligently administered, sales personnel may become too cost conscious-they may stay at third-class hotels, patronize third-class restaurants, and avoid entertaining customers. Sales personnel should understand that, although expense money is not to be wasted, they are expected to make all reasonable expenditures. Well-managed companies, in fact, expect sales personnel to maintain standards of living in keeping with those of their customers. .

Gross margin or net profit quotas: Companies not setting sales volume quotas often use gross margin or net profit quotas, shifting the emphasis to making gross margin or profit contributions. The rationale is that sales personnel operate more efficiently if they recognize that sales increases, expense reductions, or both, are important only if increased margins and profits result.

Gross margin or net profit quotas are appropriate when the product line contains both high- and low-margin items. In this situation, an equal volume in- crease in each of two products may have widely different effects upon margins and pr9fits. Low-margin items are the easiest to sell; thus sales personnel taking the path of least resistance concentrate on them and give inadequate attention to more profitable products. One way to obtain better balanced sales mixtures is through gross margin or net profit quotas. However, the same results are achieved by setting individual sales volume quotas for different products, adjusting each quota to obtain the desired contributions.

Problems are met both in setting and administering gross margin or net profit quotas. If gross margin quotas are used, management must face the fact that sales personnel generally do not set prices and have no control over manufacturing costs; therefore, they are not responsible for gross margins. If net profit quotas are used, management must recognize that certain selling expenses, such as those of operating a branch office, are beyond the salesperson's influence.

To overcome these complications, companies frequently set quotas in terms of "expected contribution" margins, this avoiding arbitrary all of expenses not under the control of sales personnel. Arriving at expected contribution margins for each salesperson, however, is complicated. Even if a company solves these accounting-type problem, it faces further problems in administration. Sales personnel may have difficulties in grasping technical features of quota-setting procedures, and management may spend considerable time in ironing out misunderstandings. In addition, special records must be maintained to gather the needed performance information. Finally, because some expense factors are always beyond the control of sales personnel, arguments and disputes are inevitable. The company using gross margin or net profit quotas assumes increased clerical and administrative costs.

Activity Quotas

The desire to control how sales personnel allocate their time and efforts among different activities explains the use of activity quotas. A company using activity quotas starts by defining the important activities sales personnel perform; then it sets target performance frequencies. Activity quotas are set for total sales calls, calls on particular classes of customers, calls on prospects, number of new accounts, missionary calls, product demonstrations, placement or erection if displays, making of collections and the like. Before setting activity quotas, management needs time-and-duty studies of how sales personnel actually apportion their time, making additional studies to determine how sales personnel should all Kate their efforts. Ideally, management needs time-and-duty studies salesperson and sales territory, but, of course, this is seldom practical. Activity quotas are appropriate when sales personnel perform important, nonselling activities. For example, activity quotas are much used in insurance' selling, where sales personnel must continually develop new contacts. They are also common in drug detail selling, where sales personnel call on doctors and hospitals to explain new products and new applications of both old and new products. Activity quotas permit management not only to control but to give recognition to sales personnel for performing nonselling activities and for maintaining contacts with customers who may buy infrequently, but in substantial amounts.

While there is a large amount of clerical and record-keeping work, the main problem in administering an activity quota system is that of inspiring the sales force. The danger is that sales personnel will merely go through the motions and not perform activities effectively. Activity quotas used alone reward sales personnel for quantity of work, irrespective of quality. This is less likely to happen when activity quotas are used with sales volume or expense quotas; still adequate supervision and close contact with sales personnel are administrative necessities.

Combination Quotas

Companies that are not satisfied with any single type of quota may combine two or more types. As an example, a firm may want to establish a quota based on three activities, plus gross margin on the products sold. The results for one rep may come out as follows for the January-March quarter:

	Quota	Actual	Percentage of quota obtained
Gross margin, all products	$ 30,000	$25,000	83
Product demonstrations made	120	135	117
Orders from new accounts	15	17	113
Window displays obtained	20	19	95
			Average = 102%

The salesperson in this example reached a little over 102 percent of her combined quota. The four components were weighted equally, but management may want to assign more value to some elements than others.

A combination quota seeks to use the strong points of several types of quotas, but frequently such a plan is limited by its complexity. In many cases, combination quota structures are so complicated that they are not easily understood by the reps: Then the quota becomes a source of dissatisfaction rather than an incentive. Also, a sales rep may overemphasize one element in the quota plan. In this illustration, for example, the rep may reach 200 percent of the quota for product demonstrations and do virtually nothing to secure orders from new accounts.

Notes -

Points to Ponder

Different types of quotas are set .

(1) Sales volume quota
(2) Bud-get quota
(3) Activity quota
(4) Combination quota

Sales Volume Quotas

- **Dollar sales volume quotas**
- **Unit sales volume quotas**
- **Point sales volume quotas.**

Questions

Q1. What is the purpose of setting sales quota?

Q2. Should quotas be used in each of following cases ? If so, what type do you recommend, and what should be the length of the quota period?

a. Promotional sales rep for a manufacturer of candy bars.

b. Salesperson for manufacturer of room air conditioners for home or industry.

c. In home selling of cosmetics.

Q3. A luggage manufacturer uses volume quotas for its salesforce.

a. What effective measures may this firm take to encourage its salespeople to do nonselling tasks such as prospecting for new accounts or setting up dealer displays?

b. How can the customers be protected against overstocking, high-pressure selling and other similar activities by this manufacturer's sales force?

LESSON 22
PROCEDURE OF SETTING QUOTA, LIMITATIONS OF QUOTA SYSTEM

Learning Objectives

- To understand the procedure of setting quota system
- How to administer the quota system
- To understand the characteristics of good quota

In this lesson we will learn about the procedure for setting quotas.

Procedures for Setting Sales Volume Quotas

The sales volume quota illustrates quota setting procedure well because it is the most commonly used type. However the same procedure can be used for the other types.

Sales volume quotas derived from territorial sales potentials: It seems logical that a sales volume quota should derive from the sales potential present, for example, in a territory a sales volume quota sums up the effort that a particular selling unit should expend. Sales potential, by definition, represents the maximum sales opportunities open to the same selling unit. Many managements derive sales volume quotas from sales potentials, and this approach is appropriate when (1) territorial sales potentials are determined in conjunction with territorial design or (2) bottom-up planning and forecasting procedures are used in obtaining the sales estimate in the sales forecast.

If sales territories are designed and sales personnel assigned to the territories management is justified in setting sales volume quotas by calculating the percentage relationship between each territorial sales potential and total sales potential and using the resulting percentages to apportion the company sales estimate among territories. If, for instance, territory A's sales potential is 2 percent of the total, and the company sales estimate is $20 million, then the sales volume quota for territory A is $400,000. Assuming that no further adjustments are needed, the summation of all territorial sales volume quotas equals the company sales estimate. However, total sales potential is generally not equal to the total sales estimate, even though the two figures are related. Sales potentials, for companies as well as for territories, are the sales volumes reachable under ideal conditions, whereas sales estimates and sales volume quotas are the sales levels management expects to attain under somewhat less than ideal conditions.

If bottom-up planning and forecasting procedures have been used, management already has considered such factors as past sales, competition, changing market conditions, and differences in personal ability, as well as contemplated changes in prices, products, promotion, and the like-if it has, then the final revised estimates of territorial sales potentials become the territorial sales volume quotas. However, in spite of what has just been said, further adjustments are generally advisable because sales volume quotas related directly to territorial sales potentials depend upon statistical data underlying estimates of sales potential; in other words, the tempering of experienced judgment is needed for realistic sales volume quotas to result. Rarely does a company achieve an ideal territorial design, and to the extent that territorial differences (in coverage difficulty, for instance) have not been taken into account previously, compensating adjustments are made when setting sales volume quotas.

Few companies achieve an ideal assignment of sales personnel to territories, so, in setting quotas, differences in anticipated personnel effectiveness because of age, energy, initiative, experience, knowledge of the territory. And physical conditions require adjustments. Moreover, sales volume quotas motivate individual sales personnel in different ways-one is thrilled to learn that next year's quota is 50 percent above this year's, a second is hopelessly discouraged by similar news-and quota setters adjust for such differences. Then, too, some companies provide financial motivation by linking compensation to performance against quota; this generally means that volume quotas are set lower than sales potentials.

Sales volume quotas derived from total market estimates. In some companies, management has neither statistics on nor sales force estimates of territorial sales potentials. These companies use top-down planning and forecasting to obtain the sales estimate for the whole company; hence, if management sets volume quotas, it uses similar procedures. Management may either (1) break down the total company sales estimate, using various indexes of relative sales opportunities in each territory, and then make adjustments (such as those described in the previous section) to arrive at territorial sales volume quotas; or (2) convert the company sales estimate into a companywide sales quota (by taking into account projected changes in price, product, promotion, and other policies) and then break down the company volume quota, by using an index of relative sales opportunities in each territory. In the second procedure, another set of adjustments is made for differences in territories and sales personnel before finally arriving at territorial quotas.

Note that these choices are similar, the only difference being whether adjustments are made only at the territorial level, or also at the company level. The second alternative is the better choice. Certain adjustments apply to the total company and to all sales territories; others apply uniquely to individual territories. The two-level approach assumes that both classes of adjustments receive attention.

In companies with more than two organizational levels in the sales department, additional rounds of adjustments are necessary. For instance, consider the company with both sales regions and sales territories. One round of adjustments takes place at the company level, and another at the regional level. Most regional sales managers would want a third round of adjustments before setting territorial sales volume quotas, as territorial sales volume quotas should not be set finally until after consulting sales personnel assigned to territories. The regional sales manager ordinarily calls in each salesperson to discuss the territorial outlook relative to the share of the regional sales volume quota that each territory should produce; then the regional manager sets territorial sales volume quotas. Quotas developed in this way are more acceptable to the sales staff, because each has participated in setting them, and each has had the opportunity to contribute information bearing on the final quota.

Sales volume quotas based on past sales experience alone: A crude procedure is to base sales volume quotas solely on past sales experience. One company, for instance, takes last year's sales for each territory, adds an arbitrary percentage, and uses the results as sales volume quotas. A second averages past sales for each territory over several years, adds arbitrary amounts, and thus sets quotas for sales volume. The second company's procedure is the better of the two by averaging sales figures; management recognizes that the sales trend is important. The averaging procedure evens out the distorting effects of abnormally good and bad years.

Companies using past sales procedures for determining sales volume quotas assume not only that past and future sales are related, but that past sales have been satisfactory. These assumptions mayor may not be valid, but one thing is certain: companies making them perpetuate past errors. If a territory has had inadequate sales coverage, basing its sales volume quota on past sales ensures future inadequate sales coverage. Furthermore, the 'average-of-past-sales method has a unique defect in that average sales lag behind actual sales during long periods of rising or falling sales. Thus, during these periods quotas always are set either too low or too high. Quotas based solely on past sales, moreover, make poor performance standards, as previously poor performances go undetected and are built into the standards automatically. Two individuals for example, may receive identical sales volume quotas, even though one realized 90 percent of previous territorial sales potential and the second only 30 percent. Neither knowing nor considering the true sales opportunities in each territory, management perpetuates past inequities. Past sales experience should be considered in setting territorial sales volume quotas, but it is only one of many factors to take into account.

Sales-volume quotas based on executive judgment alone: Sometimes, sales volume quotas are based solely on executive judgment. This is justified when there is little information to use in setting quotas. There may be no, sales forecast, no practical way to determine territorial sales potential. The product may be new and its probable rate of market acceptance unknown; the territory may not yet have been opened or a newly recruited salesperson may have been assigned to a new territory. In these situations, management may set sales volume quotas solely on a judgment basis. Certainly, however, quotas can be of no higher quality than the judgment of those setting them. Judgments, like past sales experience, is important in determining quotas, but it is not the only ingredient.

Sales volume quotas related only to compensation plan: Companies sometimes base sales volume quotas solely upon the projected amounts of compensation that management believes sales personnel should receive. No consideration is given to territorial sales potentials, total market estimates, and past sales experience, and quotas are tailored exclusively to fit the sales compensation plan. If, for instance, salesperson A is to receive a $1,000 monthly salary and a 5 percent commission on all monthly sales over $20,000, A's monthly sales volume quota is set at $20,000. As long as A's monthly sales exceed $20,000, management holds A's compensation-to-sales ratio to 5 percent. Note that A is really paid on a straight-commission plan, even though it is labeled "salary and commission."

Such sales volume quotas are poor standards for appraising sales performance; they relate only indirectly, if at all, to territorial sales potentials. It is appropriate to tie in sales force quota performances with the sales compensation plan, that is, as a financial incentive to performance, but no sales volume quota should be based on the compensation plan alone, for that is "putting the cart before the horse."

Letting sales personnel set their own sales volume quotas. Some companies turn the setting of sales volume quotas over to the sales staffs, who are placed in the position of determining their own performance standards. The ostensible reason is that sales personnel, being closest to the territories, know them best and, therefore should set the most realistic sales volume quotas. The real reason, however, is that management is shirking the quota-setting responsibility and turns the whole problem over to the sales staff, thinking that they will complain less if they set their standards. There is, indeed, a certain ring of truth in the argument that having sales personnel set their own objectives may cause them to complain less, and to work harder to attain them. But sales personnel are seldom dispassionate in setting their own quotas. Some are reluctant to obligate themselves to achieve what they regard as "too much"; others-and this is just as common-overestimate their capabilities and set unrealistically high quotas. Quotas set unrealistically high or low-by management or by the sales force cause dissatisfaction and low sales force morale. Management should have better information; therefore, it should make final quota decisions. How, for instance", can sales personnel adjust for changes management makes in price, product, promotion, and other policies?

Administering the Quota System

Skill in administering the quota system is basic not only to realizing the full benefit for control purposes, but to securing staff cooperation in making the system work. Most critical is securing and maintaining acceptance of the quotas by those to whom they are assigned. Few people take kindly to having yardsticks applied to their performance. Constitutionally, most sales personnel oppose quotas, and anything that makes them doubt the accuracy, fairness, or attainability of those quotas makes them less willing to accept them, thus reducing the system's effectiveness.

Accurate, Fair, and Attainable Quotas

Good quotas are accurate, fair and attainable. Obtaining accurate quotas is a function of the quota-setting procedure: the more closely quotas are related to territorial potentials, the greater the chances for accuracy. But, in addition, regardless of the type of quota-sales volume, budget, activity, or combination sound judgment is important in analyzing market data, adjusting for contemplated policy changes (and for conditions unique to each territory), and appraising changes in personnel capabilities, as well as in setting the final quotas. Accurate quotas result from skillful blending of planning and operating information with sound judgment. Setting a fair quota involves determining the proper blend of sales potential and previous experience.

Admittedly, whether quotas are fair and attainable depends not only upon the quality of management's judgment but upon the capabilities and motivations of sales force. Sometimes, perhaps even usually, the extent to which a salesperson's quota is fair and attainable can only be ascertained after performance has been recorded. Even then, management must exercise care in appraising variations from the quota-to what extent are they attributable to quota inaccuracies and to what extent to salesperson inadequacies? After all, quotas are not absolute performance standards, and errors are made in setting them.

If management believes that its quota-setting procedure produces accurate quotas and is confident that fair quotas are being assigned, then they should be attainable. Most quota-setting errors are those of judgment, most traceable to setting quotas above each salesperson's expected performance to provide an incentive for improvement. Quotas that some sales personnel fail to attain are not necessarily unfair-whether they are or not depends on who fails to attain them. One executive offers this general rule. "You have set equitable quotas if your weaker people fail to attain them, and if your better people either reach or slightly exceed them." Thus, in ascertaining fairness, management faces a possible dilemma because the quotas themselves are the performance standards most used for appraising the quality of sales personnel. Clearly, subjective evaluations of sales personnel according to qualitative performance criteria are required to ascertain whether quotas are fair.

Usually the sales department is responsible for establishing the sales quota, and no approval of a higher executive is needed. Within the sales organization, the task may rest with any of several executives. 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 district managers. Or territorial sales potentials may be given to the district managers, and they set the salespeople's quotas. Many attributes found it good compensation plans, territorial designs, and other aspects of sale management are also found in good quota plans.

Characteristics of a Good Quota Plan

- **Realistic attainability:** If a quota is to spur the sales force to maximum effort, the goal must be realistically attainable. If it is too far out of reach, the salespeople will lose their incentive.
- **Objective accuracy:** Regardless of what type of quota management uses, it should be related to potentials. Executive judgment is also required, but it should not be the sole factor in the decision.
- **Ease of understanding and administering:** A quota must be easy for both management and the sales force to understand. Also, the system should be economical to administer.
- **Flexibility:** All quota systems need adequate flexibility. Particularly if the quota period is as long as a year, management may have to make adjustments because of changes in market conditions.
- **Fairness:** A good quota plan is perceived as fair to the people involved. The workload imposed by quotas should be the same for all sales reps. However, this does not mean that quotas must be equal. Differences in potential, competition, and reps' abilities do exist.

Securing and Maintaining Sales Personnel's Acceptance of Quotas

Management must make certain that sales personnel understand quotas and the quota-setting procedure. Convening this understanding is a critical step in securing staff acceptance of quotas. If sales personnel do not understand the procedure used in establishing quotas, they may suspect, for example, that the quotas are a technique to obtain extra effort from them at no cost to the company. This attitude destroys the quota's effectiveness as an incentive. It is important that sales personnel understand the significance of quotas as communicators of "how much for what period," but, if they also understand the quota-setting procedure, they 'are more likely to consider their quotas accurate, fair, and attainable. The quota-setting method should be simple enough for sales personnel to understand, yet sufficiently sophisticated to permit acceptable accuracy.

Sometimes, this means that management, faced with choosing between two quota-setting procedures, may choose the less sophisticated because it can be more easily explained to, and understood by, the sales staff. More sophisticated procedures should not be ruled out, but managements using them must explain them to the sales force.

Participation by sales personnel in quota setting:

If sales personnel participate quota setting, the task of explaining quotas and how they are determined is simplified. With sales personnel helping to set their own quotas, management has more assurance that the procedure will be understood. How much staff participation is solicited depends upon management philosophy, types of quotas, information available, sophistication of the quota-setting procedure, and the caliber of the sales force. It is not advisable to turn the whole quota-setting job over to the sales staff, but some sales force participation can obtain more accurate and realistic quotas. Sales personnel have some information about their territories that management does not have, and it can contribute to quota accuracy. Furthermore, when sales personnel participate in quota setting, they are more easily convinced of the fairness of quotas.

Keeping sales personnel informed: Effective sales management keeps sales personnel informed of their progress relative to quotas. Sales personnel receive frequent reports detailing their performance to date. This permits them to analyze their own strong and weak points and take corrective action. Of course, sales personnel need encouragement, advice, and occasionally, warnings, in deciding to take measures to improve their performance. Reaping full benefits from keeping sales personnel informed requires frequent personal contacts by supervisors, as well as regular reports.

Need for continuous managerial control: In administering any quota system, there is a need for continuous monitoring of performance. Arrangements must be made to gather and analyze performance statistics with minimum delay. Charts recording each salesperson's performance against quota on a monthly, or even weekly, basis facilitates this analysis. Figure 22.1 is a typical chart for comparing sales quotas with actual performances. Not all sales executives agree that charts should be posted for all to see, but most provide each person with information on his or her performance. Keeping sales personnel informed at frequent intervals, at least monthly, requires subdividing the year. Generally, the annual quota is divided by the number of reporting periods, but, of course, this can be misleading, when random fluctuations in sales occur. For products with seasonal sales patterns it is more logical to apportion annual quotas relative to either the proportion of sales made in each reporting period during the previous year, or the proportions made in "normal" years.

Functioning quota systems can almost always be improved. An alert management continually appraises operation of the system and makes needed changes. Continuous managerial review and appraisal are required, since, for example, a quota that was accurate, fair, and attainable at the beginning of an operating period can prove totally unrealistic in view of changing selling conditions. Flexibility in administering the system is important-if a quota is proving unrealistic, it should be adjusted. Administrative flexibility is desirable, but not too much. Small changes can be ignored; important changes call for adjustments. One company, for instance, adjusts dollar quotas in the event of a significant price change, or any change of 5 percent or more in their industry forecasts. Balance is needed between flexibility to every slight change and inflexibility regardless of changes.

	Current Month				Year to Date			
Salesperson	Quota	Sales	Percent	Rank	Quota	Sales	Percent	Rank
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								
U								
V								
W								
X								
Y								
Z								
Total								

Typical Administrative Weaknesses

Companies that do not use sales quotas may justify their position by citing various limitations in a sales quota system. Generally speaking, however, these limitations are not inherent in the system. Instead they are administrative weaknesses that reflect management's failure to utilize of characteristics of a good quota plan.

Probably the major criticism of quotas is that it is difficult or even possible to set them accurately. This point may be justified in some cases. Perhaps a company sells a new product for which very little marketing formation is available. Or a firm sells a product that requires several quota periods to elapse before the sale is consummated. However, just because a company cannot set a goal that is 100 percent statistically correct is no reason for management to abandon the entire project.

In other instances, quotas are not used because management claims they lead to high-pressure selling and. generally emphasize some activities at the expense of others. These criticisms may well be justified if a sales volume' quota is used alone. Or the compensation and quota plans may be linked to encourage a high volume of sales', irrespective of the

gross margin. A quota also may overstress a given selling or not selling activity.

However, these are indications of planning or operating weaknesses, They are not inherent disadvantages of quotas.

Conclusion

Quotas are quantitative objectives assigned to sales personnel and other units of l the selling organization. They are intended both to stimulate performance and to evaluate it, through communicating management's expectations and through serving as performance measures. In successful quota systems, special pains are taken to tie in quota-setting procedures with sales potentials and planning data from the sales forecast and sales budget. Sound judgment is required for adjusting tentative quotas both for contemplated policy changes and for factors unique to each territorial environment. Continuous managerial review and appraisal and balanced flexibility in marking changes in quotas and improvements in quota setting procures characterize successful quota system. When based on relevant and accurate market information, and when intelligently administered, quotas are effective devices for directing and controlling sales operation.

Points to Ponder

Procedures for Setting Sales Volume Quotas

- Sales volume quotas derived from territorial sales potentials
- Sales volume quotas derived from total market estimates
- Sales volume quotas based on past sales experience alone
- Sales-volume quotas based on executive judgment alone
- Sales volume quotas related only to compensation plan.

Characteristics of a good quota plan

- Realistic attainability
- Objective accuracy
- Ease of understanding and administering
- Flexibility
- Fairness

Questions

Q1. How is Sales volume quotas derived from territorial sales potentials?

Q2. When is sales volume quota based on executive judgment?

Q3. What are the characteristics of a good quota plan?

Q4. What are the situations in which quota may not be set?

LESSON 23
CONCEPT OF SALES TERRITORY

Learning Objectives

- To understand the meaning of sales territory
- To understand how workload is determined
- To understand how the territory size decreases or increases according to workload

In this lesson we will study about the concept of sales territories and the ways in which workload is determined.

Sales Territories

Establishment of sales territories facilitates matching selling efforts with sales opportunities. Sales personnel are assigned the responsibility for serving particular groupings of customers and prospects and provide contact points with the markets, Territorial assignments lend direction to the planning and control of sales operations.

In establishing sales territories management is taking an important step toward accumulating knowledge on the company's strengths and weaknesses in serving different markets, Through utilization of this knowledge in planning sales operations, managerial efforts to improve competitive position become increasingly effective.

Realistic sales planning is done on a territory-by-territory basis. Characteristics of customers and prospects vary from one sales territory to another, and sometimes even from one county to the next. The territory is a more homogeneous unit than the market as a whole.

Breaking down the total market into smaller units makes control of sales operations more effective, Assigning responsibility for achieving specific objectives to subordinate line executives and individual sales personnel brings selling efforts into alignment with sales opportunities, Direction is lent to gathering information on individual performances, and comparisons of performances with 155 sales opportunities present in each territory provide sound bases for appraisal.

The Sales Territory Concept

The emphasis in the sales territory concept is upon customers and prospects rather than upon the area in which an individual salesperson works. Operationally defined, a sales territory is a grouping of customers and prospect assigned to an individual salesperson. Many sales executives refer to sales territories as geographic areas, for example, the Southern india territory or the western india territory. But, in contrast, in some companies, particularly those in which the technical selling style is predominant, geographical considerations are ignored and sales personnel are assigned entire classes of customers, regardless of their locations. Whether designated geographically or not, a sales territory is a grouping of customers and prospects that can be called upon conveniently and economically by an individual salesperson.

To emphasize the point that designations of territories should not be solely along geographical lines, consider the following situations. When sales personnel sell mainly to personal acquaintances, as in selling property insurance, investment securities, and automobiles little logical basis exists for dividing the market geographically. Similarly, in selling real estate, where the market is localized and where the customer usually seeks out the firm rather than the salesperson, geo- graphically defined territories are meaningless. In these cases, sales personnel are, for the most part, inside order takers; customers seek out the supplier. But even, as in life insurance selling, where sales personnel are outside order getters and seek out prospects, the personal and localized nature of the market makes geographical assignments of territories inappropriate.

Other situations exist in which sales territories are not designated geo- graphically. Certain companies have highly specialized sales personnel, each with responsibility for serving customers who need his or her special skills. For instance, one maker of complicated machinery has only five salespersons, each specializing either in part of the product line or in particular product applications. In other companies, it is common to have more than one salesperson as- signed to work in the same city or metropolitan area, and it is difficult to divide the area among them, not only because of the scattered locations of accounts but because "leads" furnished by established customers often require calls in different parts of the city.

Small companies, and companies introducing new products requiring the use of different marketing channels, often do not use geographically defined territories at all or, if they do, use rough divisions, such as entire states or census regions. In these instances, there is no reason to assign territories, since existing sales coverage capabilities are inadequate relative to sales potentials.

In most marketing situations, however, it is advantageous to "assign" sales personnel to territories. Determining the territorial assignments requires consideration of customers' service requirements and the costs of providing service. Geography affects both a company's ability to meet customers' service requirements and the costs of meeting them. Even when territorial boundaries are geo- graphical, each salesperson's assignment is a grouping of customers and prospects, and only for reasons of convenience and economy a geographical cluster- the emphasis is on the customers, not on their locations.

House Accounts

> Sales territory comprises a number of present and potential customers, located within a given geographical area and assigned to a salesperson,

A house account is an account not assigned to an individual salesperson but one handled by executives or home office personnel. Many are extremely large customers, most of whom prefer—indeed, sometimes demand-to deal with the home office. Frequently, house accounts are responsible for significant shares of a company's total business. When house accounts are excluded from territorial assignments, adverse effects upon sales force morale are possible-if sales personnel feel that the company is depriving them of the best customers.

Most companies prefer to minimize the number of house accounts. However, some large customers refuse to do business any other way. Companies in which sales personnel understand that their territories are particular groupings of customers and prospects-rather than specific geographical areas-find that house accounts have little adverse effect on sales force morale.

Territory Size and Work Load Factors

Depending upon the workload the territory size decreases or increases. Companies determine the selling effort required i.e number calls to be made to each account.

This is required because

- You need this information to be able to decide how many salespeople you need.
- You also need this information to be able to decide how to group accounts into territories that individual salespeople can cover.

How do you figure this out ?

There are two models for this

- **Single factor model:**
  - Decide which one factor will drive your decision
    - This is usually sales potential.
  - Then classify all accounts based on that one factor
    - Account with potential > $1 million is "A" account
    - Account with potential > $500,000 but < $1 million is "B" account
    - Account with potential < $500,000 is "C" account
  - Then make a judgment about how many sales calls each category should receive
  - "A" account—one call per week, or 52 per year
  - "B" account—one call per month, or 12 per year
  - "C" account—one call per quarter, or 4 per year

Portfolio model:
- Does the same thing that the single factor model does, only you use more than one criteria for classifying accounts. Here we use competitive position and account opportunity.

Account Opportunity	Strong (Competitive Position)	Weak (Competitive Position)
High	Very attractive Lots of selling effort 50 calls per year	Potentially attractive Lots of effort for some accounts, little for others--30 calls per yr
Low	Moderately attractive Moderate selling effort 20 calls per year	Unattractive Little to no field sales effort 6 calls per year

How do you determine salesforce size?

Workload method
- Number of salespeople = Total Selling Effort Needed / Average selling effort per salesperson

From portfolio analysis:
- Segment 1--50 calls x 50 customers = 2500 calls
- Segment 2--30 calls x 40 customers = 1200 calls
- Segment 3--20 calls x 100 customers = 2000 calls
- Segment 4--6 calls x 300 customers = 1800 calls
- Needs to make 7500 calls per year
- Assume each salesperson can make 5 calls per day and is in the field 200 days per year.
- Need 7.5 salespeople

Territory Size and Workload Factors

Workload Factor	Territory Size Increase/Decrease
Nature of Job:	
Lots of presale and post-sale activity	Decreases
Nature of product:	
A frequently purchased product	Decreases
A limited repeat-sale	Increases
Market development stage:	
New market--fewer accounts	Increases
Established market--more accounts	Decreases
Market coverage	
Selective coverage	Increases
Extensive coverage	Decreases
Competition:	
Intensive	Decreases – unless market is oversaturated
Limited	Increases

The above is a table which shows how the territory size will be affected with the nature of workload.

Who is responsible for territorial development?

Development of sales territories is usually the responsibility of sales manager overseeing the larger sales unit within the organization- for example the divisional, regional, or zone sales manager.This person knows the market, customers, and sales personnel needed to service these accounts. The manager makes recommendations to corporate management on whether to increase or decrease the number of sales territories. Often, however, the manager has the authority to change geographic boundaries without corporate approval. It is important that all field managers (for example district, regional, zonal) affected by territorial change have a part in seeing that the needs of the company, customers, and sales personnel are served.

In the next two lessons we will study the purpose of sales territories and the procedure for setting sales territories.

Points to Ponder

Sales territory comprises a ıumber of present and potential customers, located within a given geographical area and assigned to a salesperson, branch, or intermediary.

Allocation of Selling Effort

- Portfolio model:
  - Does the same thing that the single factor model does, only you use more than one criteria for classifying accounts.

Account Opportunity	Strong — Competitive Position	Weak
High	Very attractive Lots of selling effort 50 calls per year	Potentially attractive Lots of effort for some accounts, little for others--30 calls per yr
Low	Moderately attractive Moderate selling effort 20 calls per year	Unattractive Little to no field sales effort 6 calls per year

Allocation of Selling Effort

- How do you figure this out?
  - Single factor model:
    - Decide which one factor will drive your decision
      - This is usually sales potential.
    - Then classify all accounts based on that one factor
      - Account with potential > $1 million is "A" account
      - Account with potential > $500,000 but < $1 million is "B" account
      - Account with potential < $500,000 is "C" account
    - Then make a judgment about how many sales calls each category should receive
      - "A" account--one call per week, or 52 per year
      - "B" account--one call per month, or 12 per year
      - "C" account--one call per quarter, or 4 per year

How do you determine salesforce size?

- Workload method
- Number of salespeople = $\frac{\text{Total Selling Effort Needed}}{\text{Average selling effort per salesperson}}$
  - Go back to portfolio analysis:
    - Segment 1--50 calls x 50 customers = 2500 calls
    - Segment 2--30 calls x 40 customers = 1200 calls
    - Segment 3--20 calls x 100 customers = 2000 calls
    - Segment 4--6 calls x 300 customers = 1800 calls
    - Need to make 7500 calls per year
    - Assume each salesperson can make 5 calls per day and is in the field 200 days per year.
    - Need 7.5 salespeople

Territory Size and Workload Factors TM 13-8

Workload Factor	Territory Size Increase/Decrease
Nature of Job:	
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Nature of product:	
A frequently purchased product	Decreases
A limited repeat-sale	Increases
Market development stage:	
New market--fewer accounts	Increases
Established market--more accounts	Decreases
Market coverage	
Selective coverage	Increases
Extensive coverage	Decreases
Competition:	
Intensive	Decreases – unless market is oversaturated
Limited	Increases

Questions

Q1. What do you mean by salesforce territory?

Q2. How do you determine Workload?

Q3. How does the workload factor affects the territory size?

LESSON 24
NEED FOR ESTABLISHMENT AND REVISION OF SALES TERRITORY

Learning Objectives

- To understand the reasons for establishing sales territory
- To know about the procedure of setting sales territory

Reasons for Establishing or Revising Sales Territories

Why establish sales territories?

Sales territories are set up, and subsequently revised as market conditions dictate, to facilitate the planning and control of sales operations.

More specifically, there are five reasons for having sales territories:

1. To provide proper market coverage.
2. To control selling expenses.
3. To assist in evaluating sales personnel.
4. To contribute to sales force morale.
5. To aid in the coordination of personal-selling and advertising efforts.

Providing Proper Market Coverage

Sometimes a company loses business to competitors because it does not have proper market coverage. Sales management has not matched selling efforts with sales opportunities effectively, competitors have a better match, and they obtain the orders. To overcome problems of this type, generally management must establish sales territories, if the company does not have them, or revise those that it has. If sales territories are set up intelligently and if assignments of sales personnel to them are carefully made, it is possible to obtain proper market coverage. Note that mere establishment or revision of the sales territories is not enough. The design of the territories should permit sales personnel to cover them conveniently and economically. Territories, in other words, should represent reasonable work loads for the sales staff while assuring that all prospects that are potentially profitable can be contacted.

Good territorial design allows sales personnel to spend sufficient time with customers and prospects and minimizes time on the road. This permits them to become thoroughly conversant with customers problems and requirements. Successful selling is based upon helping customers solve their problems, not just upon making sales or, even worse, upon taking orders. Well-designed sales territories, combined with appropriate sales force assignments, result in calls upon different classes of customers and prospects at needed frequencies. Call regularity is important selling products purchased on a repeat basis, and persistence turns many a prospect into a regular account.

Controlling Selling Expenses

Good territorial design combined with careful salesperson assignment results in low selling expenses and high sales volumes. Sales personnel spend fewer nights away from home, which reduces or eliminates many charges for lodging and food; at the same time, cutting travel miles reduces transportation expenses.

These savings, plus the higher sales volumes from increased productive selling time, reduce the ratio of selling expenses to sales. In fact, even if dollar selling expenses remain unchanged, the sales increase produced through proper market coverage reduces the selling expense percentage.

Reduced selling expense ratios do not, however, follow automatically. If territorial planning is unsound or is not combined with appropriate assignments of sales personnel, selling expense ratios increase. If the planner, for instance, ignores normal travel routes and geographical barriers, sales personnel spend time traveling when they could be calling on customers; this results in higher selling expenses and lower sales volumes.

Nor should management overlook the possibility that dollar selling expenses may have to go up to obtain a lower selling expense ratio. To secure larger sales volumes, sales personnel may have to incur additional expenses. Securing larger orders may require more frequent sales calls, which increases selling expenses. Well-designed sales territories and appropriate assignments of sales personnel increase the total time available for contact with customers and prospects, thus preparing the ground for improved sales volumes.

Sales management's problem in controlling selling expenses is not to minimize them but to obtain the best relation between dollar selling expenses and dollar sales volumes. Short-term reductions in the selling expense ratio are not always desirable; the long-term result is important, Rises in selling expenses may not be followed immediately by increased sales volumes and higher sales volumes in the future. The intelligent setting up or revising of sales territories is one step management takes to see that selling expense dollars are spent to the best advantage.

Assisting in Evaluating Sales Personnel

Well-designed sales territories assist management in evaluating sales personnel. Selling problems vary geographically, and the impact of competition differs widely. When the total market is divided into territories, analysis reveals the company's strengths and weaknesses in different areas, and appropriate adjustments can then be made in selling strategies. Through analyzing the market territory by territory and pinpointing sales and cost responsibility to individual sales personnel, management has the information it needs to set quotas and to evaluate each salesperson's performance against them.

Contributing to Soles Force Morale

Good territorial designs help in maintaining sales force morale. Well-designed territories ire convenient for sales personnel to cover; they represent reasonable-sized work loads, and sales personnel find that their efforts produce results. All are responsible for achieving given levels of performance within their own territories so all know what management expects of them. Results that come from each sales territory are correlated with the efforts of individual sales personnel. Good territory design plus intelligent salesperson assignment help to make each person as productive as possible and make for high earnings, self- confidence, and job satisfaction. Morale is high also because there are few conflicting claims of sales personnel to the same accounts-when sales territories are not used, there are numerous conflicts. Even with well-designed sales territories, some conflicts arise, because some customers trans'4ct business in more than one territory, but well-designed territories reduce the magnitude of the problem.. Finally, sales force morale is high because excellence; in planning territories and making territorial assignments causes sales personnel to spend minimum time on the road.

Aiding in Coordination of Personal Selling and Advertising

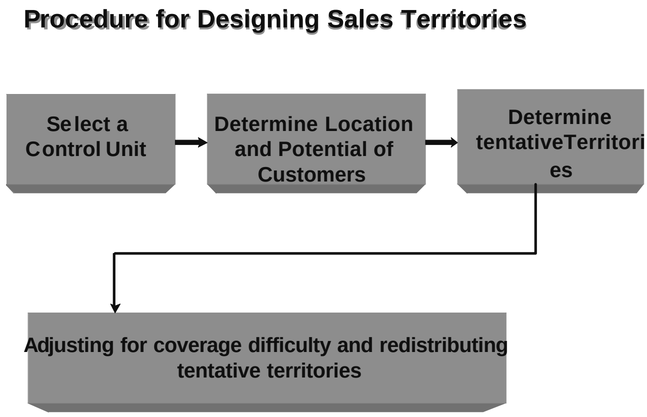
Management may set up sales territories or revise existing territorial arrangements to improve the coordination of personal selling or advertising efforts. In most situations, personal selling or advertising alone cannot accomplish the entire selling task efficiently or economically. By blending personal selling and advertising, management takes advantage of a synergistic effect (the "2 + 2 = 5" effect) and obtains a performance greater than the sum of its parts.

Sales personnel play key roles in capitalizing upon synergistic opportunities. Prior to launching an advertising campaign for a new consumer product, for example, sales personnel call upon dealers to outline the marketing plan's objectives, provide them with tie-in displays and other promotional materials, and make certain that adequate supplies of the product are on hand in the retail outlets. Territorial assignments make every dealer the responsibility of some salesperson, and proper routing ensures that sales personnel contact all dealers at appropriate times relative to the breaking of the consumer advertising campaign. In some cases, the manufacturer's marketing plan calls for dealers to share in the costs of advertising the product; here, again, sales personnel "sell" such cooperative programs to dealers. In situations where sales personnel do work related to the advertising effort, the results are more satisfactory if the work is delegated on a territory-by-territory basis rather than for the entire market.

Procedures for Setting up or Revising Sales Territories

In setting up or in revising sales territories, there are four steps:

1. Selecting a basic geographical control unit.
2. Determining sales potentials in control units.
3. Combining control units into tentative territories.
4. Adjusting for coverage difficulty and redistributing tentative territories.



Selecting a Basic Geographical Control Unit

The starting point in territorial planning is the selection of a basic geographical control unit. The most commonly used control units are counties, Zip code numbers, cities, standard metropolitan statistical areas, trading areas, and states. Sales territories are put together as consolidations of basic geographical control units.

There are two reasons for selecting a small control unit.

One reason is to realize an important benefit of using territories, the precise geographical identification of sales potential. If the control unit is too large, areas with low sales potentials are hidden by inclusion with areas having high sales potentials, and areas with high sales potentials are obscured by inclusion with those having low sales potentials.

The second reason is that these units remain relatively stable and unchanging, making it possible to redraw territorial boundaries easily by redistributing control units among territories. If, for example, a company wants to add to Jones's territory and reduce Smith's adjoining territory, it is easier to transfer county-sized rather than state-sized control units.

Counties: In the United States, the county is the most widely used geographical control unit. The county is small enough to prevent the obscuring of areas with high and low sales potentials, and statistical information on the more than, 3,000 counties in the United States is readily available. This makes it inexpensive to develop market and sales potentials on a county-by-county basis. Further- more, the county typically is the smallest unit for which governmental sources report statistical data. The county is a smaller market division than the typical sales territory, so a company using counties as control units can build up or revise sales territories without collecting new data on potentials.

Zip code areas: A basic geographical unit increasingly used by U.S. companies is the Zip code area. There are more than 33,000 Zip code areas in the United States, so the typical Zip code area is smaller than the typical county.

Using Zip code areas as the basic geographical units has advantages. The Zip code areas generally reflect economic characteristics of the areas-in marked contrast to counties, cities, and states, which represent political subdivisions. The Zip code system permits a precise definition of markets according to economic and demographic characteristics. Each Zip code area is a convenient unit for which to collect data on market and sales potentials.

Cities: When a company's sales potential is located entirely, or almost entirely, in urbanized areas, the city is used as the control unit, although, in some cases, both the city and the surrounding county (or counties outside the city) are used as "twin" control units. The city rarely is fully satisfactory as a control unit, inasmuch as most grow beyond their political boundaries. For many products, suburbs adjacent to cities possess sales potentials at least as great as those in the cities themselves, and, in addition, they can often be covered by the same sales personnel at little additional cost.

Metropolitan statistical areas: Companies whose markets have expanded beyond city limits and into suburbs and satellite cities find the Metropolitan Statistical Area (MSA) a good choice for basic geographical control unit. An MSA is a geographic area with a large population nucleus together with adjacent communities that have a high degree of economic and social integration with that nucleus. An area is designated an MSA in one of two ways:

1. If there is a city of at least 50,000 population
2. If there is an urbanized area of at least 50,000 population with a total metropolitan population of at least 100,000.

MSAs are defined in terms of entire counties

Because the MSA definition is in terms of counties, the tremendous amount of statistical data available for the counties themselves may also be tapped. If the planner is willing to accept the definition and boundaries for each metropolitan statistical area, it is easy to secure data for use in estimating sales potentials. In fact, because the definition is in terms of whole counties, the planner is free to add to or subtract from the official roster of metropolitan statistical areas.

Trading areas: A logical choice for a geographical control unit is the trading area, since it is based upon the natural flow of trade. Formally defined, a trading area consists of the geographical region surrounding a city that serves as the dominant retail or wholesale center or both for the region. The trading-area concept recognizes that consumers, retailers, and wholesalers pay scant attention to political boundaries in deciding where to buy. Consumers, for example, regard convenience and the merchandise selection available as key factors in deciding where to shop. Shopping across political boundaries is common, especially where population concentrations are close to state lines and where suburban areas have spread into counties surrounding cities. Many consumer products, including most specialties and shopping goods, are available almost entirely in large regional shopping malls. So residents of small towns and rural areas must travel to these malls (or, of course, order by mail or phone). Increasingly, too, residents of the older areas of cities, when they are in the market for these items, go to outlying shopping malls. The main problems in using trading areas as control units are defining them and estimating sales potentials.

Depending upon the product, both retail and wholesale trading areas vary in size and shape and change over time. Rural consumers buy work clothes and routine supplies in the nearest small towns, but they go to regional shopping malls or larger cities to shop for dress clothing, and even farther to buy expensive furniture or jewelry. Each such location is the focal point for a trading area, at least for products customarily purchased there. Trading areas for products purchased frequently and routinely are much smaller in size, and consequently more numerous, than are those for luxury products.

Precise delineation of trading areas requires primary research into, and quantification of, customers' buying habits and preferences. Considerable expense is involved in dividing market and sales potentials for counties or other political subdivisions among two or more trading areas. Consequently, most companies using trading areas as control units adjust trading-area boundaries to county lines.

States: States, as basic geographical control units, provide a rough basis for subdividing the national market. There are two situations in which the fixing of territorial boundary lines along the borders of states is justifiable. One is the company with a small sales force covering the market extensively rather than intensively; there are only a few customers and prospects, but they are all across the nation. The other situation is the company first seeking national distribution, which assigns its sales personnel to territories consisting of one or more states as a temporary expedient. As soon as feasible, a change is made to a smaller control unit. The main difficulty in using states as basic control units is that they are political rather than economic subdivisions

Determining Sales Potential in Each Control Unit

The next step is to determine the sales potential present in each central unit. The territorial planner needs some way to measure sales potentials, which, you will recall, represent the maximum possible sales opportunities open to a specific company selling a good or service during a stated future period to particular market segments. For the present purpose, substitute "a particular control unit" for "a particular market segment", in other words, each control unit is a particular geographical market segment. Geographical market segments, like all market segments, are made up of present and prospective customers, so the territorial planner must identify the buyers of the product as precisely as possible. A vague identification such as, "Our product is bought by women," is not sufficient. But if it can be determined that "Our product is bought almost entirely by middle aged, lower-income women living in cities," a more precise description of the buyers comprising the market is obtained. Formal market identification studies may be necessary.

Sometimes, sales personnel supply information, but it is not necessarily usable. For example, a sales force calling only on wholesalers has little contact with retailers or consumers. Even when sales personnel sell to final buyers, as in marketing many industrial goods, they may neglect certain classes of prospects and be able to provide only partial identification of possible buyers. When there is no direct contact with final buyers, formal marketing research studies obtain precise identification of all classes of final buyers.

Having identified potential buyers, the planner next determines the sales potential in each control unit. The planner ascertains how many potential buyers in each class there are in each control unit and the units's total market potential. Then the planner estimates the portion of the unit's market potential that the company has an opportunity to obtain (that is, the sales potential).

Market potentials are generally converted into sales potentials by analyzing historical market shares within each control unit, adjusting for changes in company and competitors' selling strategies and practices, and arriving at estimates. Having made these estimates, the territorial planner ascertains those control units with sufficient sales potential to justify sales coverage. For the manufacturer with mass distribution, this is not a problem. Mass marketers provide sales coverage in every control unit, regardless of how little sales potential it represents, because maximum sales exposure is crucial to marketing success. Many manufacturers, however, provide sales coverage only in those control units containing sufficient sales potential to assure profitable operations, and for most manufacturers, there are some control units where selling costs are excessive. This is true of numerous industrial-goods producers, such as those selling machine tools and mining equipment. (Studies of industrial-goods markets show that over 90 percent of U.S. manufacturing is done in approximately 650 of the 3,000 counties.) It is also true of most producers of consumer shopping and specialty goods; the bulk of the market lies in a small number of market areas.

Combining Control Units into Tentative Territories

The planner next combines units into tentative sales territories. This is only a tentative arrangement because, as explained later, subsequent adjustments must be made for relative coverage difficulty. At this stage, the planner assumes that no significant differences in the physical or other characteristics of individual control units exist. The purpose is to obtain a "first approximation" of sales territories, by combining contiguous control units into tentative territories, each containing approximately the same sales potential.

At this point, however, the planner decides the number of territories, and this, assuming that all sales personnel are of average ability, is identical to deciding sales force size. Basically, the planner estimates the percentage of total sales potential that the average salesperson should realize. Analysis of past sales experience helps in making this estimate, which, once made, is used to determine the number of territories. In effect the planner estimates the sales productivity per sales personnel unit and divides it into the total estimated sales potential, thus arriving at the number of sales personnel units-and territories-required. Assume that management estimates that an average salesperson should realize $2,500,000 of a total sales potential of $25 million-ten territories and ten units ($25,000,000/ $2,500,000) of sales personnel are required. When these estimates and this calculation have been made, contiguous control units are combined into tentative territories of roughly equal sales potential. To simplify this step, sales potentials for control units are expressed as percentages of total sales potential. In the example, then, control units are grouped into ten tentative territories, each containing, about 10 percent of the sales potential. Throughout this grouping process, the planner combines only control units contiguous to each other; individual control units are not split into different territories, even if this results in tentative territories with different total sales potentials.

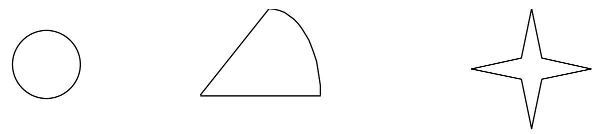
Territory shape: The planner now considers territory shape. The shape of a -" territory affects both selling expenses and ease of sales coverage. In addition, if the shape of a territory permits the salesperson to minimize time on the road, shape contributes to sales force morale. Three shapes are in wide use the wedge, the circle, and the clover leaf (see Figure 24.1).

The wedge is appropriate for territories containing both urban and nonurban areas. It radiates out from densely populated urban center. Wedges, of course, can be in many sizes (up to just under 360 degrees). Travel time among adjoining wedges can be equalized by balancing urban and nonurban calls.

The circle is appropriate when accounts and prospects are evenly distributed throughout the area. The salesperson assigned to the circular-shaped territory is based at some point near the center, making for greater uniformity in frequency of calls on customers and prospects. This also makes the salesperson nearer to more of the customers than is possible with a wedge-shaped territory.

The clover leaf is desirable when accounts are located randomly through a territory. Careful planning of call schedules results in each cloverleaf being a week's work, making it possible for the salesperson to be home weekends. Home base for the salesperson assigned to the territory is near the center. Clover-leaf territories are more common among industrial marketers than they are among consumer marketers and among companies cultivating the market extensively rather than intensively.

Figure 24.1 Shapes of Sales Territories in Wide Use:



Adjusting for Differences in Coverage Difficulty and Redistricting Tentative Territories

The final step is to redistrict the tentative territories through adjusting for coverage difficulty. The tentative territories each contain approximately the same sales potential, but, almost certainly, territories with nearly equal sales potentials require different selling efforts and, in turn, selling expense totals. Now it is time to remove the unrealistic assumption that no differences in the characteristics of geographical control units exist. Significant differences in physical and other characteristics make providing sales coverage more difficult for some control units than for others. Certain large cities, for instance, have greater sales potentials for most products than some states, but the time required to contact customers and prospects in cities is much less, and the same is true of selling expenses. The optimum territorial arrangement is reached when incremental sales per dollar of selling expenditures are equated among all territories.[2] In working to- ward this ideal, both sales potential and coverage difficulty are taken into ac- count. And, as

J. G. Hauk writes, "It is only coincidental if equal potential territories achieve the optimum."' As the planner adjusts for differences in coverage difficulty, control units are taken away from some tentative territories and added to others. The final territorial arrangement almost certainly is one in which different territories contain different sales potentials.

H.R. Wellmitn, "The Distribution of Selling Effort Among Geographic Areas," Joumal of Maruting, 3, no. 3 (January 1939), pp. 225-41. [3]J.G. Hauk, "Research in Personal Selling," in G. Schwartz (ed.), ScWnce in Maruting(New York: john Wiley. 1965), p. 238,

Redistricting to adjust for coverage difficulty (that is, differences in work loads) is a seven-step procedure:

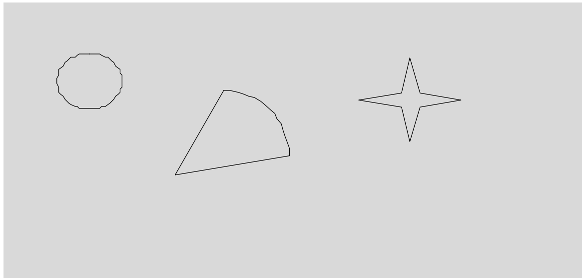
1. **Determine number**, location, and size of customers and prospects in each tentative territory. Customers are identified and located through sales records; prospects through trade directories, subscription lists to trade publications, classified directories, and credit-reporting agencies. Size is measured in terms of sales potential.
2. **Estimate time required** for each sales call. This varies from account to account and from prospect to prospect, so customers and prospects are classified into groups, estimating an average time per call for each group. Time and duty analyses of sales personnel are used to check these estimates.
3. **Determine length** of time between calls that is the amount of time required to travel from one customer to the next. This varies among regions depending on the density of customers and prospects and the condition of roads and transportation facilities. Particular attention is paid to physical characteristics. Large rivers, lakes, mountains, and other barriers to travel make natural and necessary territorial boundaries. The number of places where a large mountain range can be crossed by automobile are limited and often considerable time is consumed in the crossing. The same is true of large rivers, lakes, bays, and so forth. Transportation facilities are as important as physical characteristics. If travel is by automobile, territories are planned so that driving is mainly on primary, all- weather roads, with minimum cross-tracking. If public transportation facilities such as commercial airlines are used, territories are planned with an eye on locations of air terminals. The planner interrelates and balances differences in sales potential, physical geographical characteristics, and transportation facilities and routes. After sketching in on a map the tentative territorial division according to roughly equal sales potentials, the planner makes adjustments after superimposing maps showing topographic and transportation features.
4. **Decide call frequencies** within certain control units, some or all customer and prospect classes require call frequencies that differ from those in other control units. Differences in the strength of competition require variations in call frequency rates. Similarly, call frequency rates are influenced by the market acceptance of the product line within control units. Cost studies on minimum profitable order sizes also provide input to the decision on call frequencies.
5. **Calculate the number** of calls' possible within a given period. This is a matter of simple arithmetic. To determine the number of calls per day in a certain control unit, the average amount of time required for each call is added to the average time between calls and divided into the number of working hours in the day. Adjustments are made when call lengths vary for different classes of customers and prospects.
6. **Adjust the number** of calls' possible during a given period by the desired call frequencies for the different classes of customers and prospects. This results in an estimate for the total work load represented by the control units in each tentative territory. Further adjustments are made to assure that the work load in any territory is not larger than the allowable maximum and that selling expenses are within budget limits. The planner shifts control its among different tentative territories, adding units to some by taking them away from adjacent territories. Each shift brings the territorial arrangement closer to the optimum-that is, closer to one in which incremental sales per dollar of selling expenditures are equated among all territories.
7. **Finally, check out the adjusted territories** with sales personnel who work or who have worked in each area, and make further adjustments as required. Personnel familiar with customer service requirements, competitive conditions, and the topography, roads, and travel conditions may point out weak- nesses not obvious to the planner. These cause further shifting of control units from

Points to Ponder

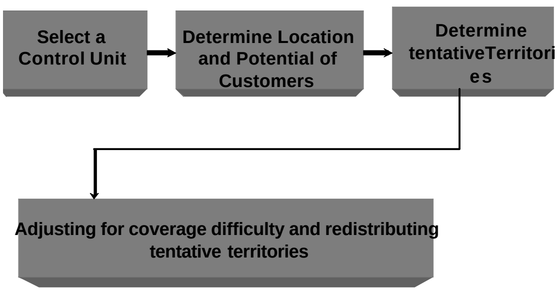
Why establish sales territories?

- (I) To provide proper market coverage.
- (2) To control selling expenses.
- (3) To assist in evaluating sales personnel
- (4) To contribute to sales force morale.
- (5) To aid in the coordination of personal-selling and advertising efforts.

Shapes of Sales Territories in Wide Use:



Procedure for Designing Sales Territories



Adjusting for Differences in Coverage Difficulty and Redistricting Tentative Territories

- *Determine number, location,* and *size of customers* and *prospects* in *each tentative territory*
- *Estimate time required for each sales call*
- *Determine length of time between calls* that *is* the *amount of time required* to *travel from* one *customer* to the *next*
- *Decide call frequencies*
- *Calculate* the *number of calls' possible within* a given *period.*
- *Adjust* the *number of calls' possible during* a *given period by* the *desired call frequencies for the different classes of customers* and *prospects*
- *Finally, check out the adjusted territories with sales personnel who work or who have worked in each area, and make further adjustments as required*

Questions

Q1. What are the reasons to establish sales territories?

Q2. What are control units?

Q3. How do you determine sales potential for establishing sales territories?

Q4. What are the different shapes of sales territories?

LESSON 25
ASSIGNMENT OF SALES PERSONNEL TO TERRITORIES

Learning Objectives

- To understand how salespeople are assigned to territories
- To know the different routing patterns

In this lesson we will study about how the sales personnel are allotted to territories.

Deciding Assignment of Sales Personnel to Territories

When the arrangement is the best obtainable, it is time to assign sales personnel to territories. Up to this point in territorial planning, an implicit assumption has been that all sales personnel are "average," that is, that all are interchangeable, each capable of producing similar results at similar costs regardless of territorial assignments. Clearly, this is an unrealistic assumption, adopted only for territorial planning purposes, and one that is discarded when sales personnel are assigned to territories. Few sales personnel are average—they vary in ability, initiative, and effectiveness as well as in physical condition and energy. What constitutes a reasonable and desirable work load for one individual may not be appropriate for another person. Furthermore, salesperson's effectiveness varies with the territory assigned. One person is outstanding in one territory and a failure in a second, even though territorial sales potentials and coverage difficulty factors are almost identical. Performance, moreover, is conditioned by customer characteristics, customs and traditions, ethnic influences, and the like. Dyadic interactions, with customers and prospects, in other words, vary in their outcomes from one territory to another depending on many factors, most of them outside the salesperson's control.

In assigning sales personnel to territories, management seeks the most profitable alignment of selling efforts with sales opportunities. The territories, containing varying sales potentials, represent different amounts of sales opportunity. The sales personnel, differing in ability and potential effectiveness, represent the range of available selling talent. Management should "Assign each sales- person to the particular territory where his or her relative contribution to profit is the highest."

Hauk, "Research in Personal Selling," pp. 241-42.

The general guide for assigning sales personnel to territories is not universally applicable because the discretion that management has in making these decisions differs from company to company. At one extreme, some companies display great reluctance to transfer sales personnel to different territories, management fearing not only sales force resistance but the consequences of breaking established salesperson-customer relationships. These companies adhere to a "no transfer" or "infrequent transfer" policy and build restrictions on shifting sales personnel into territorial designs. The planner expands or contracts territorial boundaries, adding to or subtracting from individual territorial sales potentials, until territories contain sales potentials appropriate to the abilities of assigned sales personnel. These companies, in effect, design sales territories around, and to fit, the abilities of sales personnel.

At the opposite extreme, management in a few companies is free to assign any salesperson to any territory, designing territories (according to procedures like those discussed earlier) and closely aligning salespeople's ability levels with territorial sales opportunity levels. Management shifts sales personnel to predestined territories where their relative profit contributions are maximized.

The situation in most companies is somewhere between the two extremes. For various reasons, some totally outside management's control, certain sales personnel are not transferable, but others are freely moved from one territory to another. This means that management designs some sales territories to fit the ability levels of nontransferable sales personnel while reassigning other sales personnel with ability levels appropriate to sales territories redesigned according to the suggested procedures.

Illustration of Assigning Sales Personnel to Territories: Now let us work through several situations involving assignment of sales personnel to territories, our purpose being to demonstrate that, where practical, effective sales management assigns each salesperson to the territory where his or her relative profit contribution is maximized.

First, consider the situation in which territories have equal sales potential and coverage difficulty, but the sales personnel differ in ability. Figure 25.1picts this situation. Predicted sales are obtained by multiplying each territory's dollar potential by the ability index of the salesperson assigned. Predicted profit contributions are assumed to amount to 25 percent of predicted sales. The. total profit contribution is $312,500, the maximum attainable here regardless of how the sales personnel are assigned.

Figure 25.1 Assignment of Sales Personnel to Territories of Equal Potential

Territory	Dollar Potential	Salesperson Assigned	Ability Index	Predicted Sales	Predicted Profit Contribution (25 % of sales)
A	$ 500,000	1	1.0	$ 500,000	$ 125,000
B	500,000 500,000	2	0.8	400,000	100,000
C		3	0.7	350, 000	87,500
Total	$ 1,500,000			$ 1,250,000	$ 328,500

Now suppose that these territories are redesigned so that their sales potentials vary in direct proportion with the ability of the sales personnel assigned, with the same total dollar potential as before ($1.5 million). The results of this assignment pattern are shown in Figure 25.2Redesigning territories so that sales potentials are directly proportional to abilities of assigned sales personnel increases the predicted profit contribution by $7,000 (from $312,500 to $319,500).

But what is the predicted profit contribution if total sales potential is divided some other way? After all, the number of possible ways of dividing it is very large. Consider Figure 25.3which shows a different division of the $1.5 million sales potential; sales personnel, however, are still assigned territories in rank order of their respective abilities.

Again there is an increase in the predicted profit contribution, this one even more impressive than in the preceding example. However, it is unlikely that this is a feasible territorial division and salespersons assignment plan. The coverage difficulty and associated work load now involved in covering territory A would likely exceed salesperson 1 's capacity to perform; thus, l's ability index should be lowered. Similarly, territories Band C now have such greatly reduced sales potentials (which means that their coverage difficulty is less than before) that probably neither would represent sufficient work loads for salesperson 2 or 3.

Figure 25.2Assignment of Sales Personnel to Territories Containing Sales Potentials Proportionate to Salespersons' Ability

Territory	Dollar Potential	Salesperson Assigned	Ability Index	Predicted Sales	Predicted Profit Contribution (25 % of sales)
A	$ 600,000	1	1.0	$ 600,000	$ 150,000
B	480,000	2	0.8	384,000	96,000
C	420,000	3	0.7	294, 000	73,500
Total	$ 1,500,000			$ 1,278,000	$ 319,500

FIGURE 25.3 Assignment of Sales Personnel to ability to Territories Containing Different Sales Potentials

Territory	Dollar Potential	Salesperson Assigned	Ability Index	Predicted Sales	Predicted Profit Contribution (25 % of sales)
A	$ 1,000,000	1	1.0	$ 1,000,000	$ 250,000
B	300,000	2	0.8	240,000	60,000
C	200,000	3	0.7	140, 000	35,500
Total	$ 1,500,000			$ 1,380,000	$ 345,000

There are upper and lower limits to the amount of sales potential to incorporate in anyone territory. These limits are set by coverage difficulty and the size of the work load that it is reasonable to expect any salesperson, regardless of ability, to assume. Then, too, selling expenditures do not fluctuate directly with predicted sales volumes throughout all sales volume ranges. They may rise more or less in proportion to sales volume increases, but after a certain point is reached, the rate of rise accelerates greatly (that is, as the difficulty of making sales becomes increasingly greater), and they may decline proportionately to sales volume decreases until a minimum .level is reached (where potential sales are no longer large enough to support needed selling expenditures). Work load restrictions, in other words, confine the uniformity of variation of selling expenditures within fairly narrow limits.

The optimum territorial arrangement is reached when the incremental sales produced per dollar of selling expenditures are equated among all territories. After a sales territory reaches a certain size in terms of sales potential, adding successive increments of sales potential is feasible only up to the point at which the last dollar of selling expenditures just brings in sufficient sales to provide a dollar of profit contribution. A company seeking the optimum territorial arrangement generally concludes that it is wise to cut off additional selling expenditures before reaching this "point of feasibility." This is because the best condition requires the equating among all territories of the incremental sales produced by the last dollar of selling expenditures in each.

Thus far, an implicit assumption has been that ability indexes do not change with assignment of sales personnel. However, sales personnel have different degrees of effectiveness in different territories, because environmental forces condition selling performance. It is not realistic, in other words, to assume that ability indexes for individual sales personnel are fixed regardless of the territorial assignment.

Consider, then, a situation where sales personnel maintain their rank order according to ability indexes as they are switched among territories but where the indexes change. With the assignment pattern 1A, 2B, 3C, the respective ability indexes might be 1.0, 0.8, and 0.7 (as in Figure 25.2, for example), but with the assignment I B, 2A, 3C, the respective ability indexes could be 1.0, 0.9, af\d 0.7-salesperson I in this situation performs better than salesperson 2 regard- less of the assignment. Using the basic data in Figure 25.2 the results of the IB-2A-3C assignment are shown in Figure 25.4. This assignment pattern results in a higher total profit contribution than that secured by assigning sales personnel to territories strictly in accord with their abilities (that is, $328,500 versus $319,500).

FIGURE 25.4Assignment of Sales Personnel to Territories where Ability Indexes Vary with the Assignment

Territory	Dollar Potential	Salesperson Assigned	Ability Index	Predicted Sales	Predicted Profit Contribution (25 % of sales)
A	$ 600,000	2	0.9	$ 540,000	$ 135,000
B	480,000	1	1.0	480,000	120,000
C	420,000	3	0.7	294, 000	73,500
Total	$ 1,500,000			$,314,000	$ 328,500

Thus in some territorial designs, the best salesperson should not necessarily be assigned to the territory with the highest sales potential, and in some, a salesperson should not necessarily be assigned to the one territory where his or her profit contribution is higher than that of any other salesperson who might be assigned to the same territory. Each salesperson should be assigned to the territory where his or her relative contribution to profit is the highest. In Figure 25.4 salesperson 1 could make a higher dollar profit contribution than salesperson 2 in territory A, but 1 contributes more, relative to 2, when assigned to territory B. Similarly, salesperson 2's inferiority relative to salesperson 1 is less when 2 has territory A, not territory B.

Ability indexes change with different assignment patterns; consequently, management estimates ability indexes for each possible assignment pattern. The large number of possible assignment patterns makes complex the task of achieving an ideal assignment. When twelve salespeople are to be assigned to twelve territories, for example, there are 12! (that is 479,001,600) possible pat- terns. It would be possible, although not practical, to write down all 479,001,600 assignment. patterns and select the one providing the maximum profit contribution; fortunately, however, the assignment linear programming technique and the computer afford a rapid and less laborious way to find the solution. But even this technique requires estimates for the probable net profit contribution for each salesperson for each possible assignment pattern, and this requires not only knowledge of the nature and peculiarities of each territory, but insight on how each salesperson might perform in each territorial environment.

'Strictly speaking, of course, the planner might now reapportion the total sales potential among the three territories in direct proportion to the revised ability indexes of the sales personnel assigned to each, thus obtaining a still further increase in the total profit contribution. The perceptive reader will see that this reapportionment would involve making territory 8 a higher-potential area than territory A. The resulting personnel assignment pattern, then, would be one in which the best salesperson (no. I) would have the territory with the highest sales potential (now territory B), but note care- fully that each salesperson still would be assigned to the territory where his or her relative contribution to profit is the highest.

Let us now see how sales personnel can plan their calls in order to save time and increase the market coverage.

Routing and Scheduling Sales Personnel

Routing and scheduling plans aim to maintain the lines of communication, to optimize sales coverage and minimize wasted time. When management is in- formed at all times of salespersons' whereabouts in the field-or at least knows where they should be-it is easy to contact them to provide needed information or last-minute instructions. Chances are good that sales personnel will be where they are supposed to be.

Routing and scheduling plans improve sales coverage. The mechanics of setting up a routing plan are simple, but in working out the plan, detailed information is required on the numbers and locations of customers, the means and methods of transportation connecting customer concentrations, and desired call frequency rates. Detailed maps are needed showing not only towns and cities and transportation routes but trading-area boundaries, mountain ranges, lakes, bridges, and ferry lines. If sales personnel are to travel by air, airport locations need spotting. The route, or routes, finally laid out should permit the salesperson to return home at least on weekends.

If the route planner considers the desired call frequency rate for each customer on the route, the call schedule is a by-product of setting up the route. In most cases, however, making up the call schedule is more than planning the route. Customers and prospects are segregated according to the desired call frequency" rate. Using detailed maps, the planner identifies the locations of members of each customer and prospect group and reconciles the route with these locations. Hence, often the salesperson has a different route each time he or she travels the territory, to achieve the desired call frequencies and to incorporate new customers and prospects into the itinerary. Furthermore, because changes occur in account classifications, prospects, competitive activity, as well as in road conditions, it is impractical to set up fixed route and call schedules good for long periods.

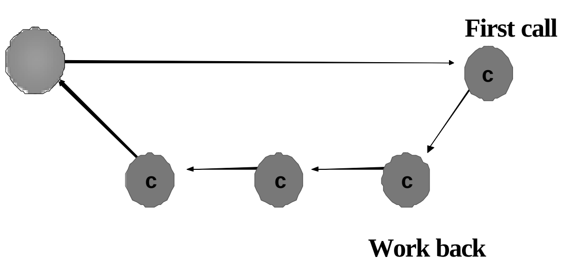
Routing and scheduling plans reduce wasted time by sales personnel. Much backtracking, travel time and other "nonselling" time is eliminated, and scheduled call frequency is to fit customers' needs. Effective routing and scheduling automatically builds up the size of the average order.

In scheduling sales personnel, some firms not only designate the customers to call upon each day but prescribe the time of day to make each call. Detailed scheduling is coupled with a system for making advance appointments. Companies not using scheduling plans usually suggest advance appointments, but often salespeople ignore this suggestion. For effective detailed scheduling the scheduler needs current information on time required for each call, probable waiting time at each stop, travel time between calls, and the probable time with each customer. This information is difficult to collect and update. Detailed scheduling is most feasible when customers give their full cooperation. Most firms allow their sales personnel "time cushions" to allow for the many variations met on each selling trip.

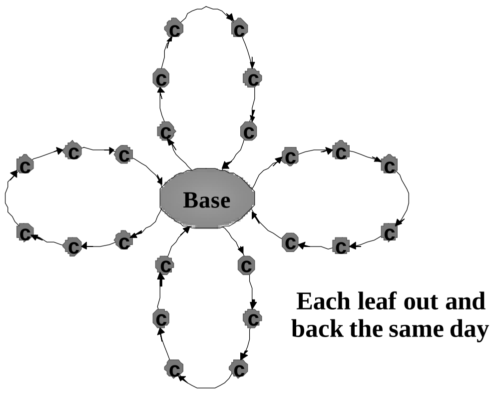
Companies, almost without exception, benefit from systematic routing and scheduling, but not all find detailed scheduling feasible. The petroleum marketing companies, and other firms with combination driver-salespersons, use detailed routing and scheduling plans successfully, as do several large pharmaceutical manufacturers. Less detailed routing and scheduling plans are used by wholesalers of groceries, drugs, and hardware. Detailed scheduling plans are appropriate in trades typified by frequent calls, great homogeneity among customers, short travel time between calls, and highly standardized products not requiring large amounts of creative selling time-that is, in situations where trade selling predominates.

The size of the territory and geographic layout determine the type of the route. Sales personnel should lay out a travel route so that they can start from their home in the morning and return in the evening. Remember critical factor is time and not miles. In some cases using major nonstop highways may increase miles but total travel time may decrease. The actual route the salespeople follow each day within each section can help maximize their use of daily prime selling hours. They should make long drives usually in the morning and in late afternoon, if possible. For example if most of their accounts are strung out more or less in a straight line from their home base they should get up early and drive to the far end of the territory before making the first call. They would then work their way back, so they end up near home at the end of the day.

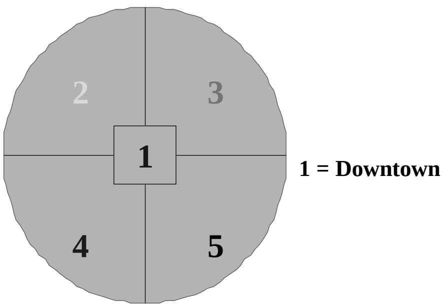
Straight-Line Pattern



Cloverleaf Pattern



Major City Pattern



The routing patterns shown above helps sales personnel economise time. In clover leaf pattern the sale personnel is placed in the middle and start in the morning and tries to cover maximum number of accounts in a day in the fashion shown in the figure. In major city patter also the sales personnel should cover one area at a time since it represents the different industrial areas.

Routing, scheduling, and control: The routing plan, the scheduling plan, or both assist sales management in obtaining closer control over sales personnel's movements and time expenditures. The routing and scheduling plans are integral parts of the overall process of establishing sales territories and assigning sales personnel. Any routing or scheduling plan should have frequent checkups to detect needed adjustments. Call reports are compared with route and call schedules to determine whether plans are followed. Variations or discrepancies are noted and sales personnel asked for explanations. Adherence to the plans is also enforced through frequent and unannounced visits to the field by supervisors or branch sales managers

Reasons Companies May **Not** Develop and Use Sales Territories

- Sales people may be more motivated if not restricted by a territory
- Company may be too small to be concerned with segmenting the market into small areas
- May not have the time or knowledge
- Personal friendships may be the basis fo attracting customers

Conclusion

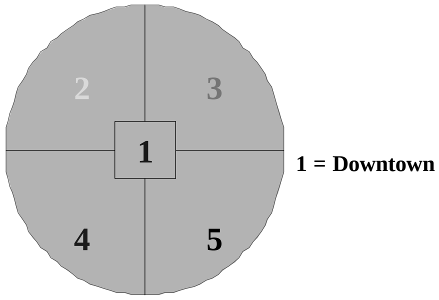
In the last two lessons and this lesson we learnt about setting up sales territories and assignment of sales personnel to these territories. Setting up sales territories facilitates the planning and control of sales operations. Well-designed territories assist in attempts to improve market coverage and customer service, reduce selling expense ratios, secure coordination of personal selling and advertising efforts, and improve the evaluation of personnel performance.

Good territorial design is based upon thorough knowledge of sales potentials and differences in coverage difficulty. In assigning sales personnel to territories, management seeks the best alignment of selling efforts with sales opportunities, and systematic plans for routing and scheduling sales personnel help in accomplishing this. Since sales personnel vary in individual effectiveness with the territories to which they are assigned, management develops ability indexes for each possible assignment pattern.

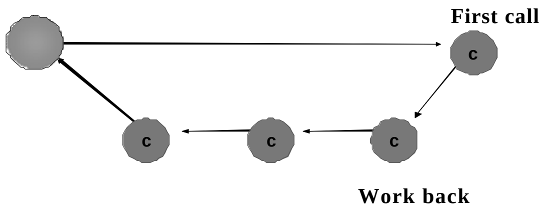
Points to Ponder

Deciding Assignment of Sales Personnel to Territories

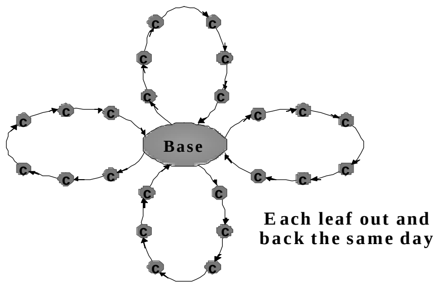
Major City Pattern



Straight-Line Pattern



Cloverleaf Pattern



Reasons Companies May **Not** Develop and Use Sales Territories

- Sales people may be more motivated if not restricted by a territory
- Company may be too small to be concerned with segmenting the market into small areas
- May not have the time or knowledge
- Personal friendships may be the basis for attracting customers

Questions

Q1. One of your salespeople has come to you for help. He is having trouble calling on his accounts. He says he feels his territory is too large and spread out, and he feels as though he is spending all his time in the car instead of making sales calls. What steps you would take to help him develop a more effective sales route?

Q2. How is sales personnel assigned to territories?

Q3. What ae the different types of routing patterns?

LESSON 26
IMPORTANCE OF CUSTOMER FEEDBACK BY SALES PERSONNEL

Learning Objectives

- To understand the importance of feedback mechanism in sales.
- To use the feedback for increasing sales
- How to build customer loyalty

In this chapter we will study about how sales people can obtain feedback and how it can used by the management in taking corrective action.

The salespeople are directly in contact with the customers so they can obtain information from the market which will be helpful to the organisation. Since personal selling involves face to face interaction with the prospect a salesperson is in a position to gather information from them. The information may be about the product, organisation, competitors, likes and dislikes, complain about the product etc. These information is of use to the organisation as they can plan their selling strategy accordingly.

There are three main pieces that need to be in place to have an effective Feedback System:

- **Mechanism for Feedback** (i.e. complaint cards or a form)
    - The feedback from the customers can be taken by asking them to fill up a form, or salesperson can, after interacting with them fill up a form. The mechanism for feedback should be an easy and short process for a customer. Customers are unlikely to fill out a long form.
- **Feedback Loop**
    - The feedback loop should be a defined process that allows the feedback from the customer to get in front of managers and decision makers. The importance of feedback lies in the fact that message should reach higher levels so that actions can be taken.
    - Corrective Action
    - The corrective action should be the "fix" that is being instituted to correct the gaps in customer service that have been identified i.e depending upon the customers response measures are taken to satisfy them.

Sales persons should

- Ask customers what about your organization is most important to them ® create a position that meets those needs.
- Ask about attitudes toward styles and models

    Extent of brand loyalty

    Willingness to pay a premium for superior quality
- Formulate a selling strategy around one simple factor that is important to customers and sets you apart
- The differentiating idea may be product, service, or channel related
- Keep an eye on how the competitors are positioning their companies

Below are some truth about customers

- Your organization chart is of no interest
- They do not care about your problems
- The fact that you are "trying hard" has no impact
- They are self-centered
- They always notice bad service
- Giving good service only counts if the customer thinks it's good service
- You must almost always ask to get feedback
- Customer loyalty is fragile and fleeting
- Most bad attitudes are communicated by the wrong tone of voice
- Dissatisfied customers tell up to 20 people about poor service

Therefore it is important for sales people to get customer feedback. They should provide after sale service in order to satisfy the customer.

Using the Feedback

Collecting information and feedback is the easy part. But actually using it and implementing it is the key to being successful.

To apply the information:

- Identify issues that need to change
- Come up with solutions for change
- Implement the solution for change
- Check up to see if solution is working
- If not, find another solution!

Remember the more feedback you use, the more success you will have.

All forms of feedback are helpful, so when using them, try to use more than just one kind of feedback to ensure and increase the chances of success.

Benefits of Using Feedback

- Increases sales
- Knowing what is important to your customers; and what they really want and like. Makes your job easier.
- Guarantees Continuous improvement of overall service and production.
- Creates loyal, enthusiastic, and happy customers.
- Making positive changes over time. Keeps employee moral up.

- Ensures good product development.
- Creates a competitive advantage.

Building Customer Loyalty

Dr. Ted Levitt, senior professor at Harvard Business School says that the function of every business is to get and keep customers. Consequently, it is also the function of every employee of every business to do the same. Knowing how to keep existing customers happy is key to a company's continued success.

Studies have also proven that it is much more expensive to attract a new customer to a business than to keep an existing one.

So, what can we do to build customer loyalty — to get that customer to come back again and again? Here are six universal points that will apply to any type of business.

Don't ever forget to say THANKS! It can be face to face, over the phone or via written thank you notes. Customers like to feel appreciated. Recently I bought some clothes from a local retail store. Just a few days later I opened my mail and found a thank you note from my salesman. Was I impressed? You bet. Will I go back? You bet. And, when I do, I will be looking for my salesman.

Find out if you are doing a good job, and if there are problems react quickly. By the way, your customers will not likely tell you if there are problems. Numerous studies have shown that complaining customers don't complain. TARP (Technical Assistance Research Program) was commissioned by the White House Office of Consumer Affairs to survey customer satisfaction. They found that an average business only hears from 4% of unhappy customers. The other 96% don't complain — at least not to the places they did business. While the study was conducted a number of years ago, current independent studies still show similar findings. Your ultimate goal should be to try and find any problems before the customer complains. The best way is for you to simply ask how you are doing.

Make sure the customer knows they made the right decision to do business with you. Educate and reinforce that they have made a good choice. If you do something different than the competition, make sure the customer knows about it. I remember buying meat from a grocery store. The butcher proudly held up the steak he was selling me and said, "Look at that! Is that a beautiful piece of meat or what? Did you know that we trim the fat around the steak to just 1/8 of an inch. You won't find that at the competition! Thanks for shopping with us." These competitive differences need to be emphasized. It is your opportunity to stand out.

Guarantee your products and/or services. Personally, stand behind everything you do. A customer doesn't do business with a company. They do business with the people who represent the company. And, make sure the customer knows you mean it. If there is a problem, don't just push it off to someone else, better referred to as the It's Not My Department reaction. If a customer has a problem, and you are the person that received it, it is your responsibility to see it through. You may not make the final decision, but you are there at the end when it is made.

Recognize that there may be others in the "buying process" that should be made to feel appreciated. These people might also be involved in the buying process, such as an assistant, a secretary or even a committee, but may not be the person or people you are dealing with day to day. Even if the assistant or secretary is not involved in the buying decision, they are still part of the team. Don't forget to show appreciation for these people as well.

Create a demanding customer. Now, here is an interesting concept! Creating a demanding customer means that if your customer were to go to your competition, they would not just expect, but demand, the same level of service that they get from you. Anything less from the competition reinforces that the customer made the right choice to do business with you. In other words, you have spoiled your customer. What may be standard for you, is better than the competition. The competition will find your customer to be not just demanding, but perhaps a bit unreasonable.

Conclusion

In this lesson we discussed the importance of feedback system. Salespeople can provide feedback from customers and can help increase sales. They can build loyal customers through proper after sales service.

Points to Ponder

FEEDBACK SYSTEM

- **Mechanism for Feedback**
- **Feedback Loop**
- **Corrective Action**

Benefits of Using Feedback

- Increases sales
- Knowing what is important to your customers; and what they really want and like. Makes your job easier.
- Guarantees Continuous improvement of overall service and production.
- Creates loyal, enthusiastic, and happy customers.
- Making positive changes over time. Keeps employee moral up.
- Ensures good product development.
- Creates a competitive advantage.

TRUTH ABOUT CUSTOMERS

- **The truth about customers**
- Your organization chart is of no interest
- They do not care about your problems
- The fact that you are "trying hard" has no impact
- They are self-centered
- They always notice bad service
- Giving good service only counts if the customer thinks it's good service
- You must almost always ask to get feedback
- Customer loyalty is fragile and fleeting
- Most bad attitudes are communicated by the wrong tone of voice
- Dissatisfied customers tell up to 20 people about poor service
- Therefore it is important for sales people to get customer feedback. They should provide after sale service in order to satisfy the customer.

Questions

Q1. How is the feedback system formed?

Q2. How should feedback given by the customers should be used,

Q3. What are the benefits of feedback?

Q4. How customer loyalty can be build up?

LESSON 27
WHAT IS MARKETING CHANNEL?

Learning Objective

- To know what is marketing channel?
- To understand Nature of Marketing channel
- Types of intermediaries.
- Introduction to the contemporaries channel in India.

Now let us see what is marketing channel.

What is Marketing Channel?

A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption.

The definition bears some explication. It first points out that a marketing channel is a "set of interdependent organizations." That is, a marketing channel is not just one firm doing its best in the market — whether that firm is a manufacturer, wholesaler, or retailer. Rather, many entities are typically involved in the business of channel marketing. Each channel member depends on the others to do their jobs.

What are their jobs? The definition makes clear that running a marketing channel is a "process." It is not an event. Distribution frequently takes time to accomplish, and even when a sale is finally made, the relationship with the end-user is usually not over.

For example, think about an end user purchasing a microwave oven and it demands for post sale service.

Finally, what is the purpose of this process? The definition claims that it is "making a product or service available for use or consumption." That is, the purpose of channel marketing is to satisfy the end-users in the market, be they consumers or final business buyers. Their goal is the use or consumption of the product or service being sold. A manufacturer who sells through distributors to retailers, who serve final consumers, may be tempted to think that it has generated "sales" and developed "happy customers" when its sales force successfully places a product in the distributors' warehouses. This definition argues otherwise. It is of critical importance that all channel members focus their attention on the end-user.

The Nature of Marketing Channels

A. Marketing Channel Concepts

1. A marketing channel (also called a channel of distribution) is a group of individuals and organizations that directs the flow of products from producers to consumers. The major role of marketing channels is to make products available at the right time at the right place in the right quantities.
2. Some marketing channels are direct–from producer straight to customer–but most channels have marketing intermediaries that link producers to other middlemen or to ultimate consumers through contractual arrangements or through the purchase and reselling of products.
   a. Wholesalers buy and resell products to other wholesalers, to retailers, and to industrial customers.
   b. Retailers purchase products and resell them to ultimate consumers.
3. Although distribution decisions need not precede other marketing decisions, they are a powerful influence on the rest of the marketing mix.
   a. Channel decisions are critical because they determine a product's market presence and buyers' accessibility to the product.
   b. Channel decisions have additional strategic significance because they entail long-term commitments. It is usually easier to change prices or promotion than to change marketing channels.

B. Marketing Channels Create Utility

Marketing channels create three types of utility: time, place, and possession.

1. Time utility–created by having products available when the customer wants them
2. Place utility–created by making products available in locations where customers wish to purchase them
3. Possession utility–created by the customer having access to the product to use or to store for future use
4. Channel members sometimes create form utility by assembling, preparing, or otherwise refining the product to suit individual customer tastes.

C. Marketing Channels Facilitate Exchange Efficiencies

1. Marketing intermediaries can reduce the costs of exchanges by efficiently performing certain services or functions. Intermediaries provide valuable assistance because of their access to, and control over, important resources used in the proper functioning of marketing channels.
2. Despite these efficiencies, the press, consumers, public officials, and other marketers freely criticize intermediaries, especially wholesalers.
   a. Critics accuse wholesalers of being inefficient and parasitic.
   b. Buyers often wish to make the distribution channel as short as possible, assuming that the fewer the intermediaries, the lower the price will be.
   c. Because suggestions to eliminate them come from both ends of the marketing channel, wholesalers must be careful to perform only those marketing activities that are truly desired.
3. Critics who suggest that eliminating wholesalers would lower customer prices do not recognize that this would not eliminate the need for services that wholesalers provide.

Although wholesalers can be eliminated, the functions they perform cannot.

D. Marketing Channels Form a Supply Chain

An important function of the marketing channel is the joint effort of all channel members to create a supply chain, a total distribution system that serves customers and creates a competitive advantage.

1. Supply chain management refers to long-term partnerships among marketing channel members working together to reduce inefficiencies, costs, and redundancies in the entire marketing channel and to develop innovative approaches, in order to satisfy customers.
   a. Supply chain management involves manufacturing, research, sales, advertising, shipping and, most of all, cooperation and understanding of tradeoffs throughout the whole channel to achieve the optimal level of efficiency and service.
   b. Whereas traditional marketing channels tend to focus on producers, wholesalers, retailers, and customers, the supply chain is a broader concept that includes facilitating agencies, such as component parts suppliers, shipping companies, communication companies, and other organizations that take part in marketing exchanges.
2. Supply chain management is helping more firms realize that optimizing the supply chain costs through partnerships will improve all members' profits.
3. Supply chains start with the customer and require the cooperation of channel members to satisfy customer requirements.
4. Technology has dramatically improved the capability of supply chain management on a global basis.
5. Supply chain management should not be considered just a new buzzword. Reducing inventory and transportation costs, speeding order cycle times, cutting administrative and handling costs, and improving customer service–these improvements provide rewards for "all" channel members.

Types of Intermediaries

The different types of marketing intermediaries differ significantly in their roles, capabilities, territories, level and size of operations, cost of operations, remunerations and amenability for control by the principal. Let us see the main characteristics of each of them.

Sole-Selling Agent/Marketer

When a manufacturer prefers to stay out of the marketing and distribution task, he appoints a suitable agency as his sole-selling agent/marketer and entrusts the marketing job with him. A 'sole-selling agent' or a 'marketer' is usually a large marketing intermediary with large resources and extensive territory of operation. He will be having his own network of distributors/stockiest/wholesalers, semi-wholesalers and retailers. He takes care of most of the marketing and distribution functions on behalf of the manufacturer. Obviously; a sole-selling agent/ marketer will earn a large margin/commission compared to other types of intermediaries. A manufacturer can have one or more marketers; but when he opts for a sole-selling agent, he appoints just one agency as the sole-selling agent (in a given territory).

Types of Marketing Intermediaries

Sole-selling agent	Retailer / dealer
Marketer	Broker
C & F agents (CFAs)	Franchisees
Redistribution stockiest	Authorised representatives
Stockiest / Distributor / Wholesaler	Commission agents
Semi-wholesaler	Jobbers

In many cases, manufacturers employ carrying and forwarding agents, often referred to as C&F Agents, or CFAs. The CFAs can be described as special category wholesalers. They supply stocks on behalf of the manufacturer to the-wholesale sector or the retail sector. Their function is distribution. Their distinguishing characteristic is that they do not resell products, but act as the agent/representative of the manufacturer. They act on behalf of the manufacturer and as his extended arm. In essence, they are manufacturer's branches.

Wholesaler/Stockiest/Distributor

A 'wholesaler' or 'stockiest' or 'distributor' is also a large operator but not on a level comparable with a marketer or sole selling agent, in size, resources, and territory of operation. The wholesaler/stockiest/distributor operates under the marketer-sole selling agent, where such an arrangement is used by the manufacturer.

Nature and Characteristics of Wholesaling

A wholesaler buys the product in large quantities, (often, from several producers) and resells the goods in sizeable lots to other intermediaries down the line, such as semi-wholesalers and retailers. Normally, a wholesaler does not sell directly to consumers, the exception being institutional buyers who prefer to buy their requirements from wholesalers rather than retailers. In fact, the distinguishing feature of wholesalers is that they do not sell to the ultimate consumers for personal consumption. Even when they sell to institutional buyers who are ultimate consumers, the sale is not for personal consumption of an individual/household consumer.

Wholesalers generally specialise; some specialise by type of product, some by industry and some by markets. The rationale for their existence is their cost-effective operation in buying goods in large quantities and reselling them to other intermediaries in smaller, yet sizeable lots.

Wholesalers add value by performing a number of vital marketing functions. Stock holding and sub-distribution are the main functions of the wholesalers. They also perform functions like promotion, financing, and collection of accounts receivables and provision of market feedback. They serve the principals as well as the retailers under them. In some cases, they also assume a part of the risk associated with product failures, price changes and bad debts. :

Wholesalers basically belong to two types: Agent wholesalers and merchant wholesalers usually, merchant wholesalers participate in all the flows that characterise the distribution process while agent wholesalers do so only in some of the flows.

Semi. Wholesalers

Semi-wholesalers are intermediaries who buy products either from producers wholesalers, bulk, break the bulk and resell the goods (mostly) to retailers in assortments needed by the Like the wholesalers, semi-wholesalers too perform the various wholesaling functions that. part of the distribution process. In some cases, they may also perform the retailing function Their strength is 'specialisation by region '. They assist the producer in reaching a large number of retailers efficiently. They spread the distribution cost over the products of several producers, as they usually handle the products of a number of producers.

Retailer Dealer

Retailers sell to the household/ultimate consumers. They are at the bottom of the distributor's hierarchy, working under wholesalers/stockiest/distributors/semi-wholesalers, as the case may be. In cases where the company operates a single-tier distribution system, they operate directly under the company. The retailers are also sometimes referred to as dealers or authorised representatives. They operate in a relatively smaller territory or at a specific location; they not normally perform stock-holding and sub-distribution functions. The stocks they keep operational stocks necessary for immediate sale at the retail outlet.

Contemporary Channel Scenario in India

Conventional Wholesale-Retail Trade Continues to Dominate the Scene

In total contrast with the western countries, where formats like supermarkets/retail chains dominate the distribution system, conventional wholesale-retail trade dominates the scene in India. Again, unlike the West where a handful of apex distribution chains service the millions of retail shops, in India, stand-alone wholesalers/retailers dominate the scene. Some experts believe that before long, India too will see the massive growth of distributing companies/retail chains. Many others, however, feel that in India, large distribution outfits will not replace traditional distributors in the near future.

Image of the Trade is Changing

Till recently, the image of a stockiest/distributor in India was one of a cash-rich trader interested in quick profits. Such an image was a concomitant to the prevailing marketing environment. Many products enjoyed a premium, often in black, in view of the all-round shortages and the system of price controls. The distributive trade was making merry at the cost of the consumer. The situation has changed considerably in recent years. With the increased availability of products, removal of price controls, increased competition and increased choices to the consumer, the environment in which the distributive trade was operating has changed significantly; the distributor of today has to put in harder effort to sell his products and he has to service the customer properly. Naturally; his image has undergone a change. Companies too are now keen to present to the public/consumers a cleaner image of their distributors.

Contemporary Channel Scenario in India

1. Conventional wholesale-retail trade continues to dominate the scene, though formats like supermarkets, retail chains and shopping malls are making a mark. 2. Image of channels/distributive trade undergoes a change. 3. Profiles of distributor's tool undergo a change. 4. Trade margins escalate as costs of distribution keep growing. 5. Expectations of distributors in the matter profits also change. 6. The power equation among the distribution triumvirate—principals, distributors and retailers—shifts in favour of the lower levels. 7. Distributors are becoming choosy. 8. IT greatly influences the way marketing channels operate. 9. Firms go in for different kinds of non-traditional channel arrangements. 10. Outsourcing of channel task/ marketing logistic	Exclusive retailing Exclusive dealers without franchising arrangement Exclusive retailing through showrooms Exclusive retiling through shop-in-shop Franchising A. Firm go in for non-store retailing methods. Direct selling /home selling Multi-level marketing/Networking Marketing Marketing by vending machines Consumer fairs. B. Firms go in for direct marketing methods. Mail order marketing/catalogue marketing Direct mail marketing Direct response marketing Database marketing Tele marketing Tele shopping (Home shopping) Online marketing/ Marketing on the web C. Equally radical changes are taking place on the retailing side

Firms Go in for Non-traditional Channel Arrangements

In recent times, firms have been taking to different kinds of non-traditional channel arrangements such as:

- Outsourcing of channel arrangement/marketing logistics
- Exclusive retailing

Outsourcing of Channel Arrangement

Complete outsourcing of channel arrangement is the most striking of the non-conventional attempts. Firms contract outside logistics specialists to operate as their marketing channel.

Exclusive Retailing

In India, many firms have been practicing exclusive retailing for the past several years. In recent years, however, the idea has proliferated fast. More and more companies are now recognizing the inadequacy of the traditional wholesaler-retailer trade channels and are going in for exclusive retail networks. Across industries, it is becoming a trend, partly displacing and partly co-existing with the traditional wholesaler-retailer set-up.

Firms pursue exclusive retailing in different forms such as:

- Exclusive dealers without franchising arrangement
- Exclusive retailing through showrooms
- Exclusive retailing through shop-in-shop
- Franchising

Exclusive Dealers Without Franchising Arrangement

Exclusive retail networks have been in existence in India for many years now. In the earlier days, businesses like textiles and footwear were the ones in which this concept was widely prevalent. In textiles for example, Reliance (Vimal) achieved phenomenal success by setting up a network of exclusive retail shops. Garden Silks too has taken to this route. It has over 150 exclusive retail outlets, of which seven are company-owned. Bombay Dyeing is another example. Ready-made garment brands like Louis Philippe and Van Heusen, have also taken to exclusive retailing. In footwear, Bata runs a network of 1,200 exclusive shops and is expanding it further. It also has a parallel network of BSC stores, which are also exclusive shop to a large extent. Liberty Shoes, Bata's challenger, has also gone in for exclusive shops. It now has over 150 such shops.

Degree of Exclusiveness can Vary

A scrutiny of practices prevailing in the market shows that a firm can practise exclusive retailing to varying degrees of exclusiveness and in combination with non-exclusive retailing.

Bata, for example, has 900 company-owned exclusive shops, 120 franchisee exclusive shops and 600 market extension programme dealers, who are semi-exclusive. In addition, it has a; separate, non-exclusive wholesaler-retailer system, consisting of 200 wholesalers and 12000 dealers.

Ready-made garment brands like Louis Philippe, Van Heusen, and Allen Solley were, to start with, marketed through exclusive outlets/franchisee showrooms. But, after some time, the companies concerned voted for a policy of semi-exclusiveness. They opened the door to multi-brand textile shops. They also adopted the shop-within-shop concept.

In the matter of size, exclusive retail networks can range from very small to very huge depending on the nature and 'class' of the product/brand. Pierre Cardin, for example, markets its products through just eight exclusive shops in India. Reliance (Vimal), against this, has a network of over 2,000 odd exclusive Vi mal showrooms.

Shop-in-Shop

Today; many super stores reserve special areas in their shops exclusively for particular brand. These are called shops-within-shops. The Louis Philippe line, for example, is sold through the shop-in-shop in the super store Shoppers Stop.

Philips Corners: Philips is another good example of a company using the shop-in-shop concept. It has established its 'shops-within-shops' in many stores, and named them the 'Philips Comers'. In fact, Philips overcame the problem of not having exclusive showrooms by voting for the shop-in-shop concept. It gained good visibility for its products in multi-brand outlets. 'Philips Comers' helped in keeping a good presence in outlets where consumers went to compare various brands. The internationally standardised colours, shelves and display windows of the 'Corners' helped Philips to cut across the clutter.

Advantages of Exclusive Retailing

1. Helps the firm get best locations.	A. With exclusive outlets, the firm can avoid margin wars.
2. Superior store image.	B. Superior store image.
3. Uniform store image.	C. Facilitates building store loyalty.
4. Spreading awareness about the company and its brand. 5. More appealing visual merchandising.	D. Creates special enthusiasm for the company's brand at the retail level; multi-brand outlets cannot create such enthusiasm for a particular brand.
6. Full product range of the company can be stocked and displayed in all outlets.	E. Enables better control of the outlets.

Showrooms

Showrooms are one type of exclusive outlets. There are actually two kinds of showrooms:

- Own
- Franchised

Titan Watches is a good example of a company putting the concept to fine use. The two kinds of showrooms have certain commonalities as well as certain differences.

Advantages of Own and Franchised Showrooms

Own showrooms

- Help the firm to be more close to the customers and in direct touch with time.
- Help the firm get market feedback directly from customers; with franchisee showrooms, this advantage may not be available to the same extent.
- Own showrooms can be controlled better and used more for enhancing company image as compared to franchisee showrooms.

Franchised Showrooms

- Franchised showrooms often do not the job more economically; they incur lower overheads compared to company showrooms.
- Often suitable space is not readily available at the desired locations for setting up own showrooms; franchises bring in such space.
- Help save set-up time
- Budget constraints also drive firms towards franchisee showrooms..
- Setting up own showrooms is usually an expensive business. Singer, for example has estimated that it cost Rs. 4 lakh to set up one showroom of its own. Companies can at best have only a limited number of own showrooms as

coverage of the entire market will be prohibitively costly given the size of the country. Franchisee showrooms become the easy answer for quick growth without sacrificing the requirement of exclusive retailing. Titan Watches is a good example of a company using a mi**x** of own and franchisee showrooms, leaning heavily on the latter in view of their advantage.

Franchising is one form of exclusive retailing. It, however, involves certain special features. Franchising, in fact, is not just a method of retailing; it is a method of marketing, Here, the franchisee, who is an independent businessperson, abides by the marketing plan of the franchiser and pays him a fee for the use of his brand and know-how. In many cases, franchising covers manufacturing as well, wherein the franchisee uses the process/formula of the franchiser in addition to the brand and marketing know-how.

Example of Citihome: Citibank's home loan division, Citihome is one example Citihome appoints franchisees under its Shelters scheme for generating customers for home loan. It has found that the franchisees carry out the task at much lower cost compared to the company's own branches. The franchisee's personal knowledge of the customers is an added benefit. In addition, franchisees also ensure continuity. These factors are of special importance in home loan business.

Firms Embrace Non-store Retailing

So far, we have been discussing retailing methods wherein retailing takes place through a retail store

Non-Store Retailing Methods Gain Ground

- Direct selling/Home selling
- Multi-level marketing
- Network marketing
- Marketing by vending machines
- Consumer fairs

Direct Selling/Home Selling

Direct selling/home selling, also known as door-to-door selling is one of the major non-store retailing methods. Of course, it is the most ancient method of marketing known to man. Before marketing channels came into being, the producer was selling his product to the user directly: However, direct selling in the context of modern mass marketing of branded products needs to be explained specifically:

Direct selling and home selling are almost synonymous: Let us first clarify the terminology: The two terms direct selling and home selling, which have emerged concurrently, denote the same thing. Both of them are person-to-person selling and both take place away from and without the help of any retail store.

Some experts make out a minor distinction between the two, by referring to direct selling by employee-salespersons as home selling, and direct selling by independent salespersons-cum-distributors as direct selling. There does not seem to be any logic in this approach. On the contrary; we can think of one or two more meaningful distinctions between the two. While home selling invariably takes place at customer's home, direct selling can take place either at the customer's home or her work place. Second, while home selling is always one-to-one, direct selling can at times be to a group. The latter method is referred to as party selling or one- to-many direct selling

It is, however, safer and more logical to treat them as one and the same.

Direct Selling Catches up in India

In recent years, direct selling has been catching up in India rapidly: Avon, Amway, Oriflame are all now present in India. So is Tupperware, which is in the business of plastics food containers. Modicare has been using the method for quite some time now for selling its homecare and personal care products.

Multi-level Marketing (MLM)

Multi-level Marketing (MLM) is a modified version of direct selling. Only a few firms, who do not mind experimenting in reaching out to the consumers, practise it.

Avon, Amway, Oriflame, ModiCare: Avon, Amway, Orif1ame International are among the largest MLM outfits in the world. The Indian firm, ModiCare of the K.K. Modi Group also sells its range of household and personal care products through a large MLM network.

MLM utilises a multi-tiered, non-employee sales persons-cum-distributors to sell the products. We have seen the process to an extent in the Amway exhibit. The process begins with the recruitment of a core group of sales persons-room-distributors, who have to be introduced to the company by a sponsor. Each of these distributors picks up products worth a certain sum, say Rs 1,000 at a time, and sells them directly to the consumers. After they have sold their first consignment they are allowed to pick up their next lot.

No distributor is expected to make all sales on her own. Instead, the system envisages the distributor recruiting a second rung of distributors. The distributor earns commissions at two levels. The first is the commission that accrues to her on what she sells by herself, and is made up of the difference between the distributor price and the consumer price. The second is the share that accrues to her out of the commissions earned by the distributors at the next lower level, whom she has recruited and trained. The value of the products a distributor has sold is worked out in the form of point value (PV). Supposing a first-level distributor sells products worth 100 PV on her own and has recruited six second-rung distributors, each of whom sells products worth 100 PV; she gets a commission that corresponds to 700 PV. The distributor can, if she so wishes, charge a lower price than the one suggested by the company, foregoing a part of her commission.

MLM's plus points: The plus points of direct selling in general discussed earlier, are plus points of MLM as well. Because of the unique multi-level nature of the distribution, an MLM distribution network grows rapidly; continuously; and automatically Multiplication and growth are inherent to network marketing. MLM is, therefore, a quick, and cost-effective, method of marketing. It is specially suited to fast-moving consumer products such as special cosmetic or premium fragrances, targeted at niche markets.

MLM's drawbacks: Being basically a direct selling model, MLM shares all its drawbacks. Its suffers some additional drawbacks on account of its peculiarity. First, like the classic chain letter, MLM is a winner while the network keeps growing unbroken. But, should the link snap at many a place, the entire distribution-cum-sales pyramid will suffer a setback. Second, in the MLM system, the distributors are quite often perceived as an irritant by the prospect. Third, distributors are also customers in most cases; losing distributors will amount to shrink-age of the customer base.

One specific minus point is that in the MLM system, the seller cannot have control over the sales persons to the desired extent as they are not employees of the company Moreover, in the MLM system, the sales persons-cum-distributors often reduce prices arbitrarily in order to meet their sales targets. As a result, the equity of the brand suffers.

Sometimes, some sales people use 'high-pressure' tactics. It spoils the reputation of brand. Many who joined Amway Network are buying Rs 1,500 worth of products just to reach the required level and keep the Network going. They may be just storing them.

MLM lays excessive emphasis on meeting people and making friends, which creates an artificial behaviour.

Sales forecasting is usually more difficult in the MLM method. So, incidence of mismatch between supplies and sales, and consequent piling up of inventories will be more in MLM. Finally, in India, the government too does not seem to be so favourably disposed towards the MLM concept.

Network Marketing

The student may often come across the term network marketing in the direct selling context. It needs to be clarified that the term is used in two different senses. Some use it to denote MLM; others use it to denote independent direct selling by third-party outfits, which direct sell others' products for a commission. To avoid confusion, we shall call the former MLM and the latter as 'independent direct selling'.

Independent Direct Selling Outfits

Here, a third party-an external independent agency/service provider-enters the picture as direct selling service provider. There are many manufacturing firms, who prefer to keep away from the marketing task. They entrust their marketing task with a suitable outside marketing agency; some among such firms are also particular that their products should be marketed by the direct selling method. In recent years, some help has become available to such firms in the form of independent direct-selling outfits. These outfits direct sell products of different companies to consumers.

The ET Bazaar

- In recent years, the economic Times has been sponsoring and organizing the ET bazaars which are basically consumer fairs.
- The first ET bazaar orginised in 1994 in Mumbai· Manufactures of many leading brands of consumer products participated in it.
- The sellers were able to access thousand of consumers in an enclosed. Carpeted area of over 1 lakh sq.ft.
- Discounts premiums and other promos were an integral part of the bazaar. In fact, 'Good Prices, Great Prizes' was the theme of the bazaar.
- Prize given at an hourly contests boosted consumer participation. Over 2 lakh consumers have visited the bazaar and sales worth Rs. 10 crore have taken place.
- The second ET Bazaar was organised in Mumbai and Ahmedabad by the close of 1995 for four days each
- ET and Mudra Diversified, the direct markeing and promotion arm of Mudra communication, jointly organized the fair. They gave extensive publicity to the fair through the local media.

Fresh Force: The Bangalore-based Fresh Force is an example of an independent direct selling outfit. It has established a commercial, direct selling network, with a team of salespersons of its own and functions as a direct selling service provider to any company that wishes to sell its products through direct selling but is wary of establishing a direct selling system of its own. Fresh Force compensates its sales persons with commission, which increases geometrically as the sales goes up. A tie-up with outfits like Fresh Force confers some advantages on the firms hiring their services. Without maintaining a direct selling system of their own, they are able to direct-sell their products. They also get the benefit of quicker sales and faster cash recovery, as they can instantly offload their products on the direct selling service provider. For the consumer too there is some benefit in this arrangement. She enjoys the convenience of shop- ping at home, getting several products from the same direct seller in this case.

Marketing by Vending Machines (Automatic Vending)

Retailing through vending machines also belongs to the category of channel-less marketing! non-store retailing techniques. It enables the principals to have the benefit of intensive and extensive retailing without any manned retail stores at all. This method also has been catching up of late in India, especially in urban centres and is bound to acquire increased importance in the coming years. Usually; products which belong to the 'buy on impulse' category like soft drinks, cigarettes, candy, etc., and select articles of daily consumption such as milk, edible oils, etc., lend themselves to be marketed by this method.

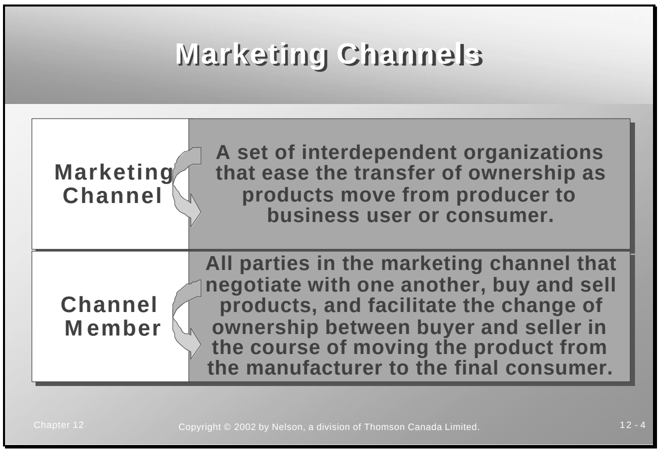
Consumer Fairs

Selling through consumer fairs also belongs to the non-store retailing category; Exhibition- cum-sales is what happens here. Marketers often use this as an additional tool of retailing. Usually; independent promoters and trade associations organise these fairs in which various manufacturers participate and sell their products.

Conclusion

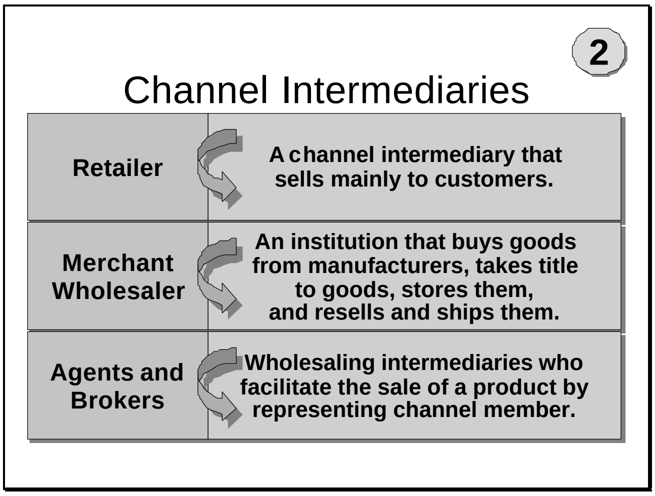
In this lesson we have discussed that marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption. We have also explained various types of intermediaries its role and relevance in Indian market.

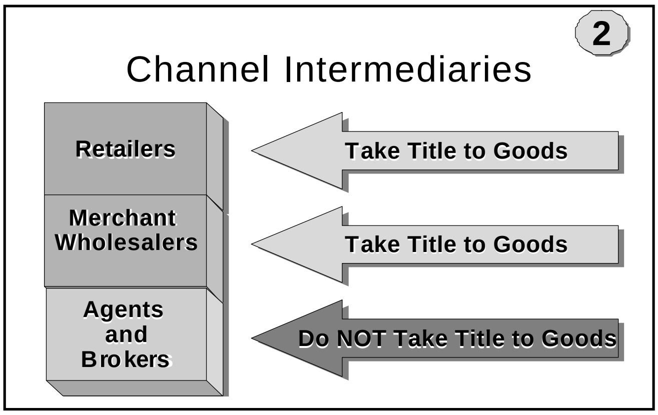
Points to Ponder



The Nature of Marketing Channels

- Marketing Channel Concepts
- Marketing Channels Create Utility
- Marketing Channels Facilitate Exchange Efficiencies
- Marketing Channels Form a Supply Chain





Questions

1. Define marketing Channel?
2. Explain meaning and nature of marketing Channel ?
3. Discuss types of Intermediaries .

LESSON 28
OBJECTIVE OF MARKETING INTERMEDIARIES

Learning Objective

- How to formulate Channel Objectives
- To understand Linkage between Channel Design and Channel Objectives.
- How channel design differ from firm to firm?

In the last lesson we read about the marketing channel, here we will discuss what are the channel objectives.

Objectives of Marketing Intermediaries

1. Formulating the Channel Objectives

Formulation of channel objectives is the first step in designing a channel system. The objectives clarify what is sought to be achieved by having the channels. All firms seek to realise certain common objectives by having the channel. In addition, they may also have some specific objectives depending on their unique circumstances.

Channel Objectives will Decide Channel Design

Channel objectives will determine the channel design the firm should adopt.

Objectives, Firms Commonly Seek from Channels

- Effective coverage of the target market.
- Efficient and cost-effective distribution.
- Ensuring that consumers incur minimum exertion in procuring the product.
- Helping the firm to carry on manufacturing uninterrupted, confident that the channels will take care of sales.
- Partnering the firm in financing and sub-distribution tasks.

Linkage between Channel Design and Channel Objectives

Channel objectives	**Channel design**
Castrol India	
Provide locational convenience to customers; make the products available everywhere (strong reach).	Go for vast network of outlets. Make available all products/all pack sizes (1,800 Stock keeping units) in all outlets and allow of the customer to pick what he wants. This means the outlets have to be backed by an extensive network of CFAs/stockists/warehouses/delivery facilities.
Provide speedy delivery; fulfill orders from outlets within 24 hours.	This again means extensive back-up and a multi-tier design.
Reliance Textiles (Vimal)	
Use channel to project the exclusive image of Vimal fabrics.	Go for exclusive showrooms (Vimal has a chain of over 2,000 showrooms).
	Ensure that the outlet in itself serves as a communication device.
Concentrate on urban market to fall in line with the segmentation/positioning strategy.	Have showrooms in all cities/Class I towns of the country. Have jumbo showrooms in the metros/big cities.
Philips (Appliances / Personal care products)	
Cover the market intensively and extensively.	Have a three-timer channel, with C& F agents, distributors, and retailers. Philips has set up a large base of 2,200 retailers.
Make after-sales service an integral part of channel function.	Establish APSCs (authorised Philips service centers); Philips now has 110 APSCs, four CRCs (consumer response centers), and a team of 60 engineers liaising with the APSCs.
	Motivate the channel for attending to service requirements.
	Philips gives a guaranteed 30 per cent return on investment to the APSC.
Bind barriers to competitors through channel strength.	Pre-empt the march of competitors by embracing practically all strong dealers in the market as Philip dealers.

We can take an example of Hindustan Lever to explain it better.

Lever lays down the objective that Lifebuoy should be available in more than 80 per the villages of India; its channel design takes shape in line with this objective. Similar is the case, when FACT, the fertiliser firm, lays down the objective that in the home market of any company, no farmer should have to travel more than 3 km to buy its products.

We can take this forward a little more and state that marketing objectives determine channel objectives, and the latter determine the channel design. Usually, with the channel objectives, the broad contours of the channel design also get fixed. In the Lifebuoy example, given the channel objective to cover 80 per cent of the villages, the channel design has to naturally ensure a very intensive network of dealers spread through every nook and comer of rural India. As a corollary, a multi-tier channel, consisting of C&F agents, re-distribution stockists, retailers, and village-level shops, will have to be the choice. In fact, HLL uses almost every village shop to sell Lifebuoy.

Above chart gives several illustrations of the linkage between channel objectives channel design. It will be clear from the chart that the channel design/channel strategy of a firm flows directly from its channel objectives.

In the case of Castrol, for example (cited in the chart), engine oil is a convenience good and a medium involvement product. Castrol knows that if a customer does not find engine oil at a given outlet, he may switch to another brand. Castrol accordingly stresses 'reach and 'speedy delivery' in its channel strategy. And, once these two factors are set as the main channel objectives, it automatically leads to the channel design, which Castrol has adopted.

Channel objectives	Channel design
Archie's gifts and Greetings	
Proximity to customers	Establish outlets close to the target buyers—the upper echelons of society.
	Go for exclusive shops/shop-in-shops.
Convert low involvement puchase into high involvement purchase.	Go for trendy interior design and peppy ambience
Make purchase of greeting cards/gifts as enjoyable experience. BBLIL (Premerger with HLL)	Stock a wide range of highly appealing merchandise.
Make the products available everywhere (strong reach).	Embrace all types of shops, supermarkets, grocery stores and kirana shops, as part of the company's channel. BBLIL has adopted a three-tier channel with C & F agents, redistribution stockists and retailers.
Provide choice of brand; ensure different brands are available at the right place, right time.	Provide for proper inventory / delivery back-up.
Always give fresh stocks to consumers.	At each level, minimise the distance between issuing and receiving points.
Louis Philippe Promote Louis Philippe as a complete and premium wardrobe line, with shirts, trousers, ties, socks, blazers, belts, etc. Cover the target market (the will-to-do gents) adequately.	Go for exclusive showrooms; ensure availability of the whole line at these outlets. Showrooms alone will not be enough.
	Go for dress circles (similar to showrooms, but stocks are bought and resold by the retailer)
	Go for multi-brand outlets too.
Maintain an edge over competition by competing on quality, service, image and value. ITC-Tobacco Division	Go for Shop-in-Shop in super stores like Akbar Alis, Mumbai, where special areas (shops within shops) are available for exclusive marketing of specific brands.
Ensure easy availability of ITC cigarates.	Go for CFAs as well as wholesalers, who will distribute / resell to retailers (ITC has more than 8,000 retailers).
	Go for different types of retailers; Branded, traditional and Non-traditional.
Build brands through merchandising.	Have branded retailers / franchisee retailers who sell only ITC cigarettes and not other brands.

Channel Objectives Differ from Firm to Firm; Consequently, their Channel Designs Differ

We see that often channel designs of firms differ from one another. Even within a given industry; different firms have different channel designs. This is so because their channel objectives differ. Even in respect of those objectives, which are by and large common for all firms, we can see variations in emphasis from firm to firm. For example, intensity of market coverage sought from the channels and extent of convenience to be provided to the customer will vary from firm to firm. The weightages will flow from the marketing objectives of the respective firms.

The textile industry example: National Textile Corporation (NTC), Reliance Industries, Bombay Dyeing, DCM and Mafatlal are all textile firms and all of them operate in the same market. Yet, their channel designs vary from one another. This is so because their channel marketing objectives differ from one another. NTC's objective is to cater to the lower middle class, with textiles of reasonable quality at reasonable prices. It goes in for a channel design, which is appropriate for this objective. At the other end of the spectrum, selling 'fashion' to well-to-do urban segments is the objective of Reliance. Premium product and premium price are the implications here. Evidently, the channel design of Reliance differs from that of NTC Reliance has gone in for a chain of exclusive Vimal showrooms. Though NTC has also set up some showrooms, it relies mainly on conventional trade. Reliance has set up 2,000 odd showrooms, covering all metros and Class I towns of India; it has located them in the shopping areas of the concerned towns; it has fabulously displayed its fabrics in these showrooms; the showroom is one main strategic strength of the company; Firms like Bombay Dyeing and DCM fall somewhere on the line between the positions taken by NTC and Reliance at the two ends. All these firms have obviously selected their channel design, based on their respective channel objectives.

Conclusion

We have understood the channel objectives, how it is framed. The channel design depends upon objectives and it differs from firm to firm.

Points to Ponder

CHANNEL OBJECTIVE

I. Channel structure must be derived from channel objectives. These objectives, in turn, result from a careful analysis of the service levels desired by consumers and from management's long-run overall goals for the organization.

II. The specific objectives for the channel must be couched in terms of the service levels that are needed to meet the demands of the channel's target market.

EXAMPLE

A well-known food processor recently developed a high-quality prepared frozen entree to be sold in supermarkets and convenience stores. The channel objectives for this company were clearly stated.

"WE WANT THIS PRODUCT TO BE NO MORE THAN A TEN-MINUTE DRIVE FROM 75 PERCENT OF THE FULL-TIME WORKING WOMEN IN THE UNITED STATES. WE PLAN TO REACH THIS GOAL WITHIN 12 MONTHS OF OUR PRODUCT ROLL-OUT."

Levels of Distribution Intensity

Intensity Level	Objective	Number of Intermediaries
Intensive	Achieve mass market selling. Convenience goods.	Many
Selective	Work with selected intermediaries. Shopping and some specialty goods.	Several
Exclusive	Work with single intermediary. Specialty goods and industrial equipment.	One

Questions

Q1. What are the common channel objectives?

Q2. Give an example to describe how channel objective affects channel design?

LESSON 29
FUNCTION OF MARKETING CHANNEL

Learning Objective

- To understand distribution functions.
- Functions performed by Marketing channel.

In this lesson we will study the functions of marketing channel.

What is the Work of the Marketing Channel?

The work of the channel includes the performance of several marketing flows. We use the term flows rather than functions or activities to emphasize that these processes often flow through the channel, being done at different points in time by different channel members. In institutional settings, one often hears of the need to carry inventory; to generate demand through selling activities; to physically distribute product; to engage in after-sales service; and to extend credit to other channel members or to end-users.

Important flow that permeates all the value-added activities of the channel: the flow of information. Information can and does flow between every possible pair of channel members, in both routine and specialized ways. Retailers share information with their manufacturing suppliers about sales trends and patterns through electronic data interchange relationships; when used properly, this information can help better manage the costs of performing many of the classic flows (e.g., by improving sales forecasts, the channel can reduce total costs of physical possession through lower inventory holdings). So important is the information content that logistics managers call this the ability to "transform inventory into information." Manufacturers share product and salesmanship information with their distributors, independent sales representatives, and retailers, to improve the performance of the promotion flow by these intermediaries. Consumers can give preference information to the channel, improving the channel's ability to supply valued services. Clearly, producing and managing information well is at the core of developing distribution channel excellence.

In addition, not every channel member need participate in every flow. Indeed, specialization in the performance of channel flows is the hallmark of an efficiently operating channel. For example, a channel in which physical possession of product moves from the manufacturer to wholesalers to retailers and finally to end-users. But an alternate channel might involve not stocking wholesalers, but instead manufacturer's representatives, who generally do not participate in the physical possession or ownership flows because they do not handle physical product. In such a case, the physical possession flow might be performed by the manufacturer and retailer, but not by other intermediaries, on its way to the final end-user.

Similarly, financing may be spun off to a specialist and not be done by other channel members to any great degree. For example, the mission of Maruti Finance, a wholly owned subsidiary of Maruti Udyog a car maker, is to finance not only ultimate consumers of its automobiles but also the inventories held by dealers. It has worked to cement its key role as financing agent both by introducing innovations such as the 10-minute credit review. As long as Maruti Finance can handle the financing flow at lower cost than other channel members can, others (e.g., dealers) do not need to help consumers finance their automobile purchases.

In general, flows should be shared only among those channel members who can add value or reduce cost by bearing them. However, specialization increases interdependencies in channels, and thus creates the need for close cooperation and coordination in channel operations.

It is also important to note that the performance of certain flows is correlated with that of other flows. For instance, any time inventories are held by one member of the channel system, a financing operation is also underway. Thus, when a wholesaler or retailer takes title and assumes physical possession of a portion of a manufacturer's out-put, the intermediary is financing the manufacturer. This is consistent with the fact that the largest component of carrying cost is the cost of capital tied up when inventories are held in a dormant state that is, not moving toward final sale. Other carrying costs are obsolescence, depreciation, pilferage, breakage, storage, insurance, and taxes. If that intermediary did not have to tie up its funds in inventory holding costs, it would instead be able to invest in other profitable opportunities. Capital costs are thus the opportunity costs of holding inventory.

Channe is Perform Many Vital Distribution Functions

- Provide Distribution Efficiency
- Provide Salesmanship
- Help in Price Mechanism
- Look After a Part of Physical Distribution and Financing
- Provide Market Intelligence
- Assist in Merchandising
- Provide Market Intelligence
- Act as Change Agents and Generate Demand
- Take Care of the Flows Involved in Distribution

Provide Distribution Efficiency

In the first place, the channels bring 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 a 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, sub-distribution, 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.

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 allured 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.

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 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 price mechanism; assist in price negotiations • Assist in developing sales forecasts/sales plans 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 realise 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.

Channels/middlemen are no parasites: The problem arises due to a confusion in thinking. The firms concerned might be viewing channels as mere 'middlemen', with a negative connotation attached to the term. And, they might consider the channels as parasites. No wonder then, they think that they would be better off by dispensing with the channel, in part or full. It needs to be emphasised that channels/middlemen are no parasites. They are an essential and valuable part of the firm's marketing activity. Manufacturers use them as there is economic sense in doing so, and all things considered, using them improves distribution efficiency.

This is not to suggest that under no circumstances can a tier in the channel be eliminated and that there would be no advantage at all in doing so. In some cases, it certainly is sensible to eliminate one particular tier in the channel and the firm might be better off doing so. It has to be conceded that there are always alternative methods of performing a set of channel functions and a firm may be better off by following one method in preference to another. But, it depends on the circumstances of the case. The firm has to analyse and find out whether the concerned distribution functions are performed more cost-effectively by eliminating the tier and shifting the functions backward or forward to another tier in the channel, or by keeping the tier alive. As a general rule, it can be said that where the number of tiers are far too many, the elimination of a tier would be advantageous.

The test question: The test question is: Are the functions duplicated in a wasteful manner? Sometimes, duplication of channel functions does take place in a channel system; the same function being performed by more than one tier. Firms often presume that in such cases, it is beneficial to dispense with one of the tiers. This is again incorrect thinking. Duplication of functions by different tiers need not automatically imply inefficiency, or waste. In many cases, such duplication may be essential for achieving the desired service level in distribution. For example, inventories may have to be kept at different levels/tiers of the channel so that the flow of products is smooth and customers get the products at the time and place of their choice. In such cases, duplication is essential and beneficial. 'The firm, therefore, has to find out whether duplication is wasteful. If it serves the interests of the firm, it is not wasteful. So based on the facts of the case, the firm should find out how costs are reduced, efficiency increased and waste eliminated.

Channel Decisions have a Bearing on Other Marketing Decisions

The decisions on channel have a vital bearing on other decisions relating to marketing. Pricing decisions, for example, are related to the channel pattern adopted by the firm and the compensation paid to the channel. Similarly, decisions on sales force, its size, type, etc., depend on the nature and size of the marketing channel adopted. The channel pattern influences the pattern of salesmen's operations. It also determines to a significant measure the size and complexity of the marketing department of the firm.

Channel decisions usually bind the firm with long-term commitments. The channel types and the number of levels/ tiers in the channel cannot be changed every now and then. For example, once a firm has developed a marketing channel of its own, with company's own stock points performing the wholesaling/semi-wholesaling task, and dependence on external channel limited to retailing activity alone, it cannot all of a sudden switch to a sole-selling agent system or even a wholesaler-retailer system. Having invested heavily in company's own stock points/depots, the firm cannot suddenly extricate itself from the commitments already made. Basically; once a firm adopts a particular channel model and goes along with it for some time, exiting the model will be difficult.

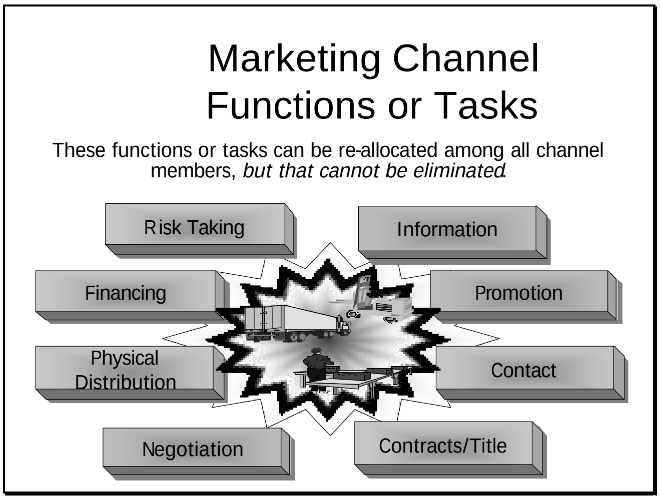
Channel 'Levels', Channel 'Members', and Channel 'Length'

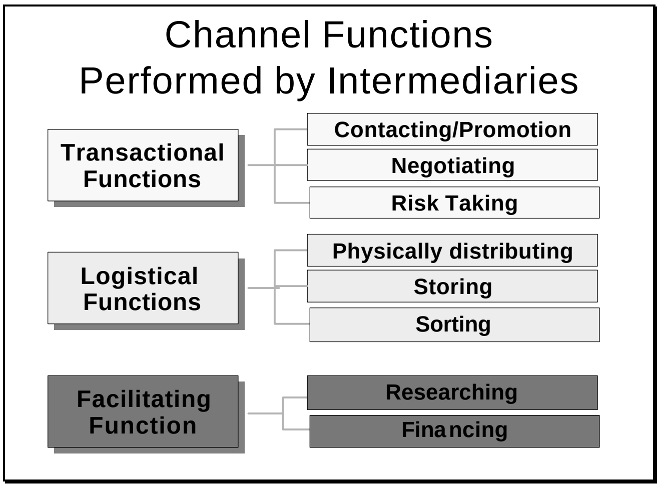
All marketing intermediaries do not operate at the same tier; they operate at different tiers. Each distinctive tier of intermediaries is referred to as a 'level' in the channel; and each link is referred to as a 'channel member'. The number of 'levels' determines the 'length' of the channel; the more the levels, longer is the channel. The number of 'members' does not deter- . mine the 'length' of the channel.

Conclusion

We have discussed that channels perform many vital distribution functions. They Provide Distribution Efficiency by bringing together manufacturer and user, Provide Salesmanship, Help in Price Mechanism, Look After a Part of Physical Distribution and Financing, Provide Market Intelligence, Assist in Merchandising by creating awareness about the product among customers, Provide Market Intelligence as they are in contact with the customers, Take Care of the Flows Involved in Distribution, Act as Change Agents and Generate Demand. The channel functions cannot be eliminated, though intermediary can be eliminated. For example wholesaler can be eliminated but functions will have to be transferred to a retailer.

Points to Ponder





Questions

Q1. How does channel provides distribution efficiency?

Q2. Discuss the channel functions.

Q3. How channel is important due to its functions?

LESSON 30
CHANNEL DESIGN

Learning Objective

To know the steps in channel design

- In channel design- segmentation
  positioning
  targeting
- To understand implementation of channel.

What is the best marketing channel for a particular product or service?

This question is well worth asking, given the great expense of establishing (or changing) marketing channel and the high cost of poor decision making in this area. The marketing channel challenge involves two major tasks: (1) to design the right channel and (2) to implement that design. The design step involves segmenting the market, identifying optimal positioning responses to segments' demands, targeting the segments on which to focus the channel's efforts, and establishing (in the absence of a preexisting channel) or refining (in the presence of a preexisting channel) the channels to manage in the marketplace. The implementation step requires an understanding of each channel member's sources of power and dependence, an understanding of the potential for channel conflict, and a resulting plan for creating an environment 'where the optimal channel design can be effectively executed on an ongoing basis. This outcome is called channel coordination.

Designing A Channel System

We have observed that a firm can take its product to the user in more ways than one. It can use different types of intermediaries; it can also structure its channel in different ways. For example, it can have a single-tier or a two-tier or a three-tier channel structure. It can reach different market segments with different channel arrangements or with the same channel arrangement. It can also use different channel arrangements for reaching a single market segment. The options are indeed many.

- How does the firm make the choice? How does it determine which one is the best?
- Should it go for own channels-company showrooms and depots-or prefer conventional intermediaries, i.e. the wholesale/retail trade? How many levels/tiers should there be in the chosen channel design. How many wholesale points should it have to ensure satisfactory market coverage? Where should they be located?
- How many retail points should it have? Which are the places where it should have them?
- What should be the relationship between the wholesalers and the retailers?

1. Formulating the Channel Objectives

Formulation of channel objectives is the first step in designing a channel system. The objectives clarify what is sought to be achieved by having the channels. All firms seek to realise certain common objectives by having the channel. In addition, they may also have some specific objectives depending on their unique circumstances.

Channel Objectives will Decide Channel Design

Channel objectives will determine the channel design the firm should adopt.

Objectives, Firms Commonly Seek from Channels

- Effective coverage of the target market.
- Efficient and cost-effective distribution.
- Ensuring that consumers incur minimum exertion in procuring the product.
- Helping the firm to carry on manufacturing uninterrupted, confident that the channels will take care of sales.
- Partnering the firm in financing and sub-distribution tasks.

Channel Objectives Differ from Firm to Firm; Consequently, their Channel Designs Differ

We see that often channel designs of firms differ from one another. Even within a given industry; different firms have different channel designs. This is so. because their channel objectives differ. Even in respect of those objectives, which are by and large common for all firms, we can see variations in emphasis from firm to firm. For example, intensity of market coverage sought from the channels and extent of convenience to be provided to the customer will vary from firm to firm. The weightages will flow from the marketing objectives of the respective firms.

Distinctive Characteristics of Industrial Products

• Buyers are few. • Size of at-a-time purchase is large. • Have high unit value.	• Purchased only once in a while, as their replacement rate is low. • They are complex, technical, and often as per buyers' specifications.

2. Identifying Channel Functions

Identification of the functions to be performed by the channel is the next step in designing channel system Channel design depends on the functions expected of the channel and that channel functions must be identified in the specific context of the firm in order to get practical direction in designing the channel system.

3. Linking Channel Design to Product Characteristics

Different products require different channel systems. The firm should analyse the characteristics of the product and choose the channel system that matches the product best. Consumer and industrial goods, for example, need different channels. And within the category of consumer goods, different sub-categories such as convenience goods, shopping goods and specialty goods may need different channel systems.

Industrial and Consumer Products Need Different Channels

Industrial and consumer products usually need different channels as they differ from each other in several vital respects.

Channels for Industrial Products

Industrial products need extensive pre-sale service (installation and commissioning service) and post-sale service (maintenance service).

Consumer products on the contrary, are mass products. non-technical and least most of them are of a low unit value; they are regularly consumed and replaced; and require nil or limited after-sale service. It is in view of these differences that the two can need different channel systems.

Only Some Industrial Products are Amenable for Selling Through Channels

First of all, among industrial products, only some are amenable for selling through channels. The firm should check whether its items are appropriate for selling through channels / distributors. And, if the answer is 'yes', it must find out which type of distributors will be appropriate for the items under consideration.

Chart below presents some useful guidelines for testing the amenability of a given industrial product for marketing through channels/distributors.

Industrial Products: Amenability for Marketing Through Channels	
• Only some industrial products lend for selling through channels. • The product must have a sizeable customer base. • It must be a reasonably standard item, not a totally custom-made item.	• It must be a stackable item. • The unit value of the product should not be too high. • In any case, industrial products need specialist distributors.

Need for specialist distributors: the firm finds that a given industrial product lends itself for marketing through channels; the firm may proceed to select an appropriate channel. It must remember that:

i. industrial products as a general rule require specialist distributors. Entrusting the products with the traditional consumer product distributors does not bring in the best results.
ii. different industrial products need different types of distributors.

For example, some industrial products have to be demonstrated to the customers. Here, specialist distributors with the required demonstration facility will be more suitable. Some industrial products are hazardous from the point of view of distribution. Petroleum products, explosives and certain industrial chemicals are examples of this category these products need specialised distributors, who command specialised transportation and storage facilities. Similar is the case of products that require extensive servicing. They need specialist distributors, who command the required service facilities.

Even within Consumer Products, Channel Requirements of Different Products may Vary

We come across three distinct categories of products within consumer goods-viz., (i) convenience goods, (ii) shopping goods, and (iii) speciality goods. We have seen that the different categories of goods require different channel systems, since buying behaviour and buying habits differ, depending on the category Convenience goods require intensive market coverage and, therefore, need a comprehensive and high penetration channel arrangement. Shopping goods and speciality goods need lesser intensity of coverage, compared to convenience goods. Often, in these cases, the number of tiers in the channel can be less than those for convenience goods. The number of outlets too can be far lesser. In the matter of location of the outlets too, the requirements will be different in respect of convenience goods on the one hand, and for shopping and specialty goods, on the other. Obviously, there is a need for product-channel matching. .

The Product's PLC Stage too Influences Channel Choice

We have seen that the concept of PLC helps product management. PLC also helps channel management. Different channels fit different stages of PLC.

A product in the introduction stage will be relatively unknown to the market; its customer base small; and its sales volume low. At this stage, it may be advantageous to sell the product directly to the customer, dispensing with the channels. Such a move will enable the manufacturer to get direct market feedback on the new product and thereby improve the product as required. Alternatively, a specilised channel could be used in this stage. A specialised distributor will be in a better position to introduce the product in the market and also provide the required technical support to the user.

When the product moves into the growth and maturity stages, the requirements of distribution will be different. In these stages, the product is almost an off-the-shelf item. Now, convenience in delivery and price competitiveness are more important factors. Therefore, conventional/general purpose distributors would be more suitable. Producers usually appoint a number of general purpose distributors at this stage and also make more and more territories non-exclusive. Some pushing becomes necessary at this stage and conventional market channels admirably suit this requirement.

In the decline stage in the PLC, the market for the product usually gets reduced to select groups of customers and it may be advantageous to revert back to direct marketing to customers at this stage. Alternatively, the firm may serve the select groups of customers through a minimal use of middlemen.

Product Influences Type and Number of Channel Members as well

Product characteristics influence not merely the channel design to be opted for; they often influence even the type and number of intermediaries needed. For example, for textiles or shoes, franchisees, who can run showrooms, may be an effective type of intermediary. For a product like detergents, conventional wholesaler-retailer arrangement may be the appropriate one.

4. Evaluation of the Distribution Environment

While selecting the channel design, the firm should also take into account the distribution environment obtaining in the country/territory. It should evaluate the vital features of the distribution environment and ensure that the proposed channel design is compatible with them. Distribution environment in the broader sense includes the trade related legal environment as well. A mention about the legal environment relating to marketing and trade matters has been made in the chapter on The Marketing Environment. The legal implications of channel design must be carefully examined before taking a final decision.

5. Evaluation of Competitor's Channel Designs

The firm should also study the competitor's channel patterns before deciding its channel design. While the firm may not necessarily follow the competitors in channel design, it should analyse the plus and minus of the channel patterns adopted by each of its major competitors. Quite a number of firms do settle down for a 'follow the leader' policy in channel design. They find it an easy route. But such an approach may deprive them of the chance to score an edge over competition through the channel strategy.

6. Matching the Channel Design to Company Resources

Choice of channel is also governed by the resources available with the organisation.

Firms with limited resources settle for conventional channels: Firms with limited resources and small volume of business will normally find it difficult and uneconomical to opt, for own channels. For such firms, establishing branch show-rooms/depots/retail outlets of their own will result in a high unit cost of distribution, which they cannot afford. They are better off by depending on conventional channels. In fact, they are usually content with a small network of conventional intermediaries.

Firms with larger resources have more options: Firms with larger resources and larger marketing operations can go in for varied distribution channels. In fact, in India, in several businesses, firms which are strong in resources, usually operate two parallel channels, one reaching out to the customer through company depots and showrooms, and the other through conventional intermediaries. The textile business is a good example of this phenomenon. Firms like Reliance Industries, Bombay Dyeing, DCM and Mafatlals, have all gone in for such a two-pronged channel design. In some cases, however, even large firms prefer a distribution arrangement wherein they will not be required to pump in much of their resources. They are content with entrusting their distribution job to some distribution houses, appointing them either as the sole-selling agent or as marketers. Many manufacturers of pharmaceuticals, machine tools, agricultural equipment, electric motors and household appliances have adopted this route.

7. 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.

Keeping the System Flexible

The physical distribution system should also be kept flexible. Marketing is never static. Thus, in keeping with the dynamic nature of marketing, the physical distribution system should remain, flexible. At the same time, flexibility has an associated cost. Often, that is why, issue of economy vs. flexibility is raised while designing a physical distribution system. Even at the cost of economy; some flexibility must be retained. It would come to the help of the firm in the future.

Why do we need to segment, position and target in channel design?

Channel Design: Segmentation

One of the fundamental principles of marketing is the segmentation of the market. Segmentation means the splitting, of a market into groups of end-users who are (1) maximally similar within each group and (2) maximally different between groups. But maximally similar or maximally different based on what criterion? For the channel manager, segments are best defined on the basis of demands for the outputs of the marketing channel. A marketing channel is more than just a conduit for product; it is also a means of adding value to the product marketed through it. In this sense, the marketing channel can be viewed as another "production line" engaged in producing not the product itself that is sold, but the ancillary services that define how the product is sold. These value added services created by channel members and consumed by end-users along with the product purchased are called service outputs. Service outputs include (but may not be limited to) bulk-breaking, spatial convenience, waiting and delivery time, and assortment and variety.

End-users (be they final consumers or business buyers) have varying demands for these service outputs. Consider, for example, two different soft drink buyers: an office employee at work, looking for a soft drink during her afternoon coffee break, and a family buying for at-home consumption. Table below outlines the differences in service output demands between the two segments of buyers. The office employee has high demands for all service outputs except assortment and variety (for which her demand is moderate, implying willingness to brand switch within reason), whereas the family has the opposite pattern of service output demands. Clearly, a different marketing channel meets the needs of these two segments of shoppers. The office employee cannot travel to a grocery store to buy a can of soda during her break, nor does she want to buy a six-pack or more of cans of soft drinks. She is willing to pay a slightly higher price for the convenience of getting just a single can of soda close to her office. A vending machine would be an ideal retail outlet for her. The family, on the other hand, would not find the vending machine an attractive retail purchase alternative. The family's demand for assortment and variety may not be met by a vending machine, and other service outputs are offered at too high a level, resulting in a higher per-unit price than the family wants (or needs) to pay. A local super market does a better job of meeting the family's service output demands for soft drinks. This example shows how the same product can be demanded with a widely varying set of service outputs, resulting in very different demands for the product-plus service-output bundle by different segments of end-users. An analysis of service output demands by segment is thus an important input into a manufacturer's marketing plan, and can help increase the reach and marketability of a good product to multiple market segments.

Understanding market demands also requires an understanding of the market's environmental characteristics and constraints. A market with limited infrastructural

Service Output Demand Differences (an example of segmentation in the soft drink market)

	FAMILY		OFFICE EMPLOYEE	
SERVICE OUTPUT	DESCRIPTOR	SERVICE OUTPUT DEMAND LEVEL	DESCRIPTOR	SERVICE OUTPUT DEMAND LEVEL
Bulk breaking	"I buy groceries weekly for my family, and all of us like soft drinks."	Low	"I'm on my coffee break and I have time for only one can of soft drink."	High
Spatial convenience	"I drive to the supermarkets in my area to shop."	Low	"I have only 15 minutes for my break, so I need to buy whatever is handy."	High
Waiting and delivery time	"We usually have some extra cans of soft drinks in the house, so I'll just come back the next time if I can't find the soft drinks I want on this trip."	Low	"If I don't get my soft drink right "at 3:00 when my break starts, I'll never have a chance to go back later arid get one."	High
Assortment and variety	"My husband and I like Coke and Pepsi, but our kids aren't permitted to drink caffeinated soft drinks. They like caffeine free fruit-flavored soft drinks."	High	"I can't be too particular about which soft drink I pick. It's important to me to get one, as long as it has caffeine."	Moderate

development, for instance, will usually be characterized by consumers with high demands for service outputs such as: 1) spatial convenience (because the consumers cannot travel very easily to remote retail locations), 2) minimal waiting time for good (because consumers will not have sufficiently high disposable income to keep backup stocks" of goods at their homes in case of retail stock outs), and 3) bulk-breaking (again because, with low disposable incomes, consumers cannot afford to buy large lot sizes of goods, even if doing so would mean a lower price per unit). An example of the impact of these constraints on consumer purchasing is the market for Wrigley's chewing gum in the People's Republic of China: Individual packs of gum are sold through many small kiosks and stalls in local marketplaces after traveling a circuitous (and high-cost) route through the countryside. If Wrigley's is to sell to Chinese consumers, it must recognize their high service output demands in order to construct a marketing channel to meet those demands.

Channel Design: Positioning

When the market has been segmented into groups of end-users, each of which can be described by a set of service output demands, the channel manager should next define the optimal channel to serve each segment. We call this exercise positioning or configuring the channel (positioning to parallel the segmentation-targeting-positioning paradigm in marketing management). Just as positioning a product means setting its product attributes, price, and promotional mix to best fit the demands of a particular segment, so also positioning refers to the design of the distribution channel to meet the segment's demands. This exercise should be done, even if the channel ends up not selling to some of the segments in the end. The channel analyst may then discover that some segments simply do not make good targets because their demands cannot be adequately met with the channel's current resources. Alternatively, the positioning exercise may reveal some unexpectedly attractive segments to target. Unless the optimal channel is defined for each segment, it is impossible to make a thorough decision about what segments to target.

The optimal channel is defined first and foremost by the necessary channel flows that must be performed in order to generate the specific segment's service output demands. Channel flows are all the activities of the channel that add value to the end user. In enumerating the list of channel flows, we go beyond the concept of the mere handling of the product to include issues of promotion, negotiation, financing, ordering and payment. For instance, our office employee looking for a soft drink on her coffee break (see Above Table) has a high demand for spatial convenience and minimal tolerance for out-of-stock product. This means that the channel How of physical possession (the physical holding of inventory) takes on great importance for such end-users. Each product or service-selling situation can have its unique set of service output demands by segment, implying that the differential importance of different sets of channel flows depends on the segment.

Further, the channel analyst must identify the optimal-channel structure to produce the necessary channel flows, which themselves, of course, result in the generation of the required service outputs that are demanded by a particular segment of end-users in the market. The design of the channel structure involves two main elements. First, the channel designer must decide who are to be the members of the channel. For example, will a consumer packaged-goods manufacturer sell its grocery products through small independent retailers with in-city locations, or through large chain stores that operate discount warehouse stores? Or will it use an outlet such as Indiangrocer.com, an on-line seller of Indian' food and household products that operates no retail stores at all? Moving up the channel from the retail level, decisions must be made whether to use independent distributors, independent sales representative companies (called "reps" or "rep firms"), independent trucking companies, financing companies, export management companies, and any of a whole host of other possible independent distribution channel members that could be incorporated into the channel design.

Beyond this decision, the channel manager must also decide the exact identity of the channel partner to use at each level of the channel. For example, if it is deemed advisable to sell a line of fine watches through retail stores, should the outlets chosen be more upscale, such as Tiffany's, or should they are family-owned local jewelers? The choice can have implications both for the efficiency with which the channel is run and the image connoted by distributing through a particular kind of retailer. In a different context, if a company seeks distribution for its products in a foreign market, the key decision may be which distributor is appointed to carry the product line into the overseas market. The right distributor may have much better relationships with local channel partners in the target market and can significantly affect the success of the foreign market entry.

The other main element of the channel structure is the decision of how many of each type of channel member will be in the channel. This is the channel intensity decision. In particular, should the channel for a consumer good include many retail outlets (intensive distribution), just a few (selective distribution), or only one (exclusive distribution) in a given market area? The answer to this question depends both on efficiency and on implementation factors. More intensive distribution may make the product more easily available to all target end-users, but may create conflict among the retailers competing to sell it.

The channel structure decisions of types, identity, and intensity of channel members all should be made with the minimization of channel flow costs in mind. That is, each channel member is allocated a set of channel flows to perform, and ideally the allocation of activities results in the reliable performance of all channel flows at minimum total cost. This is a nontrivial task, particularly because it involves comparing activities across different companies who are members of the channel. Intuitively, an activity-based costing (or ABC) sort of analysis is useful to establish the best allocation of channel flows

This exercise results in one channel profile for each segment that is identified in the market segmentation stage of the exercise. Each of these channel profiles is called a zero-based channel, because it is designed from a zero base of operations that is, as if no preexisting channel exists in the market. The concept of a zero-based channel means (1) that the segment's service output demands are met and (2) that they are met at minimum total channel cost.

Channel Design: Targeting

At this stage of the analysis, the channel manager is equipped to decide what segments to target. Note carefully that this also means that the channel manager is now equipped to decide what segments not to target! Knowing what segments to ignore in one's channel design and management efforts is very important, because it keeps the channel focused on the key segments from which it plans to reap profitable sales.

Why not target all the segments identified in the segmentation and positioning analyses? The answer requires the channel manager to look at the internal and external environment facing the channel. Internally, managerial bounds may constrain the channel manager from implementing the zero-based channel. For example, top management of a manufacturing firm may be unwilling to allocate funds to build a series of regional warehouses that would be necessary to provide spatial convenience in a particular market situation. Externally, both environmental bounds and competitive benchmarks may suggest some segments as higher priority than others. For example, legal practices can constrain channel design and hence targeting decisions. Many countries restrict the opening of large mass-merchandise stores in urban areas, to protect small shopkeepers whose sales would be threatened by larger retailers. Such legal restrictions can lead to a channel design that does not appropriately meet the target segment's service output demands, and may cause a channel manager to avoid targeting that segment entirely.

Of course, the corollary of this statement is that when superior competitive offerings do not exist to serve a particular segment's demands for service outputs, the channel manager may recognize an unexploited market opportunity and create a new channel to serve that underserved segment. Meeting previously unmet service output demands can be a powerful competitive strategy for building loyal and profitable consumer bases in a marketplace. But these strategies can best be identified with knowledge of what consumers want to buy, and importantly, how they want to buy it, and the necessary response in terms of channel flow performance and channel structure.

We have now identified a subset of the market's segments that the channel plans on targeting, using the segmentation and positioning insights derived earlier.

Channel Design: Establish New Channels or Refine Existing Channels

Now, the channel manager has identified the 'optimal way to reach each targeted segment in the market, and has also identified the bounds that might prevent the channel from implementing. the zero-based channel design in the market. If no channel exists currently in the market for this segment, the channel manager should now establish the channel design that comes the closest to meeting the target market's demands for, service outputs, subject to the environmental and managerial bounds constraining the design.

If there is a preexisting channel in place in the market, however, the channel manager should now perform a gap analysis. The differences between the zero-based and actual channels on the demand and supply sides constitute gaps in the channel design. Gaps can exist on the demand side or on the supply side.

On the demand side, gaps mean that the service output demands is not being appropriately met by the channel. The service output in question may be either undersupplied or oversupplied. The problem is obvious in the case of undersupply: The target segment is likely to be dissatisfied because end-users would prefer more service than they are getting. The problem is more subtle in the case of oversupply. Here, target end-users are getting all the service they desire-and then some. The problem is that service is costly to supply, and therefore, supplying too much of it leads to higher prices than the target end-users are likely to be willing to pay. Clearly, more than one service output may be a problem, in which case several gaps may need attention.

On the supply side, gaps mean that at least one. flow in the channel of distribution is carried out at too high a cost. This not only wastes channel profit margins, but can result in higher prices than the target market is willing to pay, leading to reductions in sales and market share. Supply-side gaps can result from a lack of up-to-date expertise in channel now management or simply from waste in the channel The challenge in closing a supply-side gap is to reduce cost without dangerous])' reducing the service outputs being supplied to target end-users.

When gaps are identified on the demand or supply sides, several strategies are available for closing the gaps. But once a channel is already in place, it may be very difficult and costly to close these gaps. This suggests the strategic importance of initial channel design. If the channel is initially designed in a haphazard manner, channel members may have to live with a suboptimal channel later on, even after recognizing channel gaps and making best efforts to close them.

Channel Implementation: Identifying Power Sources

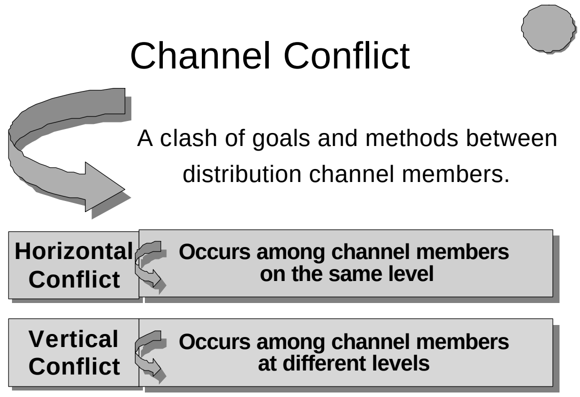
Assuming that a good channel design is in place in the market, the channel-manager's job is still not done. The channel members now must implement the optimal channel design and indeed must continue to implement an optimal design through time. The value of doing so might seem to be self-evident, but it is important to remember that a channel is made up of multiple interdependent entities (companies, agents, individuals). But they mayor ma)' not all have the same incentives to implement the optimal channel design.

Incompatible incentives among channel members would not be a problem if they were not dependent upon each other. But by the very nature of the distribution channel structure and design, specific channel members are likely to specialize in particular activities and flows in the channel. If all channel members do not perform appropriately, the entire channel effort suffers. For example, even if everything else is in place, a poorly performing transportation system that results in late deliveries (or no deliveries) of product to retail stores prevents the channel from succeeding in selling the product. The same type of statement could be made about the performance of any channel member doing any of the flows in the channel Thus, it is apparent that inducing all of the channel members to implement the channel design appropriately is critical.

How, then, can a channel captain implement the optimal channel design, in the face of interdependence among channel partners, not all of whom have the incentive to cooperate in the performance of their designated channel flows? The answer lies in the possession and use of channel power. A channel member's power "is its ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution." These sources of channel power can of course be used to further one channel member's individual ends. But if channel power is used instead to influence channel members to do t_ jobs that the optimal channel design specifies that they do, the result will be a channel that more closely delivers demanded service outputs, at a lower cost.

Channel Implementation: Identifying Channel Conflicts

Channel conflict is generated when one channel member's actions prevent the channel from achieving its goals. Channel conflict is both common and dangerous to the success of distribution efforts. Given the interdependence of all channel members, anyone member's actions have an influence on the total success of the channel effort, and thus can harm total channel performance



Channel conflict can stem from differences between channel members' goals and objectives (goal conflict), from disagreements over the domain of action and responsibility in the channel (domain conflict), and from differences in perceptions of the marketplace (perceptual conflict). These conflicts directly cause a channel member to fail to perform the flows that the optimal channel design specifies for them, and thus inhibit total channel performance. The management problem is twofold. First, the channel manager needs to be able to identify the sources of channel conflict, and in particular, to differentiate between poor channel design and poor performance due to channel conflict. Second, the channel manager must decide on the action to take (if any) to manage and reduce the channel conflicts that have been identified.

In general, channel conflict reduction is accomplished through the application of one or more sources of channel power. For example, a manufacturer may identify a conflict in its independent-distributor channel: The distributorship is exerting too little sales effort on behalf of the manufacturer's product line and therefore sales of the product are suffering. Analysis might reveal that the effort level is low because the distributorship makes more profit from selling a competitor's product than from selling this manufacturers product. There is thus a goal conflict. The manufacturer's goal is the maximization of profit over its own product line, but the distributorship's goal is the maximization of profit over all of the products that it sells-only some of which come from this particular manufacturer. To resolve the goal conflict, the manufacturer might use one of the following strategies:

1. It might use some of its power to reward the distributor by increasing the distributor's discount, thus increasing the profit margin it can make on the manufacturer's product line. Or
2. the manufacturer may invest in developing brand equity and thus pull the product through the channel. In that case, its brand power induces the distributor to sell the product more aggressively because the sales potential for the product has risen.

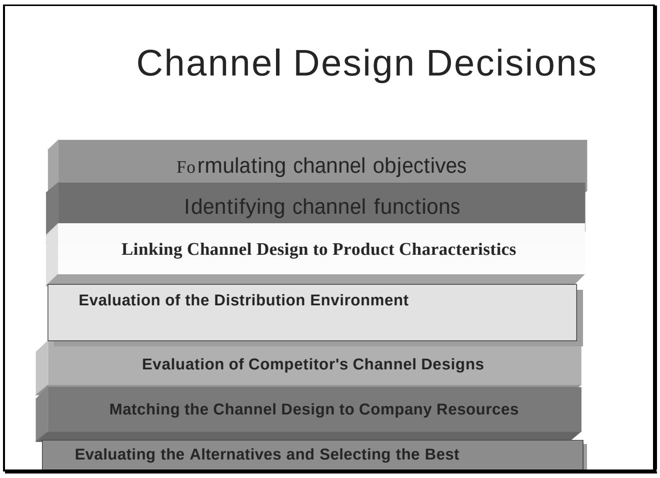
In both cases, some sort of leverage or power on the part of the manufacturer is necessary to change the distributor's behavior and thus reduce the channel conflict.

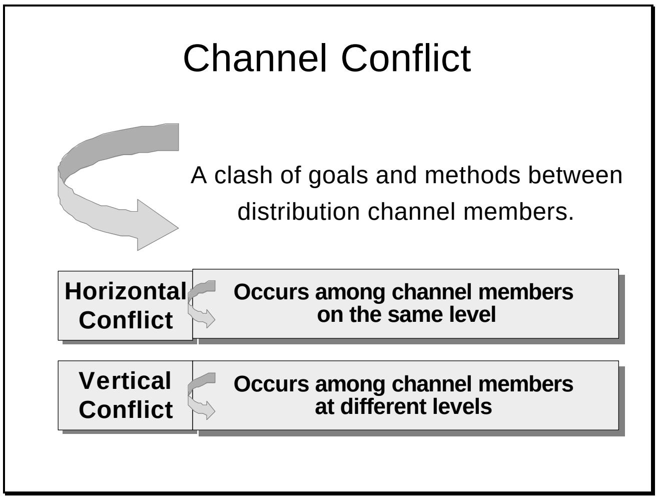
Channel Implementation: The Goal of Channel Coordination

Now channel has been designed with target end-user segments' service output demands in mind, and channel power will be appropriately applied to ensure the smooth implementation of the optimal channel design. When the disparate members of the channel are brought together to advance the goals of the channel rather than their own independent (and likely conflicting) goals, the channel is said to be coordinated. This term is used to denote both the coordination of interests and actions among the channel members who produce the outputs of the marketing channel, sand the coordination of performance of channel flows with the production of the service' outputs demanded by target end-users. This is the end goal of the entire channel management process. As conditions change in the marketplace, the channel's design and implementation may need to respond; thus, channel coordination is not a one-time achievement, but an ongoing process of analysis and response to the market, the competition, and the abilities of the members of the channel.

Notes -

Points to Ponder





Questions

Q1. What are the steps in channel design?

Q2. How does product life cycle influence channel choice?

Q3. What do you mean by segmentation, positioning and targeting in channel design?

Q4. How do you refine existing channel?

Q5. How is channel conflict managed?

LESSON 31
SELECTION OF APPROPRIATE CHANNELS

Learning Objective

- To know how environmental factors affect channel selection.
- SWOT Analysis of company for channel selection
- To understand dealer selection process.

Let us study the environmental factors which will affect channel selection.

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)
- World-wide 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)

Economic Environment

This changes in the following areas:

- Obsolescence of all past theories
- Irrelevance of past extrapolation
- World-wide 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 world-wide

Social Environment

Changes occur in:

- Collapse of tradition and structures
- New education, new expectations, new motivations.
- New life styles, 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 equalisation
- 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.

General Impact of Environmental Changes on Business

Coping with the changing environment is already a difficult task; the difficulty appears larger when it is realised 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 characterise 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 industrialised 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.

I. 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.

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 Channels

Product Factors

Four product variables must be weighed in channel selection.

I. Physical nature: the variations that influence the decision are:
   a. Perishability 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;
   c. Installation is needed or
   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 buyer-seller 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 modelling 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:

1. The product line from manufacturer to end-user
2. The flow of ownership from member to member
3. The cash flow as payments are made by one member to another
4. The exchange of information between channel members
5. The advertising and sales promotion directed by channel members towards other members or end-users.

Now we will study how a dealer is selected?

Qualifications/Attributes to be Looked for in Prospective Dealers

Qualifications/ Attributes to be Looked for in Prospective Dealers	
• Business reputation/standing • Business capacity • 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.

Qualifications/Attributes to be Looked for

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 specialised 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. Cited below are a few effective 'dealer wanted' ads.

Nanz 'Dealer wanted' Ad	
An Invitation to be a NANZ franchisee	
Open your own NANZ Lobill Store for the customers in your area, if you have… Premises with an area of 1,000 sq. ft or more in a well-located commercial market near a residential complex of potential customers (ground floor preferred). Your business standards are high and you have the motivation and ambition to recognize the growing potential of retailing.	If you are financially strong and ready for financial investments upwards of Rs. 25 lakh. Franchisees of leading petrol/service stations who are willing to add on convenience stores of an area of about 1000 sq.ft. are also invited to apply. Parking space for vehicles preferred.

The Nanz ad: The Nanz ad is another example. The Nanz Lobill chain stores were to be run by franchisees. The approach of Escorts-Nanz in this regard could be understood from the ads put out by them towards locating prospective franchisees.

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 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 vs efficiency 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.

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
- The appropriate variant within the design

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 authorised 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. Below table shows how choosing channel intensity wrongly landed P & G and Nestle in trouble.

Levels of Distribution Intensity

Intensity Level	Objective	Number of Intermediaries
Intensive	Achieve mass market selling. Convenience goods.	Many
Selective	Work with selected intermediaries. Shopping and some specialty goods.	Several
Exclusive	Work with single intermediary. Specialty goods and industrial equipment.	One

Wrong Choice of Channel Intensity : P & G and Nestle

P & G, Nestle and HLL are FMCG companies operating in India. P & G and Nestle thought that it would be appropriate for them to follow the HLL channel model. It was only after losing some precious money and time that they realised that they neither needed no could afford channel intensity on the HLL pattern.

HLL maintains a channel consisting of over a million retail points and 7,500 distributors, the largest in the country. The arrangement has suited HLL very well.

HLL has a large basket of products and brands covering every possible price/ demographic/geographic segment. At the last count, it had over 110 actively selling brands. HLL's marketing channel has to naturally cover every income group and every geographical segment in the country. And HLL has an annual sales turnover of over Rs. 10,000 crore.

P & G and Nestle were different from HLL in all these respects.

Moreover, the HLL model comes with its associated costs. Setting up marketing networks in rural areas and small towns takes both time and money. HLL had incurred the associated investment and had absorbed a dent on its bottomline on this account over the past several years, and it is not affected currently by this strategy.

After learning the lessons the hard way, P & G decided to forget the HLL model and drastically downsized its distribution.

It now confined itself to Class I and Class II towns, and exited practically all rural areas. Only for some select products like Vicks Action-500, it continued its distribution in rural areas.

It also reduced the number of pack sizes in which it offered its products as another measure towards reducing distribution costs.

Nestle too decided to move away from the HLL model. Earlier, embracing the HLL model, it had gone in for high channel-intensity. For example, between 1993and 1996, Nestle had added on 350,00 retail points to its distribution network in India, the bulk of them in smaller towns and rural areas.

As its sales were nowhere near the HLL level, it could not sustain the channel intensity. It reduced it considerably. It also compressed its product mix and product line. It now concentrated on products in which it was traditionally strong—milk products and beverages—and weeded out the low-profit products from the portfolio.

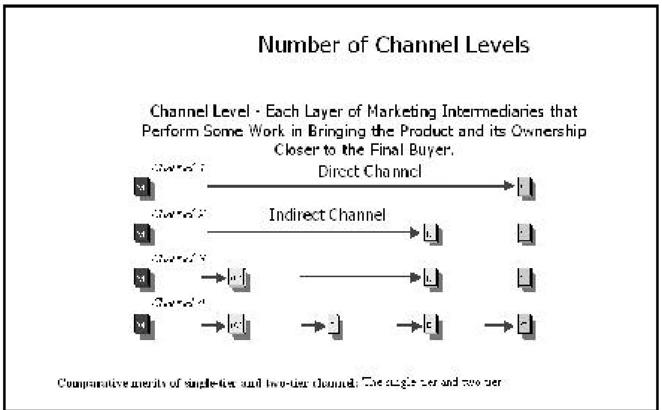
It also went in for tighter market targeting and limited its attention to urban population. In fact, it limited its focus to roughly half of the urban population.

With these moves, it could reduce the cost of servicing the channel. Its new policy was to be on perpetual guard in the matter of channel intensity, limiting it to the level warranted by its sales and profits—present and planned.

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 on to 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.

Exiting an Established Channel Structure is Difficult: P&G Example

As mentioned earlier, P&G had embraced a highly intensive, two-tier channel structure in India. It was more or less akin to the channel structure of HLL.

Over the year, it become clear to P & G that it did not need such a structure, as in business growth and pattern of sale, it differed from HLL. P & G then went in for a reorganisation of the channel set-up. It has to face several problems.

P & G had earlier gone in for nearly 200 stockists and 4,000 dealers all over the country. But sales had remained limited. A large number of the stockists and dealers were not notching up enough sales. In other words, P & G's channel productivity had become low. The company was incurring a disproportionately large cost on channel . Moreover, the company's sales were coming primarily from the urban market, as this market alone was willing to pay the premium price, which P & G normally charged for its Products.

P & G then downsized and revamped its channel structure, drastically pruning the number of stockists. In the revised scheme, it appointed state-wise sole distributors and derecognised more than 150 ongoing stockists in the bargain. At the retail level too, thousands of dealers became a casualty.

P & G also went in for the ECP (efficient consumer response) approach. ECP focuses on containing costs and improving bottomlines. In the ECP approach, stocks are replenished at the retail shop at more frequent intervals. This enables the retailers to operate with smaller inventories. And consequently, a cut in retailer's margin would be in order.

P & G drastically cut the trade margins on its best selling products. It cut stockist margin from 10 to 3 per cent and retailer margin from 12 to 8 per cent.

P & G did inform the stockists beforehand about the new scheme. But, many stockists had set up a lot of infrastructure over the past two decades, much of its specifically for marketing P & G products, and with the loss of P & G stockist role, they faced financial hardship. They went on a warpath. In a collective bargaining move, most of them banned P & G products. The retailers too, especially those in mofussil areas, went on a war-path and banned P & G products.

Source: Economic Times

So, the choice depends on the context. 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 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 stockists. Asian Paints, again, is an example. It chose, as a matter of conscious policy, a single-tier channel-going directly to the retail trade.

Selecting Appropriate Variant within a Given Design

Usually, within a given channel design different variants can be thought of. For example, firm I: A and firm B may opt for the same channel design consisting of conventional wholesalers and retailers. Still, their approaches within the model can vary from one another. Firm A may opt for a wholesaler-weighted system, while firm B for a retailer-weighted system. For example, Nirma Chemicals distributes Nirma soap with a wholesaler-weighted system. In contrast, HLL distributes its Lifebuoy in the same market through a retailer-weighted system. Nirma off-loads the product on the wholesalers at a larger discount; the retailers buy the product from the wholesalers. HLL reaches out directly to a large number of retailers, using wholesalers! C&F agents to the extent necessary:

The two variants have their associated advantages and disadvantages. For instance. the wholesaler-oriented system obviates the need for a large sales force, thereby resulting in considerable savings in related costs. But, brand building may suffer somewhat in that system. The firms have to study in detail the trade-off between the two approaches and have to see which one would best suit the firm.

An Eye on the Future is Essential

Once a channel structure is created and channel members are put in place and channel compensations are streamlined, it will be difficult for the firm to exit from that structure and put an alternative in its place. Therefore, as a general rule, an eye on the future is essential while adopting a channel system and structure. Exhibit illustrates this point with the ‘ example of P&G. The example clearly illustrates the difficulties involved in altering an ongoing channel structure.

One Unified System

We saw in the preceding chapter that for the optimisation of the physical distribution task, all elements of physical distribution/marketing logistics, such as transportation, warehousing and inventory management, must be handled as a single, unified system. In the same way. the firm has to handle wholesaling, retailing and other forms of selling as one unified system and not as separate entities. The linkage among them in terms of functions, costs and efficiency being quite strong, looking at them as independent entities will lead to sub-optimisation of the channel management task as a whole. Compensation provided to the different tiers has also to be properly intertwined, since the functions performed by the different tiers are inter. twined.

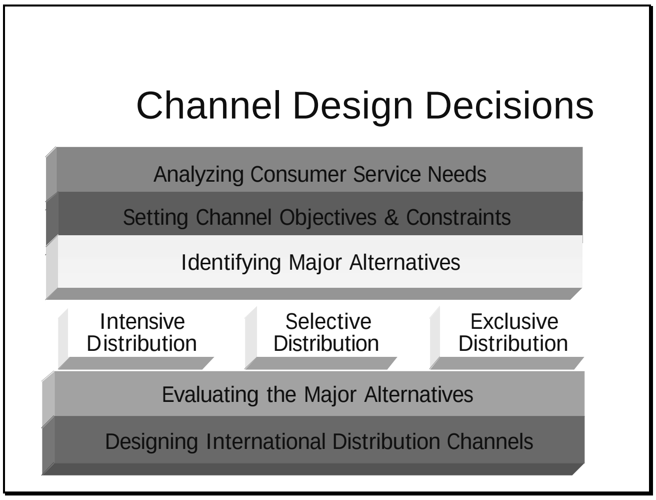
Building Channel System by Bottom-up Method

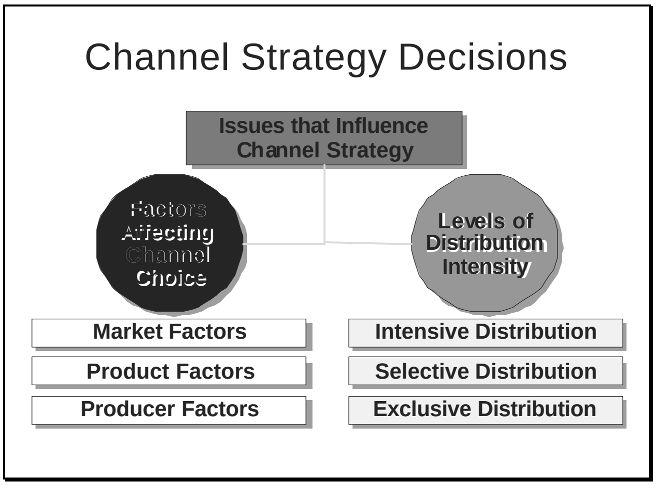
The purpose of having marketing channels is to serve customer needs effectively. This means that the prime task in channel design is to determine the type of retailers who are best suited to serve customer needs in the specific context and develop the distribution system by the bottom-up method. Once the type of retailers suited for the context is determined, the wholesaling arrangement that would best suit the chosen retail arrangement can be chosen and put in place.

Creating and Administering the Channel

Fixing the channel design is only one part of channel management. Creating the channel and administering it effectively is the other, and bulkier, part of the job. After deciding the design of the channel and the number of tiers in the channel, the firm has to decide the number of members needed in each tier and their locations. It has to select suitable persons establishments and appoint them as stockists, distributors and dealers, as the case may be. It has to administer them, service them and motivate them.

Points to Ponder





Levels of Distribution Intensity

Intensity Level	Objective	Number of Intermediaries
Intensive	Achieve mass market selling. Convenience goods.	Many
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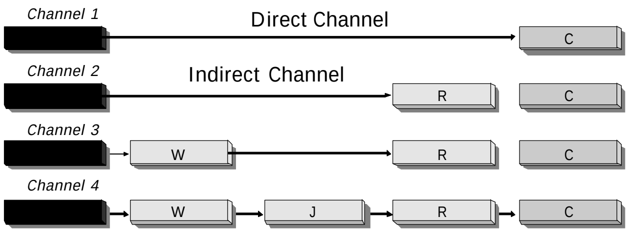
Exclusive	Work with single intermediary. Specialty goods and industrial equipment.	One

Number of Channel Levels
(Fig. 12.2, p. 434)

Channel Level - Each Layer of Marketing Intermediaries that Perform Some Work in Bringing the Product and its Ownership Closer to the Final Buyer.



Questions

Q1. What environmental factors affect channel selection?

Q2. Why should companies go for SWOT analysis for channel selection?

Q3. Describe how a dealer is selected?

LESSON 32
CHANNEL MANAGEMENT

Learning Objective

- How to manage the channel network
- To understand the trade relation mix
- To know how channel members are appraised
- To understand the need of channel member training

In this lesson let us study about how channel members are managed.

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.

Component Tasks in Managing the Intermediaries

The task of managing a distribution network has several components as shown in the below chart

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; even where territories are not exclusively assigned, an understanding is often worked out.

Chart – A Component Tasks in Managing the Network	
• 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 some times 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 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.

Hawkins Pressure Cookers

Let us understand this with an example of Hawkins pressure cookers. They gained market dominance by recasting the margin structure.

Hawkins Gains by Recasting Dealer Margins

Till the 1970s, Prestige pressure cooker, manufactured by the TTK group, was the leader in the Indian pressure cookers market, outselling Hawkins. Prestige had a strong distribution network.

Hawkins had in its favour a good product design. In spite of its superior product design, Hawkins' sales were much lower than that of Prestige, largely as a result of its distribution weakness.

The actual problem was that the retailers were getting only a small share of the total trade margin, while the sole distributor and the regional distributors were allowed to keep a large portion of the margin for themselves.

In the 1970s, Hawkins overtook Prestige and became the market leader. It attained a market share of 30 per cent as against Prestige's 21 per cent and United's 10.5 per cent. It was by streamlining the distribution and recasting the margin structure that Hawkins achieved the feat.

Till the 1970s, Hawkins was using Kellick-Nixon as the sole distributor for the product. It was paying Kellick-Nixon, 50 per cent of the list price as distribution margin. But, the latter was passing on just 17 per cent to the distributors, retaining 33 per cent for itself. The distributors in turn were passing on a mere 7 per cent to the retailers.

The actual costs to the sole distributor, Killick-Nixon, and the distributors amounted to just 2 to3 per cent. Yet, they were keeping a very high share of the margin for themselves, 33 per cent and 10 per cent, respectively. Against this, the retailers, who had to incur all major expenses on the distribution of the product—storage cost, cost of inventories, and cost of shop/personal—received only 7 per cent.

In the revamping exercise, as a first step, Hawkins dispensed with the sole-selling arrangement with Killick-Nixon and took the distribution responsibility into its own hands. Then, it recast the margin structure thoroughly.

It set up four regional distributors (subsequently, the number went up to 15) and increased their margins to 20 per cent. They were made to pass on 14 per cent to the retailers.

The doubling of the margin to the retailers played a substantial role in the increased sales and market share of Hawkins.

The company also introduced several trade promotion schemes to enlist the enthusiastic participation of the retailers in promoting the brand.

Functions Which channel has to Perform

They have to perform the following essential functions normally expected by their principals.

Functions are

- Help establish the brand in the market
- Help achieve the sales targets
- Provide adequate shelf space
- Provide merchandising support
- Provide service to consumers
- Make prompt payments
- Maintain fair trade practices
- Provide winning store image

Functions the Principals have to Perform

Building the Brand

Dealers always want their principals to provide them a winning brand. Discriminating dealers give far more emphasis to the firm's performance on the brand front rather than the trade margin offered by the firm. They hesitate to take dealership of weak brands even if they offer very attractive margins. And, they are happy to deal strong brands even if the margins offered are low.

Functions, the Principals have to Perform

- Supply quality products
- Build the brand and keep it a winner
- Regular, adequate and prompt supply of the product
- Effective servicing
- Advertising and sales promotion support

They overwhelmingly vote for products/brands that move from the shelf without any need for pushing. Likewise, they vote for products and brands that make their customers come back to their shops with enthusiasm. They also prefer products/brands that provide them volume margins rather than value margins. Dealers have to put in a lot of their time. Effort. shelf space and money on the various products that they deal in, and they certainly do not want to get stuck with a weak brand. In particular, when a company offers a new brand the dealers want to be sure that the company would continue with the brand and build it well.

Regular; Adequate and Prompt Supply

Regular supply of the product by the principal is another major concern of the dealer. If the firm is unable to supply the product regularly after he has pushed the brand with his customers, he not only loses face with them, but also runs the danger of losing out his other business.

Effective Servicing

We shall cover this point in the section on servicing and administering the dealer.

Advertising and Sales Promotion Support

Dealers also expect adequate advertising and sales promotion support from the principal, In particular, they expect good point of purchase promotion support. Such support. besides helping them to achieve higher sales, also serves as a good motivation.

Trade Relations Mix must Provide Satisfaction to both Dealer and Principal

The name of the game is to ensure that the trade relations mix provides satisfaction to the dealer as well as the principal. The firm must offer a viable business proposition to the dealer. That is the baseline, It must also remember that dealers act more as a purchasing agent for the consumers than as a selling agent for the principal. And, it must hence enthuse the dealers by supplying products/brands. which they would be happy to purchase on behalf of their customers.

Servicing and Administering the Dealers

Dealers expect effective servicing from the firm. Prompt supply of the product is one part of effective servicing. Prompt supply of the product helps the dealers not only to achieve larger sales. But also faster turnover and lower cost on inventory carrying. Technical support is the other part. Technical support must be forthcoming promptly from the firm wherever necessary. In any bazaar, one can see several cases of retailers switching their loyalty from one company to another purely on the basis of their servicing standard.

Effective servicing; example of Electrolux: In the white goods business, Electrolux has scored an edge through effective servicing of dealers. They have picked up one crucial aspect in servicing-replenishment of stocks-and have scored high. They have enabled their dealers to achieve larger sales and simultaneously reduce their inventor~ Now, they can draw their supplies from a ring of warehouses around the country and receive the stocks within 24 hours. Electrolux has actually reached a point where its dealers need not carry any inventory at all; the company delivers the products directly to the consumer, once the dealer enters the order on his computer, which is connected to company's stock points. Earlier, the dealers had to wait for two weeks or more; they had to carry heavy inventory; to avoid 'lost sales' due to 'stock outs'.

Regular visits by field force: Largely, the field sales force of the company/its C&F agents stockists provides dealer servicing. The dealers expect regular visits by the field sales force, so that seated in their shop they can have all their problems addressed. The dealers also expect to be kept updated on all vital matters relating to the business. This is possible only if the salesman visit the dealers regularly.

Securing Shelf Space and Merchandising Support from Dealers

Securing shelf space and merchandising support from dealers is another important aspect of dealer management. By enlisting the willing cooperation of the dealers in the merchandising effort, the firm derives multiple benefits. Effective merchandising accelerates the buying process as it serves as an on-the-spot reminder to the consumer to buy. A quick glance at the way in which the dealer aids/point of purchase promotion materials supplied by a firm are used in a retail shop, can help one judge the firm's dealer management.

In the contemporary Indian context, getting shelf space and merchandising and display support from the retail outlets is of special significance as competition among brands is fast building up at the retail level. For example, in CTV's s since a number of firms compete for the limited shelf space available at the retail shops, the ones who score in this matter enjoy an overall edge in marketing.

Even big firms and major brands have to fight for shelf space: With the growing competition and the explosion in branded FMCG products, the premium on shelf space has been going up steadily: The competition *for* grabbing shelf space usually becomes more intense during stagnant market conditions. Even big firms and well-known brands have to earn their shelf space and display the hard way; they are not in a position to demand it as a matter *of* right *from* the retailers. For example, some time back, even a firm like HLL was not in a position to demand *from* its retailers' shelf space and display arrangement *for* its internationally acclaimed brand Denim, by merely citing that it was a Lever product and an international brand. Nor could it get it by touting its bazaar power of a million retail outlets. The dealers wanted to be convinced about the consumer preference *for* the brand before he considered it *for* shelf space and display. Mter all, he now had the choice of a whole host of products brands with international affiliations and he could pick and choose the products/brands to which he would allot shelf space.

Many companies are now running special communication programmes with a view to acquainting retailers with their products and brands, and convincing them of the benefit that would accrue to them if they patronised them. Companies are also now forced to meet a major part of the expenses involved in display in the shops. In fact, they are even expected to meet the expenses of general decoration of the shops. ITC, *for* example, has been earmarking a substantial portion of its promotional budget to the decoration of retail outlets. The company now sets up at its cost special counters, which add considerable glamour to the shop and serve as point of sale advertising.

Today, in most companies, merchandising accounts *for* more than 15 per cent of the total marketing spend. Many companies are also devising their own quality control checks on merchandising fronts. Kellogg has about 20 staffers doing the rounds of the outlets once every fortnight. And, at Pepsi, the merchandising teams stir out every two or three months and, even more frequently during the peak season, carrying with them scissors, cello tapes, dusters, nails, board pins, hammers, thread and, of course, the usual POP material. They clean the bottles, dust the racks, put up new posters and rearrange the bottles so that the brand fails the customer.

Ensuring Right Store Image

The competitive edge a firm derives from its retailers extends far beyond shelf space, merchandising and display: The store can be a total communication tool for the company. We shall be discussing the communication role of marketing channels in detail in the chapter on Marketing Communications. Suffice to point out here that the retail points are not mere outlets form where the products flow out. They serve as communication tools as well. It is a fact that consumers patronise certain stores and discard certain others. The store image does the trick. Today, more and more companies are realising the communicative significance of the stile image and are concentrating their attention on the 'store image' of their retail shops.

It was mentioned earlier that in many businesses the marketing war is fought and won at the dealer level. Better servicing of the dealers, better communication and better motivation and training bring in superior dealer loyalty. And, with this loyalty, the firm can win markets. A firm enjoying superior dealer loyalty usually gets a bigger slice of the market.

It is aptly said that a wise firm gets a good band of dealers and good dealers settle down with a wise firm. And a wise firm is one that provides right motivation to its dealers.

Performance Appraisal of Channel Member

Appraisal of the performance of individual channel member is yet another important element of channel management. Performance appraisal must bring forth the strengths and weaknesses of the channel member. If the performance is below the desired level, remedial action must be taken promptly. The appraisal should specifically identify areas where improvement is called for.

The appraisal has to be based on pre-agreed standards of performance. Appraisal based solely on sales volume will be inadequate. The ranking done on this basis may not correctly reveal the contribution made by different channel member. The fact that channel member face varying environments in their sales operations should be taken into account while appraising their performance. A wider set of relevant criteria must be used in the appraisal. While the criteria may vary from company to company and product to product.

Performance appraisal is intended to serve as a means of improving the performance of channel member. In extreme cases, however, the appraisal may lead to the termination of the channel member. When termination is the only alternative, the firm should not hesitate to take that course.

Basically, all channel members are evaluated on the basis of whether they have met their assigned targets or not. Customer satisfaction surveys are also conducted to evaluate the quality oft service provided by the channel member.

Weaknesses Commonly Noticed in Networks

- The Network is inadequate size-wize
- The network is inadequate, qualitatively
- The network is not properly spread out.
- The interior markets are not covered properly
- A part of the network is inactive
- Quite a few links in the network are unviable
- The network is excessive for the task on hand

Review of the Dealer Network as a Whole

In addition to performance appraisal of individual dealers, the firm must also carry out periodic reviews of the dealer network as a whole. Removal of weaknesses in the network is the objective of such a review.

All such weaknesses must be overcome if the channel has to function as a vital instrument of marketing.

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 back- ground 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.

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-lnfotech: Wise firms follow a sound policy with regard to dealer conflicts. Wipro-lnfotech 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 de-motivates the smaller dealers. So, the company strictly enforces the sales territories. The scope for cannibalisation 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.

Conclusion

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 drop out. And, the inactive ones must be either activated or weeded out. Even when 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.

Notes -

Points to Ponder

Channel-Management Decisions

- Selecting Channel Members
- Appraisal of channel Member
- Training Channel Members

Functions, the Principals have to Perform

- Supply quality products
- Build the brand and keep it a winner
- Regular, adequate and prompt supply of the product
- Effective servicing
- Advertising and sales promotion support

Weaknesses Commonly Noticed in Networks

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Questions

Q1. What do you mean by trade margin?

Q2. What are the functions of principal?

Q3. Why is it necessary to train channel members?

Q4. How are channel members appraised?

LESSON 33
CHANNEL MOTIVATION

Learning Objective

- To understand the need of motivating channel members.
- To know about the motivational tools
- How to manage Agents and Distributors
- What are the elements of Dealer Motivation

In this lesson, we consider the important task of ensuring that the relationship is maintained at the desired level and that the motivation to pursue the common shared goals remains at the level necessary for both parties to succeed.

The Vision, Mission and Objectives

Channel objectives determine channel strategy. Making a major change in an established channel structure is difficult and often risky. Therefore it is desirable to set up the objectives properly in the first place. They should be dictated by the service level output which is desired by the ultimate consumer and the global vision and mission of the company in terms of long term return on investment, market share, absolute level of profits to be achieved and sales growth.

The specific objectives of any channel, apart from the global aspirations of the company, should be firmly based on the service outputs demanded by its customers. Different levels of these outputs may be required in different segments of the market and these need to be determined. The use of multiple channels catering for different segments of the market is common in marketing today.

Once the service levels are decided upon, then the market coverage has to be determined. This in turn determines the support which can be expected from the channel in the event of different coverage strategies. Here the company should also decide whether it needs to own the entire channel or parts of it and what the costs of full and part ownership are going to be in terms of possible consequences.

Three choices are possible: intensive, selective or exclusive distribution. It is worth mentioning in this context that they are all possible in case of vertical or non-vertical integration although the costs may be prohibitive in case of full ownership of a channel specializing in intensive distribution.

Intensive distribution is generally used for products which are frequently bought and which need to be easily available, like newspapers and sweets. Selective distribution is usual for products which buyers like to choose with some effort, e.g. clothing. This type of distribution can. range from expensive items which are almost exclusive, to items like cosmetics which are almost intensively distributed. Exclusive distribution implies a mutually dependent relationship between seller and re-seller and is used for large or expensive items such as farm machinery or very expensive clothes or jewellery.

It is appropriate to check and verify that the strategy adopted is in line with current circumstances when considering how to motivate a channel member. The channel structure and the type of distribution are also interdependent to some degree. A 'long' channel structure which possesses many intermediate wholesalers allows for greater spread and therefore more intensive distribution. Conversely, a 'short' structure has more direct channels and tends towards exclusive distribution.

It is obvious that the more intensive the distribution, the greater the sales in the short term. However, over a long term, adverse effects such as lower margins appear, followed by unwillingness on the part of the distributors to sell the product, consequent necessity of an increase in promotional efforts by the manufacturer and deterioration of the service levels. As a business executive once remarked 'you can take fifty years to build a brand and you can ruin it in three years through careless distribution'.

However, intensive distribution is successfully followed in the case of innumerable products through a well-formulated marketing programme which fulfils the requirements of distributors and consumers alike. The various factors should be carefully considered before deciding on a distribution strategy, in particular the relation between the products marketed and the last selling point for them.

Motivational Tools and Control Areas

The following means of persuasion are available to channel members to influence the decision-making or behaviour of others.

1. **Rewards:** If A possesses some resource which B wishes to obtain and B believes this can be obtained through confirming to A's wishes, this amounts to reward power. Specific rewards to channel members could include wider margins, granting of exclusive territories and various promotional allowances.
2. **Coercion:** This exists if B believes that A will punish anyone who does not conform to A's wishes. Coercion amounts to negative sanctions or punishment including reductions in margins, withdrawals of rewards granted earlier and slowing down of shipments. This brings less results over the long term than other tools and should therefore be considered as a last resort.
3. **Expertise:** This occurs when B perceives A to possess some special knowledge which would help B. Small retailers often rely heavily on their wholesalers for expert advice. However, once transferred, expertise is considerably reduced in power. If a business wishes to retain expertise over a long term, the following options are open to it:
    a. It can ration its advice to small portions and keep back sufficient vital knowledge so that the others remain dependent upon it. This could be detrimental to efficient working of the channel as every member should work up to its capacity for the channel to

function successfully. A member starved of vital information cannot do so.

b. A better though somewhat expensive option is to collect accurate information regarding market trends, threats and opportunities, and other ongoing matters which individual channel members would find difficult to obtain themselves. The benefits of this option can be high in terms of channel goal achievements.

c. Another way is for channel members to invest in specialized transaction expertise which is difficult to transfer to other products or services and so hinders the members from leaving the channel.

d. The ability of a channel member to acquire information which is necessary for another channel member to function efficiently confers power on the acquirer. For example, retailers hold a privileged position with respect to manufacturers because of their close customer contacts.

4. **Identification:** This occurs when B identifies with A or desires to do so. For example, given equal returns from two different dealerships, one may well choose that which one would like to identify with, perhaps the marc prestigious one. Here the company reputation or image confers an advantage on the business.

5. **Legitimacy:** Results from B feeling that A has the right to exercise power over them. This would be the case between workers and their supervisor, for example. In a channel relationship, such a power may be assigned to the largest firm. Or the retailers and industrial suppliers may believe that they have the power since they are in contract with the end-users and the others are not. However, the amount of power thus exerted is usually small.

In real life situations, all these powers are used simultaneously in most situations. Sometimes, the use of one power may enhance another power base; or the opposite may happen. Environmental conditions and the effect of such a use of power on them must also be considered in this situation. The norms of the channel systems also prohibit the use of some of these powers.

The degree of success that a channel member will have in influencing the behaviour of other channel members will depend on its leadership behaviour. When the channel members have common goals, the use of information exchange and/or recommendations will probably produce positive results. In other situations, promises, threats, legalistic strategies and requests are used with varying success.

An international business manufacturing paints, which is based in Italy, has the policy of treating its agents like its own employees. They are required to submit progress reports every month just like the company sales force. All these reports are fed into a computer and analyzed. The company management keeps an eye on the stocks bought by key customers and the price they paid. Any falling off in an agent's performance results in rapid identification of the problem and support provided by a senior staff member on the spot.

Focusing channels onto specific products and target markets – motivation of channel principals and sales force

Ensure that the traditional distributor attitude and priorities are recognized by you and dealt with. Distributors:

- always feel that a high price is charged by the manufacturer
- think that manufacturer's mark-up is high
- think that the manufacturer does not invest in the market

Avoid the traditional manufacturer attitude. The manufacturer:

- is interested in volume sales
- is interested in profits
- wants distributors to make stock investment

How to ensure that a manufacturer's product is measured

Check that the points in below Table.

For mutual benefits the relationship should produce:

- acceptable profit margins to the distributor
- acceptable volume and rate of growth to the manufacturer, at optimum profit margins

Distributor principal has:	Distributor sales executive has:
1. Quality product 2. Reliable delivery dates 3. Fair profit margins 4. Good communication, physical and written 5. Reasonable advertising and sales promotion support 6. Willingness by manufacturer to assist with distributor's general problems	1. Quality product 2. Reliable delivery dates 3. Technical information as and when required 4. Ad hoc bonuses, e.g. money, travel, trip to manufacturer's head office, etc. 5. Good communications with manufacturer's 'field' representative. 6. Fair evaluation of performance

Table: Factors affecting the majoring of a manufacturer's product

The manufacturer's 'link person' must try and assist the distributor in upgrading their entire operation. Allow the distributors to consult your financial director; let individual interested distributors have the use of the director's time for a day or two. Run seminars on relevant subjects, e.g. 'modern warehousing'. A distributor should be able to call on the manufacturer's experience when trying to solve any problem relative to their business.

Control systems

First and foremost, a system to establish an annual campaign plan must be introduced. This campaign plan should cover, as a minimum,

- the common goals to be achieved in the first year at least;

- what this would mean realistically in terms of the quarterly volumes of
- sales to the channel's customers and shipments from the manufacturer;
- the recommended price at which the product would be marketed;
- the price/discounts/terms of trading at which the manufacturer will supply
- the product;
- what this would mean in terms of market share;
- levels of sales and supporting staff resources to be deployed;
- a schedule of training to be provided by the manufacturer;
- promotional materials, campaigns, etc., to be undertaken by the manufacturer and the channel;
- specific actions to be taken concerning inventory/logistics, etc.;
- key event/action review calendar.

Secondly, regular monitoring and review sessions must be held to ensure that the performance is on course and that if needed, corrective actions are taken on time.

Motivation of the distributor

The link person or manager can do the following to motivate a distributor:

1. Attempt to categorise and understand the distributors' motives in terms of Maslow's hierarchy of needs: security, social needs, esteem, self-fulfillment.
2. Discover their wants as well as their needs; this will help your dealings with them.
3. Remember that monetary rewards serve many needs and are therefore the best rewards.
4. Bear in mind, however, that recognition, praise, promotion and successful achievement of a task can also be effective motivations and are sometimes more needed than money.
5. If people know that good work will earn a reward, this makes the reward more effective. The expectation should be clearly set out on a payment by-results basis, with an appropriate bonus or commission scheme. Achievable targets and standards should be set. Praise should be bestowed when deserved at not too frequent intervals. The rewards and efforts required should be clarified. The penalties also should be stated, if targets are underachieved or if substandard results are recorded.
6. Paraphrasing what Douglas McGregor said in another context, conditions should be such that the members of the channel system should best achieve their own expectations by working for the success of the channel system as a whole. It is necessary to identify the needs of the members so that appropriate rewards can be devised and to agree targets and standards with all the members.
7. People can be motivated by the work itself if their needs for achievement and responsibility are thereby satisfied. This can result from:
   - giving ,people more responsibility where called for and more scope for variations in methods and speed of work;
   - giving groups a unit of work to perform, thus reducing specialization and increasing the sense of achievement and responsibility and the expertise;
   - relaxing overhead controls while setting targets and/or standards to make members accountable;
   - making available the necessary information so that members can monitor their own performance;
   - encouraging the channel members to join in planning and innovation.
8. Try to make sure that the group pressure is working for you by involving the members of the channel in decisions which affect them.

The link person's role can be likened to that of a master of ceremonies, who initiates the use of the available motivational tools, the link persons have to be self-motivated and display enthusiasm for their company, its products and its distributors. It is important that they appear self-confident. Their leadership, management skills and bond-building activities will then be able to play the necessary part in motivating the distributor principal and the sales force.

Managing and Motivating Your Agents and Distributors

This process calls for an understanding of the relationship, mutual SWOTs, mutuality of benefits and a commitment to working together for common goals.

- A creation of the right environment - nature, scope and style of operation
- Realistic objective setting, review & control
- Joint development of campaigns

Remuneration of the salesperson

Industrial selling is distinguished from other kinds of selling by 'customer penetration'. As a rule, when distributing a product for resale, the sale is made by a salesperson to the buyer or the merchant acting as their own buyer. Rarely does the sales executive have to 'sell' both the buyer and the owner of the shop, though a smart person makes sure that anyone who sells their product understands its sales points. In industrial selling, however, it may be necessary for the sales executive to persuade several people before walking out with an order. First, the user of the product has to be sufficiently interested to suggest to their immediate supervisor that this particular product be specified when a requisition is next placed; since few workers are capable of effectively relaying a sales presentation, the sales executive must also 'sell' the supervisor. After the supervisor requisitions the product, the matter may go to the works manager or the engineering department for approval, if it is sufficiently important. Again, the salesperson has to make sure that these executives understand the engineering advantages of the product. After being approved by the engineering or operating department, the requisition may travel to the financial controller, who approves the budgetary expenditure and passes it along to the purchasing department.

The buyer or the assistant mayor may not issue a purchase order at this point. After checking the price against competition, some similar product may be found which seems 'just as good' and may be cheaper. So, unless the sales executive is on the job, the requisition may travel back to its point of issue to ascertain whether the cheaper product may not be acceptable. This process is quite usual in industrial selling. In the case of equipment involving a considerable outlay of money, it may be necessary to 'sell' several executives and the board of directors. There are usually 'no people' in every organization, who may not actually have much buying authority, but who can, if not otherwise persuaded, wreck the sale.

Remunerating the sales effort

Remuneration of sales executives always provokes a great deal of lively discussion whenever the topic is raised. So it should - it is an important motivational factor as far as the salesforce are concerned. Companies use various methods to calculate the amounts paid to their salesforce, depending on their number or the products they sell or other factors. However, any method of remuneration must be of mutual benefit to both the sales executives and the company employing them; if either party feels that it is 110t getting a fair deal, then the association will eventually, if not immediately, break down. A sales executive who is dissatisfied with the remuneration, will leave the company. While a company that is unhappy with the salesperson's performance, in view of their total costs, it may discharge him. We will briefly examine the methods of remuneration in current use.

Salary Only

A salary, however high, does not provide the incentive needed for extra effort when it is necessary. This arrangement is preferred by the salesforce when the salary is high, but the cost may be too high for the management to accept. It may be a good idea when large capital plant is being sold, but in that case the selling may well be handled by a senior employee, whose incentive would perhaps be an equity holding in the company.

High Basic Salary Plus Bonus on Trading Profit

This method is a little better than the previous one from the incentive point of view. But sales executives tend to be impatient people, and they are not usually prepared to wait for a year or so before knowing whether they are going to get a bonus. Therefore the advantage is slight. Also, too many intangible factors affect the bonus payments and many of them are not controlled by the salespeople. While the salesforce in the field may have done extremely well, the orders may be fouled up by a strike in the factory or an extra large payment may be made to a departing chairman, depleting profits; such happenings could cause justifiable dissatisfaction among the salesforce.

Commission Only

This can create insecurity, especially with new recruits. If they have family responsibilities, and cannot obtain orders quickly enough, it can create dishonesty, which does not do either party any good in the end. If a company with a wide range of products pays its salesforce on a commission only basis, the sales executive will only sell what they wish to sell and are good at selling. Those products may not be the ones the company wants pushed. A salesperson doing well on a commission only basis can still feel insecure. If the performance is too good, the company may decide to take on someone else, thus effectively reducing their territory and their earnings. This naturally has a dampening effect on their selling capacity. A company cannot effectively control and direct the effort of a sales force paid on a commission-only basis except by harsh measures, which may be undesirable.

Low Rate of Commission Plus A 'Liveable' Basic Salary

This method is the most widely used in industrial selling. This is quite satisfactory for a one product or one product range company, but problems appear when the company expands or increases the sales force. The sales executives are not interested in establishing new lines or in the expansion of the company's activities.

Continuous Incentive Bonus Scheme

The total remuneration should be made up of a liveable salary and a bonus, in a predetermined ratio, say 80 : 20. The company must have a master plan with its aims and expectations clearly defined. At the beginning of every financial year, the company should set out, in the form of an overall company sales target:

- the total sales target for the next twelve months;
- the target for each salesperson in that achievement;
- the share of the total sales target to be borne by each product range, particularly if a multiplicity of products are to be sold.

It is one of the functions of senior management to determine the target proportions carried by each product range and it is one of the sales executive's major functions to attain those objectives. It is vital that the salesforce sell the product range that makes the highest gross contribution to the company profit. Others may be easier to sell, so incentives should be tied to selling those lines which enhance the bottom line of the business and maximize the return on capital employed, which is the true measure of the company's success. The continuous incentive bonus scheme is designed to inform the salesperson exactly what is required of them in the year ahead and what their rewards will be if the objectives set are attained. This ensures that the goods are sold according to the overall company targets and in the right product range proportions.

Setting Sales Targets by Broduct Range

In this example, nine points are allocated to general work. This covers punctuality, grooming, accuracy of records, etc. The percentage of target achieved, up to a maximum of 100 per cent, but not beyond, will qualify for that percentage of points allocated to the product group target; i.e. 75 per cent achievement of product range A target above qualifies for 75 per cent of twenty points, equal to fifteen points. In the case of general work, points received will be based on the recommendation of senior management.

At the end of the period, the points achieved per product range are added up and a total arrived at. A bonus is then paid according to a previous scale laid down, e.g. (for twelve months) it may be as given in Table

	$
95 points and above earns	1500
85 - 94 points earns	750
75 - 84 points earns	375
74 and below earns	nil

It should not be necessary to point out that a sales executive does not qualify for a bonus unless all the product ranges are sold, not just a few. The executive should be kept informed of progress by the regular issue of progress information. This scheme combines flexibility with a fixed basic method and level of bonus payment. It can cope with changes in territory or in targets. Product range F may be more important than product range B, even though the target is lower; the profitability may be higher or it may be a new product. Therefore, the former may carry more points than the latter.

Note that:

1. Sales should be equal to invoice sales less credits.
2. All sales targets must be achievable, for the system to work, so management must plan ahead with due care.
3. The scheme can be operated by the company over any time period, viz., twelve, six, three or even one month.
4. The scheme is not difficult to operate and makes use of paperwork, such as invoices, which should already be produced by the company.
5. Sales costs could be significant (total costs against net sales turnover). The cost depends on marketing objectives and other factors which should be considered before costing.

Finally, while remuneration is the most important motivational factor for sales executippves, job satisfaction, security, etc., also count. Remember your salesperson's role:

To maintain personal contact with customers and buyers for the purpose of obtaining sales.

Risk Management

Good management is all about anticipating events and planning for action before the events happen. This is where understanding the sorts of risks which are likely to arise is very important. The risks may be of one or more of the following types:

1. The usual product risks, political risks, economic risks, etc. that exist in any international marketing operation - these are not being explored here.
2. A chosen channel member may turn out to be a misfit. This is where careful planning and selection of the right partners is vital. A good channel member of yesterday may not be a good channel member tomorrow. A mutual understanding of the roles of the channel members and their responsibilities to each other is a must.
3. At least one channel member is not pulling their weight. The performance expectations must be made clear right from the start. Mutual monitoring of performance is vital to the continuing success of the 'venture'. Mutual reliance must be recognized. All campaign planning must be undertaken jointly so that no motivation is lost due to inadequate planning.
4. Breakdown of the 'relationship' - where independent members form a significant part of the channel, the relationships are based on individuals, their interpersonal behaviour, trust, mutual understanding of a set of common objectives and other objectives based on the needs of the parties concerned. 'Mutuality' of interest must be maintained to avoid the risk of damaging the position of the two parties.

In all these cases, rapid contingency planning is crucial to safeguard the company's position.

Elements of Dealer Motivation

- The trade margin
- Special incentives
- Harmonious relations
- Effective communication

Dealer Motivation

The firm should constantly motivate its dealers lists the elements of dealer motivation.

Trade Margin, a Major Motivator

An attractive trade margin is no doubt a key element in dealer motivation. After all, the primary objective of any dealer is to earn an attractive return on his investment. We have discussed the issue of trade margin in detail in the earlier paragraphs.

Motivational Elements Other than Trade Margin

Trade margin though important, is not everything in dealer motivation. The firm can use several other elements in enthusing its dealers.

Dealer Incentives

Besides an attractive trade margin, the firm should provide some special incentives to the dealer so as to win him over and sustain his loyalty to the firm/brand. Sustaining dealer loyalty is the sure route for obtaining optimal retail thrust for the product/brand. Special incentives like quantity rebates, off-season rebates, gifts, cash incentives, etc., can be used for motivating dealers.

With increased competition, companies are now increasingly realising the role of such incentives. One measure that seems to be catching the fancy of companies is fully-paid vacations for dealers. Companies are also hosting lavish dealer meets at exotic places. For instance, ITC has been taking out whole groups of its dealers on a safari to Kenya. Godrej-GE last year flew over 40 of its best dealers to the US and Videocon sent around 650 of its best dealers to Europe. Even companies, which were giving cash or gold sovereigns as incentives earlier, now seem to have realised the potential of travel abroad as an incentive. The tours are consider- ably expensive, since the companies try to ensure that they become unforgettable outings for the dealers. The companies concerned seem to spend on an average more than Rs 40,000 per head on dealer holidays. Godrej-GE, which is one of the big spenders on dealer incentive tours, has an annual budget of around Rs 4 crore for this purpose. As the demand for such tours has been going up, some travel houses have started special divisions for corporate dealer incentive tours.

Harmonious Relations and Cooperative Endeavor

Harmonious dealer relations are another important element in dealer motivation. Frequent visits to dealers' shops by the field sales force of the company/stockists helps harmonious dealer relations. Dealer meets too facilitate this process. They help to exchange ideas and to generally bring the dealers closer to the company;

Dealers need understanding and support. They are happy to receive sales ideas from the salesmen and executives of the firm. Likewise, helpful and prompt attention to dealer complaints.

Associating the dealers in various campaigns such as service campaign, promotion-campaign, etc., will cement relations with the dealers. It will also add to the success of the campaign. The firm can even persuade dealers to share the expenditure on service, publicity and sales promotion. Dealer cooperated service and publicity campaigns not only reduce the financial strain of the firm, but are also more effective than stand alone campaigns by the firm. The willing involvement of the dealers in the campaigns does the trick.

Ford 'Dealer wanted' Ad	
• Market share • Sales intensity • Storage space provided • Inventory holding support • Standard of service provided to customers • Enlistment of new accounts	• Market intelligence support • Promotional support • Prompt payment of invoices • Maintenance of business records • Submission of reports • Public relations

Effective Communication

"Maintaining effective communication with the dealers is another element of dealer motivation. It is, in fact, a part of maintaining harmonious relations. Effective communication often gives a sense of participation to the dealers. Company newsletters and direct mailing can be used for effective communication with the dealers. Periodical dealer meetings/ conventions also help build good communication. They help the firm understand the views of the dealers. In addition, they act as a morale booster.

Points to Ponder

MOTIVATIONAL TOOLS

- **Rewards**
- **Coercion**
- **Expertise**
- **Legitimacy**

Managing and Motivating Your Agents and Distributors

- A creation of the right environment - nature, scope and style of operation
- Realistic objective setting, review & control
- Joint development of campaigns

Elements of Dealer Motivation

- The trade margin
- Special incentives
- Harmonious relations
- Effective communication

Questions

Q1. What do you understand by motivation? Why is it required to motivate channel member?

Q2. Why control is essential of channel members?

Q3. What is the role of manager (link person) in motivating channel member?

Q4. What are elements of dealer motivation?

LESSON 34
PHYSICAL DISTRIBUTION CONCEPTS AND OBJECTIVE

Learning Objective

- To understand the concept of Physical Distribution.
- Introduction to Supply chain Management
- To know the importance of Physical Distribution.

Let us begin our discussions in this chapter with a clarification of the distinction between physical distribution/marketing logistics on the one hand, and supply chain management which is a comparatively recent idea on the other.

Physical Distribution, Marketing Logistics, and Supply Chain Management

Distribution/Marketing Logistics

Physical distribution is the process of delivering the product to the marketing channels and consumers. It encompasses the various activities involved in the physical flow of the product from the producer to the consumer.

Marketing logistics is somewhat larger in scope compared to physical distribution. It covers physical distribution plus a part of the task of marketing channels. While physical distribution takes care of functions such as transportation, warehousing and inventory management and facilitates the flow of the product, marketing channels actually connect the firm with its customers. Marketing logistics covers physical distribution in full measure, plus a part of the function of marketing channels. Marketing logistics bring in greater value addition in the delivery chain, beyond mere transportation or distribution.

The Physical Distribution Concept

This emphasizes the connection between costs and service levels and aims to minimize the total distribution costs at a given service level, when backed by an integrated logistics network. Its four main components are:

1. The total cost approach: this considers all the costs of the physical distribution network, visible and invisible, while trying to achieve a given service level. It is necessary to remember the interdependence of all these elements and to try to minimize the total costs instead of attempting to reduce them piecemeal.
2. Trade-offs in costs: certain costs may increase while others are being reduced, but the objective should be to reduce the **total** distribution costs.
3. Minimum sub optimization: owing to the interdependence of all the distribution functions, any change in one will affect the others. When these functions are integrated, the goal should be to minimize sub optimization through systems management.
4. The total system perspective: this takes the concept a stage further by considering the costs in the entire marketing process from the beginning to the sale to the end-user,

   For example, instead of the retailer pricing the goods received, which is a time-consuming and therefore expensive process, the retailer can provide the manufacturer with up-to-date price lists, the manufacturer can price the products and charge the retailer for the service; the result being lower costs in total.

Supply Chain Management (SCM)

SCM is larger in scope than both physical distribution and marketing logistics. It encompasses materials management task as well. Supply chain actually refers to the whole business chain, encompassing procurement of inputs, in-bound logistics, conversion of inputs into products, physical distribution/ marketing logistics and channel functions, which finally take the end product to the ultimate consumers Essentially, SCM can be viewed as the combination of materials management and end product distribution, which constitute the two vital components of the business process and form the key tasks at the front and back ends of the process, respectively.

It can be seen that the supply chain is in effect the firm's value chain. Value is actually spread through the firm's supply chain. A firm can optimise its total customer value by managing activities in the supply chain in an integrated manner, treating them as one continuous chain. The supply chain constitutes a value delivery network. That is why it is often said that firms compete in the marketplace using their supply chains as the weapon, not their products and brands. Superiority in supply chain is thus a major competitive advantage. A firm with the better supply chain wins in the market. We have discussed the value chain concept in detail in the two chapters on Industry Analysis, and Competitive Advantage.

Taking note of the advantage in dealing together materials management and physical distribution of end products, which constitute the two major functions at either end and which form a virtual chain permeating the business from end-to-end, many experts have preferred to combine the two subjects and deal them as SCM.

The SCM approach, no doubt, has some merits. It facilitates the integrated handling of the functions of the business, especially the procurement function and the logistics functions at the front and the back ends of the business. As a result, it comes handy in value creation! value addition.

The approach, however, has a strong demerit as well. It gives prominence to materials management and treats the customer requirements of logistics as an appendix to the business cycle. The requirements from the side of the customer/market get diluted in such an approach. Moreover, in the nature of things, the focus as well as requirements of materials management and physical distribution of end products are somewhat different from each other. Perhaps all things considered, the two subjects should be studied independently, rather than as one unified subject.

In this text, we shall in any case avoid the SCM approach. Mer all, in a marketing text there is no scope for discussing materials management. We shall confine ourselves to distribution of end products. We shall, however, make a slight deviation from the traditional way of handling the subject. Instead of treating it merely as a physical distribution task, we shall treat it as marketing logistics.

Materials management

The materials management cycle consists of the inflow of goods through materials acquisition whether it is by outright purchase or partially or fully on credit basis, plus internal transport and inventory management. The relevant strategies regarding purchasing, transport and warehousing must include cost-effective methods in these functions. The materials flow Involves vendors and suppliers, and is integral to the operation of the business, Purchasing forecasts are directly based on production schedules or other internal usage plans, highly integrated materials management is possible given a disciplined internal planning process.

The logistics activity in a company acts to co-ordinate the flow of material and the related information through the system. It has to co-ordinate production planning; delivery frequencies required to match sales demands and customer order frequencies. All this has to be achieved through shared information. This requires an integrated information system in which:

1. Data entering one subsystem is also available to any other subsystem requiring it; for example, data concerning customer orders should be available to inventory control, production scheduling, sales forecasting, etc.
2. All inter-related subsystems should have access to data in a common data base.
3. Closely connected activities are integrated into the same procedure, order processing, credit checking and stock allocation.

A high degree of sharing of expensive capital equipment should be allowed for; for example, the central computer installation, the data base and the application packages, among others, can be shared among the various functions.

The logistics information system consists of two subsystems dealing with supplies and customers. The supply subsystem input consists of the materials requirements plan, indicating how many of what types of items are needed und when they are needed for production; this has to be checked against the standing inventory and any orders outstanding. If necessary, sources of supply for any extra materials needed will have to be decided upon and purchase orders generated. This process appears simple but a company may have a register of hundreds of suppliers and maintain an inventory with many thousands of stock-keeping units. Also a sharp look-out must be kept for possible shortages and the suppliers checked for their reliability, prices and service. At the same time, the inventory must be minimized while making sure that production is not held up due to a stockout. It is obvious that a sophisticated information system is necessary to balance all these factors simultaneously.

In many ways, the customer subsystem is the mirror image of the supply system. An order from a customer is the start of the process. Hundreds of such orders per day have to be monitored against customer records for creditworthiness and special terms or needs, among other things. After which stock has to be assigned to the order, replenishment of inventory catered for if necessary, delivery and invoices as well as other complementary activities arranged for, A host of other information regarding achievements of service levels, re-order levels, etc., has to be gathered at this point to assist in making demand forecasts.

These two subsystems come together in the manufacturing function and have to be integrated through production control so that the supply sub system generates what the customer subsystem demands. Many companies have installed materials requirements planning (MRP) systems. Basically these forecast the components and materials needed from the company's master production schedule (MPS) and the bill of material (BOM) for each end product. The requirements are calculated by taking existing stock levels and orders already placed into account, as well as the times when the items will be needed and the supply lead times. A successfully implemented MRP system can reduce inventory levels, speed up changes in the production process to meet changes in demand and increase the level of service in meeting demand. The basic idea is simple but the control of such multiple activities has only become possible through the use of advanced computer technology.

Other methods such as the just-in-time (JIT) system can reduce inventory levels while maintaining service levels. The idea is that the materials needed should arrive just in time for their use in manufacture. Reliable lead times are necessary for these systems to work properly. A similar development in the distribution field is the distribution requirements planning (DRP) system. This starts from the demand for the finished product and produces requirements schedules at each level of the distribution chain. This is a 'pull' system in that the end demand 'pulls' the required products down the chain rather than a centrally decided production plan 'pushing' the products down the line. Since the emphasis is now on customer needs, the former makes more sense than the latter, though both have their advantages.

The latest innovation is a combination of the MRP and D RP systems into logistics requirements planning (LRP) systems, which will link the end demand through the whole chain back to the suppliers. This has a number of complex requirements which must be satisfied before such a system can be contemplated, including a high degree of dedication on the parts of the management and the whole organization.

Importance of Physical Distribution/ Marketing Logistics

Physical distribution/marketing logistics forms a pivotal part of the marketing task.

Confers Place and Time Utility on Products

It is physical distribution that confers place-utility and time-utility to a product by making it available to the user at the right place and at the right time. Thereby, it maximises the chance to sell the product and strengthen the company's competitive position. If any product made in any place could be consumed in its entirety at the very place of production and at the very time of production, there would be no need for physical distribution of that product. But such products are very rare. In practice, almost every product gets consumed at places and times that are different from those of their manufacture. They have to be carried to places of consumption; they have to be stored; and they have to be distributed.

Importance of Physical Distribution/Marketing Logistics·

- Ensures the physical flow of the product from the producer to the consumer. Without this flow, marketing cannot take place.
- Confers place and time utility on products
- Helps build clientele.
- Where production locations and markets are distanced, physical distribution becomes all the more crucial.
- " A promising area for cost reduction.

Where Production Locations and Markets are Distanced, Physical Distribution Becomes more Crucial

In some cases, production locations are totally dictated by considerations, like proximity to sources of raw material. As a result, the points of production might be far away from the markets for the product. In some cases, huge production capacities get established at a given location on co-derations of technology and economies of scale. In all such cases, the product has to be marketed over an extended territory; it has to be transported over long distances, stored for a considerable length of time and sold. Then, there are products, which are impacted by the seasonality factor-either production is continuous but demand is seasonal. or demand is continuous but production is seasonal. Here too, physical distribution becomes particularly crucial. It has to perform the balancing act between production and consumption.

Helps Build Clientele

It is physical distribution that determines the customer service level to a large extent. As a result, it serves as a vital tool in building clientele/market for the product. And conversely ineffective physical distribution leads to loss of customers and markets.

A Promising Area for Cost Reduction

Physical distribution is a fertile area for cost savings. Over the years, in most businesses, physical distribution costs have grown into a sizeable chunk of the total costs and now ranks second among all cost elements, next only to material costs. And surprisingly, it has remained one of the neglected areas of cost control.

The dark continent: Peter Drucker has rightly compared physical distribution to the 'dark continent of Mrica of Napoleon's days'. He said, 'we know about physical distribution today just as much as what Napoleon's contemporaries knew about the interior of Africa. We know it is there and we know it is big and that's all.' The message is obvious. Physical distribution is the most promising area for cost control

Conclusion

We discussed that Physical distribution is part of Marketing Channel which is part of Supply Chain Management. Importance of Physical distribution lies in making products available to the user at the right place and at right time.

Points to Ponder

- ***System:*** Organized group of components linked according to a plan for achieving specific objectives

IMPORTANCE OF PHYSICAL DISTRIBUTION/MARKETING LOGISTICS

- Ensures the physical flow of the product from the producer to the consumer. Without this flow, marketing cannot take *place.*
- Confers place and time *utility* on *products.*
- Helps build clientele.
- Where production locations and markets are distanced, physical distribution becomes all the more crucial.
- " A promising area for cost reduction.

Questions

Q1. What do mean by Physical Distribution?

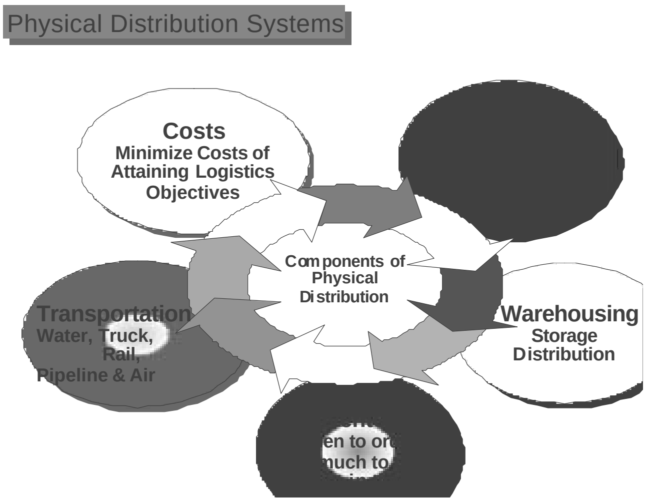
Q2. What is the importance of Physical distribution?

LESSON 35
COMPONENTS OF PHYSICAL DISTRIBUTION

Learning Objective

- To understand what are the components of Physical Distribution

Physical distribution refers to the activities—order processing, inventory management, materials handling, warehousing, and transportation—used to move products from producers to consumers and other end users.



Order processing

The distribution process is activated by a customer order. The order cycle includes the time spent in processing the order as well as the time taken by the physical motion and therefore depends on the speed and efficiency of (hest.: operations, Electronic systems are now available to reduce the time needed for the flow of information and communications.

A. Order processing is the receipt and transmission of sales order information.

B. Efficient order processing facilitates product flow.

C. There are three main tasks in order processing.

1. Order entry begins when customers or salespersons place orders by mail, telephone, or computer.
2. Order handling involves several tasks.

a. Transmission of orders to the warehouse

b. Verification of product availability

c. Checking of prices, terms, and customers' credit ratings

d. Instructions to the warehouse to fill the order

3. Order delivery

a. The warehouse schedules pickup with an appropriate carrier.

b. Premium transportation is used if the customer is willing to pay for rush service.

c. The customer is billed; inventory records are adjusted; and the order is delivered.

E. Methods of order processing

1. Manual order processing suffices for a small volume of orders and is more flexible in special situations.
2. Electronic data interchange (EDI) integrates order processing with production, inventory, accounting, and transportation.

a. EDI is an information system for the supply chain.

b. Many companies are pushing their suppliers toward EDI to reduce distribution costs and cycle times.

c. The Internet is another opportunity for EDI systems.

Since the costs of physical distribution can amount to more than a quarter of sales price at manufacturing level and the necessary assets can amount to as much as a third of the corporate assets, it is important for management to keep these costs down. It is possible to keep visible costs, such as warehousing, inventory and transport, down when the logistics functions are integrated. The invisible costs are due to customer dissatisfaction caused by late deliveries, lost sales/orders, etc. Control of these costs, both visible and hidden, is very difficult owing to the effect of any changes on customer service levels. Improvement of the latter can increase costs and a decrease in costs may mean a drop in the quality of the service. Physical distribution management provides guidelines for keeping a balance between cost and service levels

Transport

Transport is an important part of logistics since inadequate transport provision can increase inventory costs prohibitively, as well as the investment in inventory; it can also cause customer dissatisfaction and increase the invisible costs dramatically. Therefore the selection of the right mode of transport, which is efficient and dependable, is essential for the achievement of distribution objectives. The five modes are: rail, road, sea/waterways, air and pipeline, plus combinations of some or all of these. The possibilities must be considered for cost, reliability and possibility of risk/damage.

Warehousing

This can be either company-owned or leased/rented from others. The advantages of company-owned warehousing are: greater flexibility and control, better information feedback and potentially lower unit costs. Regional distribution centres serving regional markets are a new development in the Europe of today; if they are highly automated and can cater for packaging of orders, maintenance of full inventory and combining products from different production centres, they can go a long way towards achieving improved efficiency and increased customer satisfaction. For example, some companies are considering locating regional distributor centres in Maastricht in the Netherlands, Calmar in Alsace and in Bavaria. These regions are also developing the type of infrastructure needed for the functioning of such centres.

The advantages of leasing are: location and space flexibility, and possibly lower costs for seasonal businesses. There is also wider choice available for the type of warehousing needed, e.g. special commodity warehouses for storing agricultural products or refrigerated warehouses. Warehousing firms may also offer a variety of extra services to compete with each other.

It is possible to reduce the need for warehousing by choosing a slower form of transport, e.g. storage in transit. The number and location of warehouses is decided by their purpose and the level of customer service to be provided. They should be so positioned that they will yield the desired service level after all the variables are considered. This solution is unique to each business. The transportation costs decrease as the number of warehouses increases; while the inventory and warehousing costs increase at a diminishing rate.

The locations of the warehouses affect the customer service level and the total costs; they also have a significant effect on the competitive powers of the business. A number of models have been developed to help management make better decisions. The significant factors are the estimates of lost sales due to the distance of the warehouses from the customers, and the costs of operation and of transport.

Inventory Management

Inventories may be held in the material management cycle to supply the production function or in the distribution function to meet customer demand. Inventory control in the latter is crucial to efficient physical distribution. Inventory represents the largest single investment for manufacturers of packaged consumer goods, amounting up to a third of their asset investment. High inventory levels are necessary in competitive conditions where the market segments are diverse in nature and customers are used to obtaining goods quickly.

The objective of inventory control is to minimize total inventory costs subject to demand and service level constraints. The main costs are due to holding inventory, ordering and the risks of stockouts. The system has to figure out how much to re-order, when to re-order and how to control stock outs at the minimum cost.

There are a number of inventory control systems available, depending on the type of business. Distribution requirements planning (DRP) systems deal with connecting the production process with the other inventory levels further down the channel. They operate on the assumption that they are managing inventories intended to resupply other inventories.

An accurate forecast of future demand is obviously essential for any inventory control system, Lack of such a forecast or inaccuracies can wreck havoc throughout the physical distribution channels. Unpredicted increases also cause stockouts and loss of orders in the future, Every firm and every channel member has to balance the costs of holding higher inventory levels against the costs of stockouts.

Production Control and Materials Requirement Planning

These, together with purchasing and raw materials handling, are generally grouped under the materials management function. Sometimes the objectives set by the management for these functions clash and cause a drop in the level of the customer service and/or a rise in physical distribution costs as a whole. Production is the focal point of all this activity, because production levels determine the needs for raw materials, parts, etc., and also the amount and types of finished products, which in turn influence the delivery times and modes for the distribution function.

Materials management is the 'single manager' organization concept embracing the planning, organizing, motivating and controlling of all activities and personnel principally concerned with the flow of materials in an organization. If the physical distribution concept is adopted by a business, it is usual to combine all activities concerned with raw materials under a single manager, who is sometimes also responsible for production scheduling. These activities are similar to those concerned in physical distribution of finished products, the difference being in the materials handled and their recipients.

Just-in-Time (JIT) Logistics Systems,

This is a logistics system by which materials arrive at the point of use just in time, thus saving on inventories "and warehousing. Their implementation affects the purchasing, transport, warehousing, production, quality control and data processing functions, and requires an amount of discipline which many businesses find difficult to create and sustain.

In order to be successful, it has to be operated by all channel members in a given channel. It calls for all materials to be part of the work-in-progress, without pausing to collect storing expenses. Each part of the manufacturing process has to get the right elements in the correct amounts just in time. JIT is found to work best in repetitive manufacturing situations where the suppliers are close by, the forecasts are accurate and there exist significant levels of inventory to start with. Significant cost reductions can be made if JIT is successfully applied.

Planning A Logistics Strategy

Strategy for the logistics process requires the evaluation of possible physical distribution systems which meet the customer service standards required at the lowest possible cost. A system thus properly planned will increase the "response of the various elements in the process, the sensitivity to the distribution environment, knowledge of the possibilities of cost reduction and service optimization in the function, and the awareness of the effect of corporate strategy on the process.

The planning begins with deciding on the customer service strategies and goals, and goes on to the functions and investment involved in physical distribution, to decide on systems and procedures for the functions and then developing these strategies in human resource terms and implementing them. After this process is complete, the criteria for the selection of channel members have to be established. The performance of the strategy has to be monitored periodically and action for improvement taken if needed.

The logistics strategy needs to be updated whenever there is an appreciable change in one or more of the following:

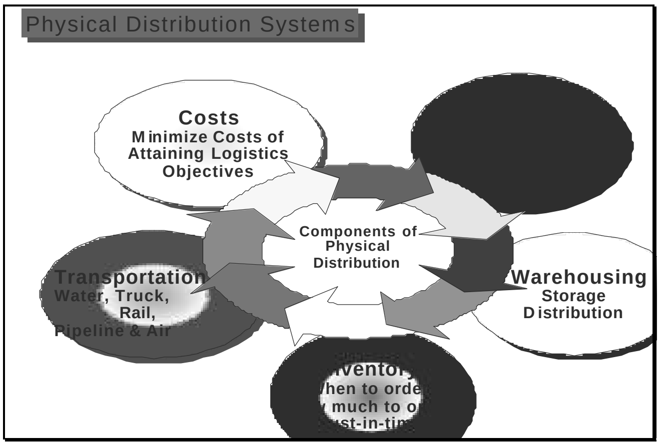
- demand
- customer service levels.
- products
- distribution costs
- pricing policy

Conclusion

In this lesson we discussed the components of Physical Distribution.

Notes -

Points to Ponder



PHYSICAL DISTRIBUTION

- ***System:*** Organized group of components linked according to a plan for achieving specific objectives
- A company's physical distribution system contains the following elements:
  - Customer Service
  - Transportation
  - Inventory Control
  - Protective packaging and materials handling
  - Order Processing
  - Warehousing

Questions

Q1. What do you mean by order processing?

Q2. What is JIT?

Q3. What is Warehousing?

LESSON 36
TRANSPORTATION

Learning Objective

- To understand the main task in Transportation Management
- To understand Transportation requirement and optimization of mix of transport mode.
- How to control Trasportation cost

Transportation

Transportation confers 'time utility' and 'place utility' to the product; it determines the company's customer service; it also has a crucial bearing on the other elements of physical distribution and marketing, like warehousing, inventory control and channel management. Finally, transportation is also a very important cost element in most businesses.

Main Tasks in Transportation Management

- Main Tasks in Transportation Management
- Assessment of the transportation requirement
- Choosing the 'mix' of transport modes
- Deciding the routing
- Development of operational plans
- Implementation/review
- Control of transportation costs

Basically transportation management involves decisions on:

- How much to move?
- When to move?
- Where to move?
- By what mode, or combination of modes to move?

The considerations in making these decisions are:

a. the lead time for stock replenishment
b. sales expected in the territory in the intervening time
c. The normal cycles of inventory build up at the warehouse/ dealer points.

If a firm can estimate these factors fairly accurately, it can make the basic decisions on transportation. In a fundamental sense, transportation has to be based on the sales forecast. Decisions on when to move, how much to move and where to move will essentially depend on the sales forecast.

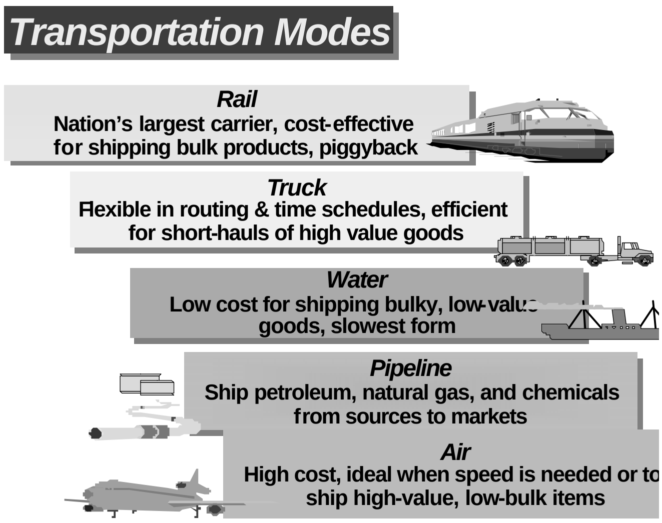
Assessment of the Transportation Requirement

In the first place, a transport manager makes an assessment of the transportation requirements based on the sales forecast, sales plan and schedules. He also watches the actual sales performance vis-a-vas the forecast and updates the transportation.

Mix of Transport Modes

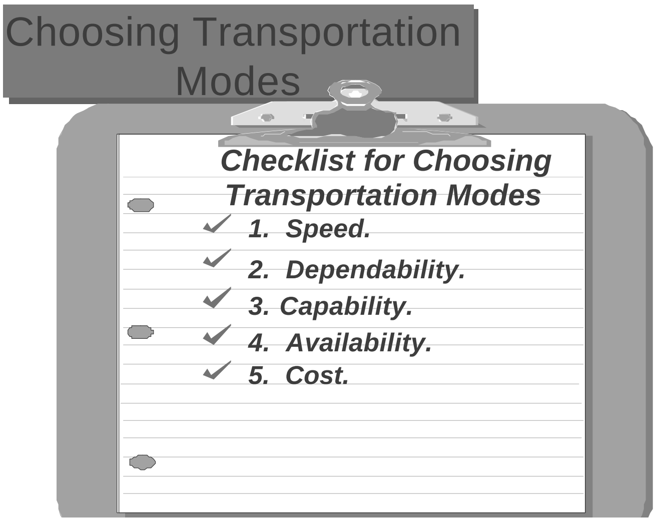
Depending on the product, the market and the cost factors, firms select the transport mode, or the combination/'mix' of modes. The name of the game is optimisation. A number of considerations, as listed below, are involved in the determination of the optimal mix of modes:

- How do the different modes compare in 'speed' and 'costs'?
- What is the extent of 'user orientation' of the modes?
- What is the 'availability' of the modes? Is it adequate? Is it timely?



Routing has two dimensions: First, systematic assignment of territories to each production/supply point; Second, the actual sequence in which a delivery vehicle should move and service the retail points. When a firm has more than one production location or supply point, it should clearly demarcate the marketing territory to be serviced by each location. Similarly, for each warehouse/stockpoint too, it should demarcate the territory. Transportation effectiveness depends very much on systematic assigning of territories to each source. When there is a strong need for drawing supplies from a source other than the designated one, it can be done, but only on the basis of strong justification.

Secondly, equal care should be taken in deciding the actual sequence a delivery vehicle should take in supplying stocks to the various retail points that come under its service territory. Intelligent routing, covering both the above aspects, is an integral part of effective transportation. Optimisation of transport lead, reduction of transport time and optimization of costs are the objectives in effective routing.



Comparison of Transport Modes

Mode	Speed	Dependability in Meeting Schedules	Frequency of Shipments	Availability in Different Locations	Flexibility in Handling	Cost
Rail	Average	Average	Low	Low	High	Average
Water	Very slow	Average	Very low	Limited	Very high	Very low
Truck	Fast	High	High	Very extensive	Average	High
Pipeline	Slow	High	High	Very limited	Very low	Low
Air	Very fast	High	Average	Average	Low	Very high

Developing Operational Plans

The transport manager must work out detailed operational plans from the overall transportation plan. Detailed plans/ schedules must be developed for each product and each supply point/warehouse, month-by-month and week-by-week. The plans must indicate the made/combinations of modes. They must also be properly dovetailed with the warehouse plans. Once the plan in all its details is ready, the task becomes one of creating the required transportation capacity and securing the required linkage between transportation schedules and wan house space procurement.

Implementation of Plans

The transportation job does not end with the preparation of plans, the determination of optimal modal mix, development of operational plans and putting in place the required service contracts. In fact, it begins there. The smooth movement of the product and efficient execution of the whole plan, with minimum deviation, is the real task. Many practical problems may crop up in the process. Sometimes, transport capabilities do not become available for executing the plan. Often, the rates overshoot the budgeted figures. Due to seasonal factors and pulls from competing products, which can afford to pay a higher rate, securing effective transport capacity becomes difficult. Factors like climate, road condition, labour situation, octroi rules and problems of interstate movement all affect the availability.

Controlling Transportation Costs

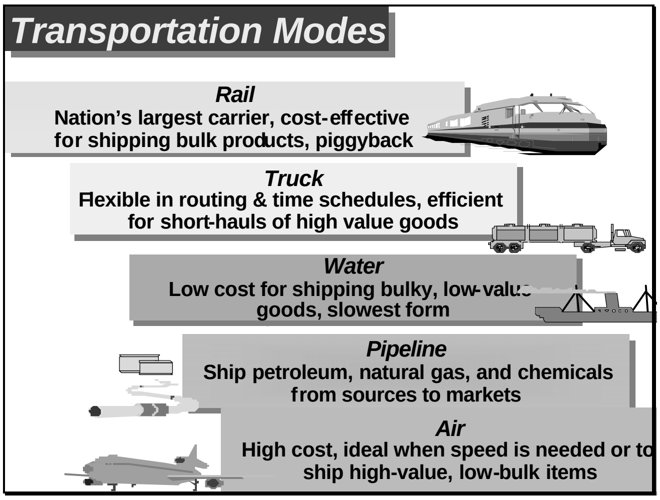
As mentioned earlier, transport cost is a major element of distribution costs in most businesses, and it has been increasing constantly in recent years. As such, it is essential that the transportation costs are controlled tightly. Also, this has to be done without sacrificing the minimum guaranteed distribution service level to the channel and consumers. Saving in transportation can be realised by: (a) optimizing the mix of the transport modes, (b) reducing the transport lead and the lead-time through effective routing and other means, and (c) eliminating multiple and wasteful transfer, and handling of products. The transport controller has to have an overall appreciation of the whole range of physical distribution activities and the costs thereof. He cannot remain confined to the narrow role of freight rate negotiator, or a transport liaison man. He has to view transport as a total back-up capability, supporting the marketing function and a source of competitive advantage for the firm in the marketplace.

Conclusion

In This lesson we studied the different modes of transportation and points companies need to take care in deciding the means of transport.

Notes -

Points to Ponder



Comparison of Transport Modes

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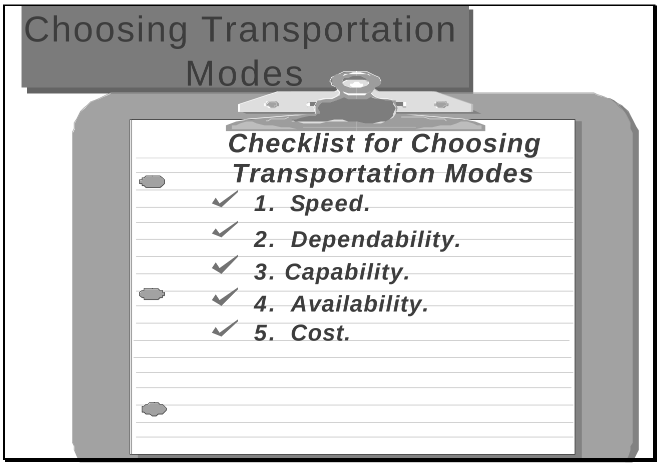


Questions

Q1. What are the various modes of transport? Discuss the merits and demerits of each?

Q2. What are the points Transport manager needs to look while deciding modes of transport?

Q3. How to control transportation cost?

LESSON 37
WAREHOUSING

Learning Objective

- To understand the main task in Warehousing
- To understand Warehouse designing.
- To understand cost associated in Warehousing.

Warehousing

Warehousing is the major component of physical distribution. Warehousing management has two distinct and equally important parts: (i) the physical job of creating and running the network of storage points, and (ii) the managerial task of controlling inventory levels without sacrificing service levels. Though interrelated, they require separate and detailed discussion. We shall, therefore, devote two independent sections to the subject. In the first, we shall deal with the warehousing aspects and in the second, with the inventory management aspects.

Designing a Warehousing System

In most cases, products flow from the factory to the consumer through a long winding chain, consisting of multiple tiers of warehouses and multiple tiers of marketing intermediaries. In designing a warehousing system, the following basic questions relating to this flow become significant.

- How many warehouses should we have?
- Where should we locate them?
- What should be the size or capacity of each of them?

The Cost-Service Tussle

When we look closely at these questions, two interesting, but conflicting, points emerge. Salesmen and channels always plead for greater convenience in delivery and consequently more warehouses. But, maintaining a large network of warehouses is a costly proposition. Thus, there is an inherent tussle between cost and service in warehousing decisions.

Warehousing to be Tackled as Part of the Physical Distribution System

While designing a warehousing system, the fact that warehousing is a part of the overall distribution job should be borne in mind. The warehousing design should fit smoothly into the overall distribution design, which includes physical distribution elements like transportation plus channel arrangements, which will be discussed in the succeeding chapter.

Warehousing, a Partly Fixed and Partly Adjustable Entity

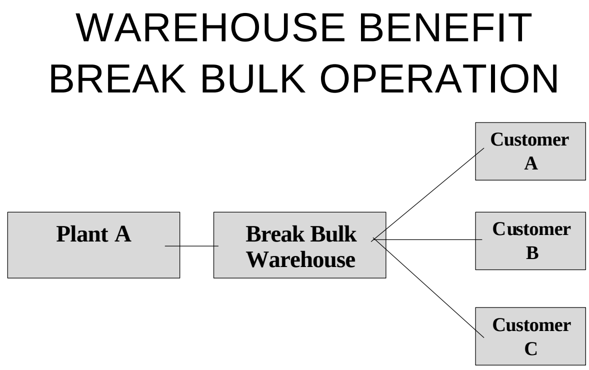
In most cases, it may be apt to view demand in a given territory as consisting of a constant component and a transient component, which is to be added to or subtracted from (mostly added to) the constant component. Past sale corresponds to the constant component. Changes occurring in demand in the current period correspond to the transient component. The transient component is related to change in market demand per se, or company demand (a company may lose or gain relative market share). Thus, in the nature of things, warehousing will have a constant component plus a variable component. And, there is some scope for adjustment in warehousing of products, depending on market behaviour/company's performance.

Warehousing Job can be Taken Care of in Different Ways

As regards the actual organising of the warehousing system, different alternatives can be considered by the firm.

- Hire warehousing service from public warehousing agencies
- Own the godowns and manage warehousing through company staff
- Entrust warehousing to C&F agents/stockists/ distributors
- A combination of the above

Each alternative has its associated merits and drawbacks. Decisions have to be basically situation specific. FMCG (Fast Moving Consumer Goods) firms usually transfer a large part of the warehousing task to their C&F agents.



Determining the Number Location and Size of Warehouses

Determining the locations and capacities of the warehouses is the crux of the task. On this depends the firm's customer service level, its competitive advantage in distribution and its inventory cost structure. While one might point out that it is the inventory turnaround that primarily determines inventory costs, the fact remains that the costs are also influenced by the locations and spread of the inventories -at how many places and in what sizes are stocks kept. Moreover, inventory turnaround itself is partly the outcome of the manner in which the inventory is spread.

Determining the number: The optimum number will depend upon the nature of the product, the size and geographical spread of the market serviced by each warehouse. the current and potential sales in the territory, the extent of seasonality of demand if applicable, the level of peak demand, the trade patterns, the number of distributors/retail outlets to be serviced by each warehouse, the acceptable order-execution time, the possible speed of replenishment of stocks and the cost involved in operating warehouses. Future requirements and pattern of competition are also relevant factors in deciding the number and sizes of the warehouses.

Choosing the size: The decision on the size of the warehouses must be taken in alignment with the decision on their total number. After a firm assesses the sales potential in each warehouse territory, the question to be decided is: What is the optimum inventory holding needed for realising the sales projected for the territory?

Warehouse size and costs are inversely interrelated. So, as a general rule, small-sized warehouses are uneconomic compared to larger ones. At the same time, if the sales projected are small, warehouse size has to be small. Customer convenience and channel service will call for a large number of small-sized warehouses spread extensively all over the marketing territory. There will also be the additional consideration of future requirement. As a general rule it can be said that by reckoning the volume of sales and the desired market share in the area covered by the warehouse, and by applying the factors of transit time and peak season demand, the optimum warehouse capacity at a given location can be worked out'.

Choosing the exact locations: Choosing the exact locations of the warehouses is as important as choosing their number and capacity. The locations must be suitable in terms of market factors and availability of transport facility: Rent rates, commercial suitability of the location, implications of local levies, etc., have also to be looked into. Above all, availability of suitable godown space has to be considered.

Improving Warehousing Effectiveness

Warehousing effectiveness can be improved by adopting scientific methods and by taking the support of IT. In the larger context, however, warehousing effectiveness depends squarely on right policies of physical distribution.

Scientific warehouse layout in itself facilitates warehousing effectiveness. The layout/design must be suitable for the product(s) concerned and the nature of storage and in-out operations.

Warehousing effectiveness also improves when the handling and movement of items within the warehouse is minimized. This applies especially to large warehouses and products involving extensive storage, receiving and issue operations. Every time an item is moved within the warehouse, it means an opportunity for damage to the item; and each lifting of the item fatigues the package.

Systematic stocking of items is another factor. If the items of high demand, with high frequency of in-out operations, are kept in the front and the relatively slower moving items in the rear, it will facilitate smooth operations and also help reduce the overall costs of warehousing. It is such matters of detail that make the real difference between poor and good warehousing.

Elements of Inventory Costs

• Interest on capital tied up in the inventory • Warehouse rent • Staff salaries • Insurance • Rates and taxes • Stationery	• Postage and communication charges • Administrative overheads • Costs of handling, unloading and stacking • Loss due to damage and deterioration while on storage • Cost of order processing/record keeping/accounting

In many cases, warehousing as a whole becomes inefficient on account of unreliable sales forecasts. When actual sales show great divergence from the forecast, any warehousing plan naturally goes haywire and its effectiveness suffers a setback.

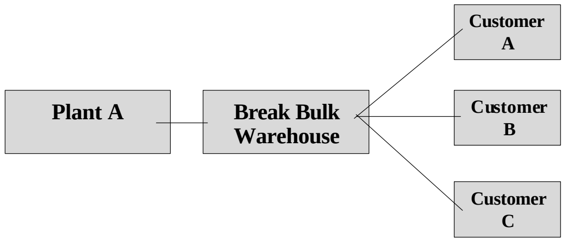
Conclusion

In todays Business environment the companies are going for bulk production and customers are distributed globally so it is necessary that organizations have proper warehousing facilities. It helps in adding time and place utility.

Notes -

Points to Ponder

WAREHOUSE BENEFIT
BREAK BULK OPERATION



- Warehouse strategy is evolving to more focused and flexible
- Technology and expertise are key warehouse alternative determinants
- Operating and industry synergies are more important factors

Questions

Q1. What factors should be considered while designing Warehouse?

Q2. How can Warehousing effectiveness be improved?

LESSON 38
IMPACT OF IT ON PHYSICAL DISTRIBUTION

Learning Objective

- To understand the ways in which IT has affected distribution system

1. Introduction

Recent advances in information technology have enabled low-cost and efficient inter-organizational information sharing (IOIS) relationships between firms adjacent on the supply chain. These arrangements have been prevalent in the automotive industry for many years. For instance, Chrysler mandates that all its suppliers be able to interface electronically with their logistics management information systems. However, of late, IOIS arrangements have become more varied, and have also become common in a number of other industries; in particular, between large commercial retailers and their suppliers of OTC (over-the-counter) goods.

To illustrate some of the issues that are believed are crucial to understanding their costs and benefits, consider the following real-life case:

> XYZ Corporation started selling pharmaceutical over-the-counter (OTC) products in 1978. They have a variety of such products that they sell today. They rely heavily on electronic interfacing at various levels with their buyers in order to drive efficient supply chain management. XYZ was introduced to EDI in 1985. Their basic EDI process is fairly simple. Customers enter orders via EDI by sending UPC codes and order quantities to an electronic mailbox with a specific customer ID. Orders are retrieved four times a day, and after being screened for consistency, are translated and sent into XYZ's order processing system. Currently, there are over 160 customers who use EDI for ordering. 70% of their dollar volume of orders comes in electronically, and 50% of the total number of orders use this system. The benefits of the simple EDI system have been immense. Delivery times have been cut from an average of 21 days to an average of 5 days. Customer order problems, which used to take 24 hours to handle, are resolved in less than an hour. The EDI system is handled by customer service representatives, who, instead of entering line items manually, now have more time to focus on advertising, selling and forecasting. However, there are some concerns with this system. Customers like to use the same UPC each time they order, and do not keep up with changing product types and packaging sizes; hence, a fraction of the orders tend to be for products that are no longer in existence. It is difficult to handle specialized product features, and promotional products, due to the information gap between the customer and XYZ. XYZ has solved these problems and achieved further operating improvements using VMI (vendor managed inventory). For instance, one of their retailers allows them to hook the EDI system into the retailer's inventory system. This allows them to view POS data - XYZ controls the stock in the retailers stores. This eliminates the information gap discussed earlier. This information also has cross-functional value, as it allows XYZ to generate superior demand forecasts. It has increased the number of inventory turns by over 300%. Another of XYZ's retailers does not allow this form of VMI, but gives XYZ access to their POS information; this information is targeted at helping XYZ's marketing and sales divisions make better forecasts, and to give XYZ the option of replenishing stocks continuously. XYZ also manages a whole category of OTC pharmaceutical products for one of their retailers; this provides XYZ with valuable information about competing pharmaceutical companies' sales and promotion patterns. The benefits to XYZ should be immense; however, their managers do not feel that there is any tangible net value from these advanced systems. The efficiency of their logistics management and their marketing strategies have improved; however, these benefits seem to be outweighed by the fact that they operate on stringent and expensive supply schedules, and are saddled with a number of the ordering costs that the retailer used to bear. In short, as one despondent manager put it: 'The retailer seems to have extracted all the benefits of our partnership'.

The case raises a number of interesting points. We focus primarily on the following issues:

- How much information should a firm share? If sharing information generates value, one might argue, then why not share all relevant information available ? At least two observations are of consequence when examining the question of up to what level must one build these relationships:
    - The sharing of information also affects a different dimension of the buyer-supplier relationship: the relative bargaining power of the two parties.
    - The nature of the information shared may influence the strategies of departments outside operations and supply chain management; also, it may affect the competitive position of the buyer or supplier with respect to their own industry rivals.

Based on above example, we describe the impact of different levels of information sharing on the operations, sales and marketing strategies of an organization.

- If these arrangements are indeed value creating, then a question which arises is how can IOIS relationships be sustained. For instance, a supplier may get tremendous operations and sales strategy improvements if permitted to access point-of-sales information; however, the buyer may not gain significantly from this arrangement. In a case like that the information is shared on a continuous basis, and that the value created is shared in a satisfactory manner.

2. The Level Of Information Sharing

The diversity of information content, and the numerous sharing options makes it seemingly impossible to classify the nature or level of information sharing. Our field studies have indicated that a number of different sharing arrangements are possible. For example, some suppliers share inventory position information of the products a certain supplier sells them. This information may be transmitted daily, or weekly; the level of detail also varies. There are suppliers who see the store-level day-to-day point-of-sales (POS) information; there is a great deal of variety here as well - some see only product UPC's and quantities, while others have access to temporal sales distribution and customer profiles. Other buyers transmit order quantity, payment and cost information using EDI - this is a situation where the volume of information exchanged may be great, but its impact on the operations of the firms are relatively low.

If one examines information from another perspective, the problem simplifies a great deal. Treat the level of information shared not based on what its exact content or volume is, but rather, based on the impact it has on the operations, sales, marketing and production strategies of the parties that contract to share the information. Using this view, one can classify IOIS arrangements into four categories, based on the level of impact the shared information has on the buyer and supplier (Figure 1).

Figure 1: Models of information sharing

The first level involves increased cost-and-time-effective exchange of transaction-level information (like order quantities and prices) through EDI. The second level involves sharing select operational information (such as inventory levels) in order to exploit superior expertise across organizational boundaries, and improve operating efficiency. At the third level, the information shared has strategic value to the party that receives the information. Finally, at the highest level, the information adds both strategic and competitive value to the party that receives it.

2.1 Exchanging Order Information

Many IOIS arrangements do not involve sharing firm-specific operations information; they merely improve logistics processes through efficiency gains from EDI. We treat this case - where the companies exchange ordering information - as our base case. (Figure 2)

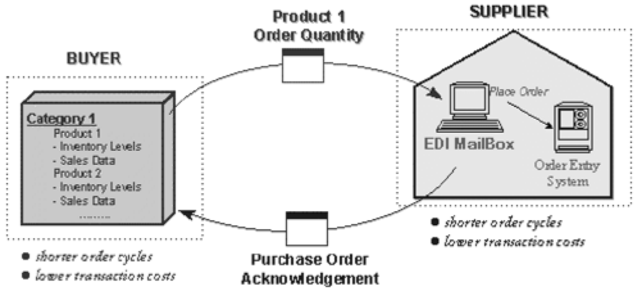


Figure 2: EDI — exchanging transaction information

This is one of the oldest and most widely prevalent forms of IOIS, and is aimed at reducing transactions costs and the duration of order cycles.

At this level, both parties gain from reduced order cycle times (which reduce inventory levels). The value gained is not joint; each party improves efficiency independently, and hence there are no value sharing issues. There is the issue, however, of information technology costs. One party may find it cost-effective to invest in an EDI system that enables these improvements; the other may not. However, both need to invest in the system in order to transact electronically.

2.2 Sharing Operations Information

Information is often shared to leverage on the superior expertise, or operational economies-of-scale of one organization. This occurs when one firm owns valuable information, while the other firm possesses the ability to use this information. An example of this is vendor managed inventory (Figure 3).

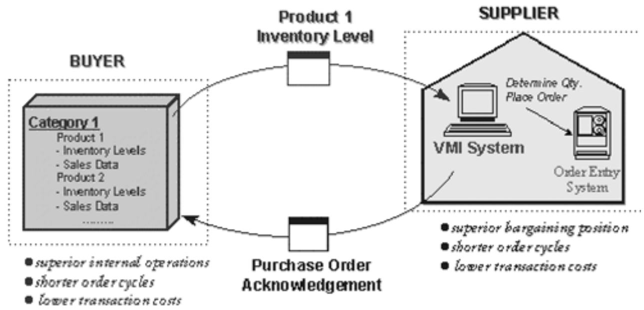


Figure 3: VMI — sharing operational information

For instance, a buyer shares aggregate inventory position information with its suppliers; this enables suppliers to manage the inventory of their own products at the buyer's site. Suppliers are better equipped to perform these duties, for the following reasons:

- They have experience managing large supply side inventories of this product.
- They have superior knowledge of production schedules, which reduces the supply-side uncertainty that a buyer normally faces, resulting in a lower average inventory for the buyer.

- They could have comparable VMI arrangements with a number of buyers (economies-of-scale).

Efficiency gains are not restricted to inventory cost reductions. In our case in when product specifications, packaging specifications or packaging quantities changed, an order sent with an outdated UPC would generate rework. When new products were introduced, there was a similar problem. Moving to VMI eliminated these difficulties. However, the buyer's costs of ordering and order fulfillment are now borne by the supplier..

What does the supplier gain ? Their internal operating efficiency gains are minimal at best. However, one benefit that may not be immediately tangible (if it exists) is that the supplier's relative bargaining position for its transactions with the buyer may improve. Since it is has superior knowledge of how well or badly its product is doing on a regular basis, the information asymmetry it faces reduces; it may therefore be able to bargain for price schedules that are more favorable.

It is likely that the contracts underlying these sharing agreements will include value sharing agreement between the buyer and the supplier. Alternately, there could be a penalty for non-VMI suppliers. This penalty could range from a complete shut-out ('we do business only with suppliers who manage their own inventories in our stores' - implies a strong bargaining position on the buyer side, despite the apparent gain in power by the supplier as described in the previous paragraph) to some kind of price advantage that the buyer passes on to the supplier. Our discussion in provides insight into some these issues.

2.3 Sharing Strategic Marketing Information

It is becoming common for organizations to share brand-specific information which provides strategic benefits to one of the organizations, and also leverages on their superior expertise. This occurs when one organization owns information that it can derive little independent value from, but which another can use to generate operational benefits for the company it receives the information from, besides garnering strategic value for its own sales and marketing departments. For instance, a retailer possesses POS (point-of-sales) information on all the products it sells. This information is not of much value in isolation; however, a supplier can make superior demand forecasts by analyzing detailed transaction level information from many retailers. This form of information sharing is used in the efficient customer response, continuous replenishment and quick response systems models (Figure 4), common in the grocery and fashion retailing industry.).

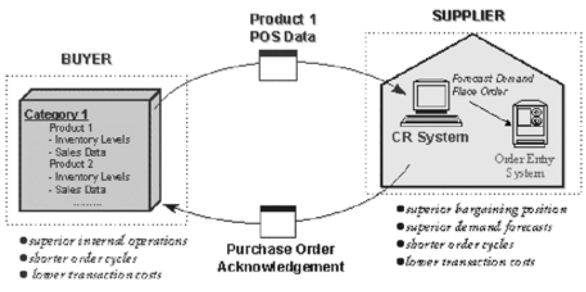


Figure 4: Continuous Replenishment — sharing strategic information

The model has been discussed for many years now - supply chain management has always striven to move towards a system where consumer purchases 'pull' goods through the chain, rather than suppliers 'pushing' them.

Since inventory positions can easily be derived from POS information, the operational information is also being shared. Hence, all the benefits that accompany VMI-type situations still exist. However, this information is of a much higher level of detail than inventory aggregates. - it can be used by the supplier's sales and product development groups for improved demand forecasting, promotion scheduling and segment-specific forecasts. According to the director of worldwide sales forecasting at Eastman Kodak, such region specific and tactical demand forecasts are increasingly becoming a major role of sales. Reduced demand uncertainty also improve the internal inventory management of the supplier.

The benefits described above may indicate that the buyer can induce suppliers unwilling to enter into information sharing agreements by offering them access to information that is of strategic value. However, when this information is available to the supplier, the relative bargaining power of the buyer is reduced further . For instance, in the POS example above, the supplier now knows not only gross product movement figures, but also the details of what prices the buyer charges consumers, any local demand patterns and the schedule of promotions - this puts the buyer at a significant disadvantage when negotiating supply terms.

2.4 Sharing Strategic and Competitive Marketing and Sales Information

At the highest level of information sharing, it is possible for a buyer to allow a supplier to access broad market information that provides the supplier with strategic and competitive benefits. This occurs when one organization possesses information that it can derive little independent value from, but from which another can derive internal strategic production benefits, as well as competitive sales and marketing benefits. The competitive benefits are with respect to intra-industry rivals - this information does not give the supplier additional competitive advantage over the buyer, but over other suppliers in its own industry. Category management is an example of this situation (Figure 5).

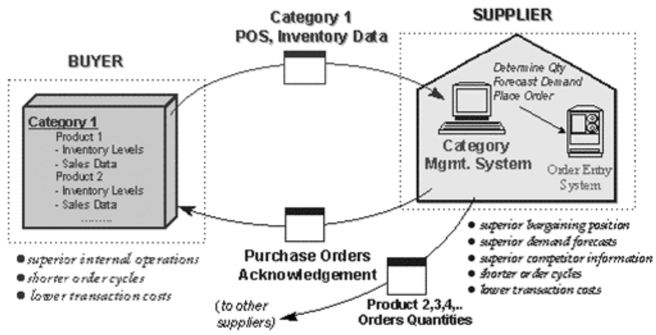


Figure 5: Category management — sharing strategic and competitive marketing information

The retailer endows one of the suppliers with inventory management responsibility over all the products supplied for that category, and provides them with the relevant POS information. This gives that supplier strategic benefits (from improved demand forecasts), competitive benefits (from sales and demand information about competitor's products), and will enable superior inventory management. It also reduces the buyer's operating costs tremendously - not only are all order management costs eliminated, but the buyer deals with only one supplier per category, and hence has a significant reduction in information technology costs.

On the face of it, the supplier also gains tremendously when provided access to this information. Not only are all the benefits of present, but the supplier can track the sales of competing products in the category, and use this information to improve the sales strategy of their own product. Since there may be a time lag between the category manager generating an order, and a competing supplier receiving it, inventory costs of competing products will tend to be higher, and hence the category manager gains a cost advantage as well. The tradeoff appears to be increased transaction costs for the supplier, who manages, orders and monitors product movements of a whole category of products.

In this section, we have discussed the sources of value creation when two companies share information at different levels. We examine how this value will be shared by the two firms.

4. Summary and Insights

Corporations have long been aware of how information systems can allow them to operate across organizational boundaries; however, there has not been much research into the competitive implications of these IOIS arrangements. There has also been significant concern on the part of suppliers who see no tangible benefits accruing to them from different information sharing arrangements. Our study offers the following insights into these long-standing concerns.

1. The impact of IOIS relationships is not merely operational; they can alter supplier marketing and sales strategies, and shape competition in supplier markets.
2. It is possible for a buyer to extract all the competitive value of information from each supplier. Therefore, it is worthwhile for buyers to collect as much information as possible that is of competitive value to their suppliers - they need not actually share it - a realistic threat of potential sharing is sufficient.
3. In a supplier market with many competing suppliers of similar size, VMI is likely to be the best policy for a buyer; though category management may offer higher operational savings, a buyer can do better by extracting competitive value from the suppliers with the threat of CM.
4. The following factors increase the operational savings that a supplier expects from an IOIS relationship:
   - High inventory cost rates
   - High demand uncertainty

   However, the supplier should examine the competitive factors involved in these arrangements, before being tempted by large (and often illusory) cost savings, as the buyer could end up getting all the value from the arrangements.
5. Buyers should target suppliers who have the characteristics described in (4), as they are likely to be tempted by the prospects of high savings - since these savings are likely to accrue to the buyer, these are better firms to share information with. The same holds for highly competitive supplier markets.
6. Partnering with suppliers (as advocated by many supply chain management information systems vendors) is unlikely to be optimal for the buyer in many situations. There is little reason for buyers to be worried about loss in bargaining power when they share information; through creative contracting, they can regain any power they apparently lose.
7. A supplier in an IOIS relationship is unlikely to benefit from the relationship, or accrue any of the value generated; however, it may still be necessary to remain in the arrangement, to avoid further losses. A supplier who breaks even on a VMI or category management agreement, is probably doing as well as they can.
8. As I.T. enables buyers to use and share information more effectively, they are bound to be able to 'pull' more and more from suppliers. Hence, suppliers may do well to negotiate long-term VMI contracts with buyers. Even if these contracts generate little or no apparent present or future value, they are insurance against what will only become a less favorable market for them. This is particularly true in highly competitive markets; if a buyer possesses competitive information that is potentially very valuable to a supplier, this is not a sign of the supplier benefiting a lot, but a predictor of all suppliers losing a lot.
9. As the cost of processing and sharing information drops, as is evidently has and will continue to do, two related occurrences are very likely:
   - The volume of information that a buyer collects (and can potentially share) will increase
   - The strategic and competitive value of this information to suppliers will increase

In the light of our analysis, this spells more profits for the buyer, and more value extraction from suppliers.

Conclusion

After going through above discussion we can understand the importance and impact of information technology on distribution management.

Question

Q1. Discuss role of IT in distribution management?

LESSON 39
IMPLICATION OF SUPPLY CHAIN MANAGEMENT IN PHYSICAL DISTRIBUTION

Learning Objective

- To understand supply chain management
- What is Efficient consumer Response
- Physical Efficiency versus Market Responsiveness in supply chain management

What is Supply Chain Management?

A supply chain is the set of entities that collectively manufactures a product and sells it to an endpoint (the ultimate customer). In this sense, supply chains are like value added chains. However, they include only players that add value in production and distribution. The concept of a supply chain is narrower than that of a value-added chain, but it is broader than the idea of marketing channels. These go from factory to buyer. A supply chain goes back to a more distant starting point-the suppliers of the factory that makes whatever is being sold-and the suppliers of the suppliers. Indeed, the beginning point of a supply chain is somewhat arbitrary, although it usually is considered to include only the immediate suppliers of the factory that produces finished goods. A supply chain is also distinctive in that it ends with the ultimate buyer, the customer of someone's customer. The end of the supply chain is the last invoice.

In practice, much of what is called SCM does not go all the way forward to the last invoice, nor backward to the suppliers of suppliers of manufacturers.

A good working definition of SCM is that it is an organizing concept that starts with customer service and argues that this results from the cumulative efforts of the entire channel. Customer service cannot be interpreted as the sole responsibility of any single channel member. The guiding principle is to unify product flows and information flows up and down the production and distribution chain. Doing this requires

1. a market orientation, focused on the last customer;
2. effective channel management, to enable smooth transfers of product and information; and
3. effective logistics.

An organizing concept, a statement of principles, a focus on end customers, channel management, and logistics—critics charge, with some fairness, that SCM needs a "more precise definition. Yet, SCM is not really a package of techniques, it is akin to a paradigm; that is, a set of common values, beliefs, and tools that unites a group of people engaged in related tasks. Any paradigm has subfields, and SCM is no exception. A number of concepts and techniques can be folded into SCM, and we will treat these as we encounter them. Let us begin with the roots of SCM in the grocery industry.

Efficient Consumer Response

Efficient consumer response (ECR) is a landmark in marketing channels. As a movement it has wrought radical change in the U.S. grocery industry, and that change is spreading to other sectors and other countries. Its success is surprising, given how different it is from the usual operating methods of most channels. Indeed, ECR is so successful that some critics are now declaring it outdated and looking for a new movement to replace it.

The source of ECR is fear. In 1992, the U.S. grocery store industry was feeling threatened by the rapid growth of non grocery outlets, such as drugstores.23 these "alternative format" (alternative to a supermarket) stores were aggressively adding food to their assortments, and the consumer was responding positively. A principal threat was seen to be Wal-Mart, which was moving from mass-merchandising to a hypermarket concept (merchandise and groceries). This is why, in 1992, two grocery trade associations commissioned a study of grocery methods. The report strongly criticized existing grocery channels and proposed a radical and complex series of changes to these channels. This program of change was named according to its objective: to achieve efficient (as opposed to wasteful) consumer (the final buyer) response (supplying only what is desired).

As initially proposed, the idea is to focus on four areas where the industry as a whole had and still has great potential for improvement. How great? The United States grocery industry converged on an estimate of $30 billion annually, or 5 percent of retail sales. Interestingly, a similar figure (£21 billion, 5.7 percent of retail sales) is being suggested for European grocers.24 The four areas are

1. A continuous replenishment program (CRP). The goal is to end the bullwhip effect. The method is to use purchase data captured via scanners from the final buyer to inform all upstream supply chain members of demand, right back to the suppliers of suppliers. This requires massive standardization of codes and methods, and implementation of ED!
2. Efficient pricing and promotions. A scourge of the industry is poorly calibrated promotions that wreak havoc with pricing and buyer behavior. At the consumer level, excessively generous promotions (such as one free for one purchased) create demand spikes and degrade brand equity. Non-targeted promotions encourage price comparisons and brand switching purely for temporary price cuts. At the wholesale level, manufacturer promotions lead to huge demand spikes. These push factory production up too high, then down too low. This, in turn, pushes inventory up too high (resulting in spoiled food) or down too low (running out of stock).
3. Changes in product introduction. Thousands of new-product introductions, most of which fail, are endemic to grocery retailing. ECR calls for combining market research commissioned by channel members in order to forecast

new-product success better on a store-by-store basis, or based on reasonable store groupings (store clusters).

4. Changes in merchandising. This is the same idea (combine research) for the purpose of finding better ways to merchandise brands and their associated categories (e.g., snack foods, pet food, soups) store by store, or cluster by cluster.

Over time, these ideas have been developed and expanded. ECR has become an umbrella term that now encompasses a variety of means by which pure grocers combat alternative format stores. Some major operational features of ECR follow.

Category Management and Efficient Promotions: Historically, grocers think of what they sell in terms of how they buy: one brand of one type of item (e.g., Frito-Lay Taco Chips). Category management is the principle that a higher level of aggregation is called for. A consumer's shopping list is composed of product categories ("remember to buy two bags of salty snacks"). Therefore, a grocer should think in terms of a product category, and manage it as a whole, rather than managing each product-brand and letting the collection of items amount to a category. Further, in the spirit of ECR, retailers and suppliers should work together to understand each category's dynamics as perceived by the consumer.

The rationale is that any item competes with any other item for shelf space. Consumers think in categories, and some as a whole merit more space than do others. Depending on the store, the diaper category, for example, may merit (on a contribution per-space basis) more space than it is getting, whereas the laundry detergent category might merit less. This conclusion may not emerge from analyzing items one by one. And what should be in a category? The principle is to look for groupings that seem natural to a consumer. Thinking in category terms is made easier by advances in activity-based costing (ABC). The cost of slow-moving items is often surprisingly high, and ABC helps point out these items.

The category management focus is related to the idea of an efficient assortment: Having what the customer wants and skipping the rest. For groceries, skipping the rest is of great importance. It is widely believed that brand managers have proliferated SKUs to lock up shelf space and brand share, with the result that consumers are overwhelmed with unsought variety. For example, P&G claims that in the laundry category 40 percent of SKUs could be eliminated, yet 95 percent of consumer needs would still be met. Some manufacturers believe that having fewer SKUs actually increases overall sales.26 this paradoxical observation might be explained by the idea that buyers aren't motivated to sift through multiple options in low-involvement product categories. Bewildered by more variety than they want, consumers depart with fewer purchases. A simplified display enables faster information processing, thereby increasing consumer confidence and motivation to purchase.

Category management sparks thinking about efficient promotions. These can be defined as limited-time offers that are win-win for all parties. This means that they

1. move product (the manufacturer's concern),
2. drive store traffic and category sales (the retailer's concern), and
3. provide added value (to the targeted consumer).

This third objective masks the real concern of many manufacturers: that their promotions do not offer value to their brand-loyal shoppers, nor do they build brand loyalty within the segment of consumers who rely solely on promotions to decide what to buy.

Efficient promotions use data about consumer behavior to discover what is selling, at what price, and to whom. Retailers, wholesalers, and manufacturers work together (often by commissioning a market research firm) to make sense of reams of transaction data or market research data. The purpose is to discover win-win promotional opportunities for a store or a cluster of stores. For example, in Italy, manufacturer Kraft Jacobs Suchard and retailer Groopo GS have jointly analyzed loyalty card data to target consumers in a single attitude-based segment labeled "seeking healthy relaxation." As the label implies, it is no easy matter to identify these people. Similarly, in Spain, manufacturer Elida Faberge and retailer Auchan have jointly analyzed panel data to identify a mutually interesting growth opportunity: susceptible consumers who are secondary customers of Faberge and who are secondary shoppers at Auchan.

Continuous Replenishment: Continuous replenishment planning (CRP) is the practice of replacing stock based on speedy knowledge of consumer "withdrawals" (Le. sales). More precisely, in SCM the term means partnering between distribution channel members in order to replace the traditional practices (push systems, stocking to forecast) with a pull system. In this pull system, a retailer's stock is replenished based largely on actual sales data from the end of the supplier chain (the consumer).

The goal is to automate the process related to warehouse fulfillment and shipping, using consumer demand (captured by scanners) to trigger just-in-time restocking. By automating, ECR practitioners seek to cut errors and processing costs, which are substantial. For example, British grocer Sainsbury's estimates that one-quarter of the chain's supply chain management budget is spent confirming the location and movement of inventory.

Continuous replenishment is an arduous task. In CRP, a supplier (perhaps a distributor, perhaps the manufacturer directly) takes complete responsibility for monitoring and refilling the retailer's inventory. In the grocery industry, CRP is often accomplished by charging the manufacturer with managing the downstream channel member's inventory. In most of these cases, powerful retailers have obliged manufacturers to make the significant expenditures necessary to perform continuous replenishment. Intriguing, albeit preliminary evidence suggests the biggest winners of this exercise are consumers (lower prices, fewer stock outs) and retailers (higher profits). The profit benefits for manufacturers are somewhat difficult to document. Although many report sales increases, they also find that significant logistical complexities and costs have been moved back to their level. As oil industry analyst notes, just-in-time (JIT) often becomes just inventory shift (JIS). Perhaps the biggest benefit of CRP for manufacturers is that they remain suppliers to large retailers. CRP keeps them in the game. It may or may not yield increased profits.

Obstacles to ECR: The list of obstacles to ECR is formidable.32 At a physical level, ECR requires agreement on codes and on a huge number of ED I choices. In general, it requires standardization of methods. For example, the delicate exercise of cross-docking is difficult to pull off if channel members cannot agree on a number of issues. ECR implementation is a long and expensive affair.

One of the greatest barriers to ECR is the necessity of trusting other channel members. Trust and good working relationships are necessary for the information exchange, joint planning, and joint actions that underpin efforts to make the entire grocery channel respond to consumers while cutting waste. And trust is essential for continuous replenishment. The idea of making another party responsible for one's own stock, and doing so without an abundant safety stock, is a very difficult one for many industries to accept.

Trust is based on equity. The fundament of ECR is not that channel members share risk and information to produce gains for the channel as a whole, but that they then share the gains equitably. Opportunism (reneging on a promise to compensate all players fairly) is fatal to ECR.

And yet, ECR exists. Although not the norm in grocery retailing in the United States, it has made great progress. If imitation is the most sincere form of flattery, sincere compliments of ECR abound. Trade publications of many industries overflow with discussions of how to create ECR in their sectors. For many, ECR has become synonymous with supply chain management, which is attracting considerable attention in Europe.

Demanding customers seem to create excellent supply chain operations-albeit painfully. The auto giants and1he major retail chains not only know what they want, they are determined to get it: delivery to a tightly specified time slot, in exactly specified quantities, at near-faultless quality; and "faultless" is extended to cover not only the products themselves but also the associated planning, delivery, and invoicing systems. In these industries, that is now the entry ticket to the game, not a differentiator. And the word is spreading.

That ECR began in the grocery industry is miraculous. When the initiative was unveiled at a trade conference in 1993, few in the audience were confident that the traditionally adversarial relations in these marketing channels could be set aside. The cooperation and transparency that ECR requires had to be brought into being. The power of example is critical, and here the example used is the now-legendary arrangement between Wal-Mart and P&G (Chapter 11 on strategic alliances). Ironically, Wal-Mart's entry into the food business drove the grocery industry to devise ECR in the first place.

ECR also requires considerable change in the internal operations of a channel member. Jobs are lost and roles are redefined when EDI rationalizes supply chains. People representing many different functions in the organization (sales, marketing, purchasing, production, shipping, warehousing, accounting) must work together in project teams to create tremendous organizational change. And teamwork becomes permanent. Salespeople and purchasing agents, for example, are replaced by multifunctional teams on the buyer's side and the seller's side. And each side is expected to understand the other's business. These are wrenching changes.

Rapid Response

Rapid response, or what logisticians prefer to call quick response (QR), is another approach to supply chain management.34 It appears similar to, and is often compared with, ECR, but is really quite different. QR originated in the early 1980s in the fashion industry, in which it has seen its greatest development. Many of the original developments are attributed to Benetton, the knitwear retailer. Many of the later ones are due to Giordano, a retailer that perfected QR from the late 1980s to the early 1990s. Since 1993, Giordano's methods have diffused considerably in the industry and are now practiced by retailers such as Gap and The Limited.

In some ways, QR is like ECR. The fundamental pull system idea-let the consumer tell the entire channel what to make and what to ship, then do it quickly-is the same. And the emphasis on inter firm cooperation, data analysis, data transmission, inventory management, and waste reduction is the same. The fundamental difference is in the volatile, unpredictable nature of what is being sold. For FMCG (fast-moving consumer goods) categories, such as toothpaste, consumers know well in advance what they want and what they don't want. ECR enables them to tell the retailer and the suppliers readily.

In fashion, consumers don't know what they want until the moment they are ready to buy it. They don't know what will be fashionable and whether the next fashion will appeal to them. In fashion retailing, consumers see and try an item, then form an opinion. And they change their minds readily. Benchmarks are difficult to find, in part because of lack of standardization (e.g., of sizes) in the industry. Routinely, retailers put out a line of clothing, then. discover consumer reaction. If the sizes tend to run bigger or smaller than normal, the retailer will have the wrong size assortment. If one fabric or color or variation pleases more than another, retailers will find themselves with too much of one item and not enough of another. And fashion is perishable Consumers won't wait months for restock of a desirable item, and items that sell poorly must be marked down quickly in order to get rid of them at all.

Historically, store buyers forecasted fashion demand well in advance and committed to orders, sometimes six seasons before the items would be sold. This is a push system (make to forecast). Over time, consumer fashion tastes have become so difficult to forecast that many fashion retailers have adopted the opposite strategy: Try something in a small wav and see if it works. If it sells, stock more and quickly. But stock how? Manufacturers need lead time. By the time fashion is discovered, it's too late to order up more.

Here is the impetus for quick response. The essence of QR is in manufacturing. QR involves keeping manufacturing flexible as to what to make and how much to make. In contrast, ECR is more focused on how much to make and when to put it into a ware house. There is no need to keep manufacturing flexible to produce variations of toothpaste, and there is little harm in stockpiling it for a while. Demand can be steadied (e.g., by restraining promotions). heading off production surges. But it is critical to keep clothing fabrication flexible to produce more of the latest hot dress or jacket, in this season's hit colors and fabrics, in the sizes that have proven popular. Production volume needs to be scaled up or down dramatically, and setups from one item to another should be quick. The items produced should be out the factory's door and to the customer rapidly.

Thus, whereas ECR focuses on shipments and promotions, QR focuses more on manufacturing. QR firms are heavy users of flexible manufacturing techniques. Computer-aided design and computer-aided manufacturing (CAD-CAM) occupy center stage in quick response programs. And a good deal of emphasis goes into keeping the components flexible. Benetton, for example, is famous for waiting until the last minute to dye its wools, after receiving early information from pas (point-of-sale) cash registers about what colors are selling.

Much of ECR is about pricing and promotion. This does not figure at all in QR. The objective is always the same: Catch the fashion and charge highly for it. When mistakes are made, which should be a frequent event, catch the mistake soon and mark it down quickly-but modestly. Then mark down again what is left-quickly. In this way, drastic markdowns are reduced: These become necessary to move out merchandise that has been around well after people realized they didn't want it.

In short, QR is not about merchandising and inventory. It is about manufacturing and timing. Another difference is that ECR always seeks to minimize transportation costs. This is fitting in FMCG: Toothpaste and foodstuffs are low-margin items' that don't pass out of style while in transit. Fashion goods are the reverse. Hence, many channel members in the fashion industry willingly airfreight the hot sellers-as soon as they know what those are and to save time, suppliers locate near designers and final points of assembly for the most fashion sensitive categories.

Net, ECR is about demand that consumers know they will have. QR is about demand that consumers don't sense themselves until they're at the point of purchase. Both are pull stems that respond to a consumer. But ECR focuses on being efficient (holding down physical costs), whereas QR focuses on being quick; that is, fast to produce what the market has just decided it wants.

Quick response is an objective. In general, the key is to have access to POS data, then to use the information to cue an array of shippers to pick up and deliver within a network of flexible factories. These factories can be individuals working at home. The transportation network shunts raw materials, work in process, and finished goods around through various steps design, pretreatment of fabrics, cutting, sewing, labeling, quality control, fulfillment of orders, shipment of packages. Firms have multiple suppliers, some of which act as backup systems, and others of which check on work in process.

These intricate arrangements drive off of POS data. Those with access to the data are in position to trigger frantic waves of manufacturing once a "winner" has been noticed.

The speed required to respond to fashion puts a premium on EDI (for fast transfers), CAD-CAM (for changing what is being manufactured), excellent P_S systems, standing arrangements with members of the supply chain, and standardized identification. One of the most difficult challenges to QR has been implementing a standard system of universal product code (UPC) and scanning.3.5 In contrast, the grocery industry had already made great progress on this problem in the 1970s, making ECR easier in the 1990s.

Given the intricacy of the production process, QR puts a very great strain on the myriad fashion channel members, particularly the subcontractors in manufacturing. Trusting relationships and open information transmission are difficult to keep up among so many players. The uncertainty of the demand environment also puts a strain on the system, making it hard to issue guarantees.

Hence, some vertical integration is commonly used to achieve QR in fashion. It occurs in two functions: design of the merchandise and retailing. Design is wholly owned because it is the key to manufacturing. Retailing is wholly owned in order to have stores to serve as test sites, observatories, and transmitters of fast, thorough information. Benetton, for example, is largely franchised but keeps some stores under company ownership. And with their stores, integrated providers such as Gap can quickly alter prices, raising them to stave off stock outs on surprise winners (while rushing more into production), or lower prices early, before it is obvious to consumers which items are losers. This is quick response indeed.

How quick it has to be depends on how fashionable the goods are. The less demand is influenced by fashion trends, the more the supply chain looks conventional. For moderately priced staple clothing, for example, a hyper responsive supply chain is neither necessary nor profitable. A good system of regional warehouses will suffice to fill in surprise inventory gaps, and long lead times for production and transportation are employed to cut costs without penalty.

Putting it All Together: What is the Right Supply Chain?

To this point, we have discussed building blocks of supply chain management and have seen them put together in different ways to serve different environments. Which model is better: the QR philosophy (keep manufacturing design flexible, don't focus on minimizing transportation costs) or the ECR philosophy (fix design, control costs tightly)? Both are pull systems, but differ in how and when they react.

Physical Efficiency versus Market Responsiveness

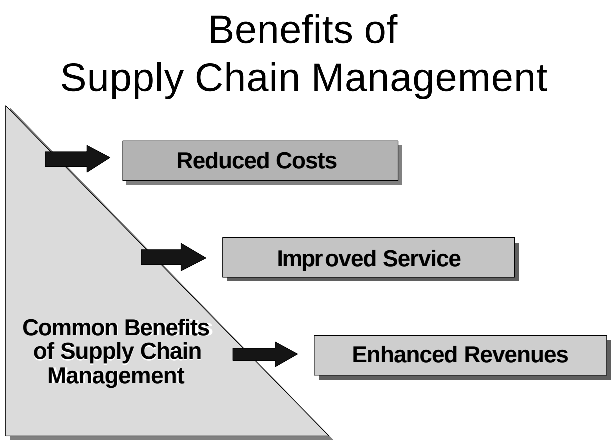
A good starting point is the nature of demand for a brand. A functional brand is of a product that is a staple which people buy in many outlets and which serves basic stable needs. Thus, the brands have stable, predictable demand and long life cycles. This invites competition, which creates low margins. In contrast, an innovative brand of a product is new and different. This enables it to earn higher margins. But the sales cycle of the product-brand is short and unpredictable, in part, because such brands are quickly imitated, and their advantage dissipated. Fundamentally, an innovative product faces unpredictable demand, has a short product life cycle, and is hard to forecast. It has high margins but also higher markdowns and stock outs (due to changing tastes and forecast errors). And, because these products are differentiated, they often exist in many variations. Functional products have the reverse profile. Figure 16.4 summarizes the contrasts between these two endpoints of a spectrum.

The key to supplying functional goods is to hold down three types of costs:

1. manufacturing,
2. holding inventory, and
3. transportation.

These observable physical costs all involve handling a good and accountants to track them. Efficient manufacturing and logistics are crucial. They matter first because low margins make cost consciousness important and second because predictable demand simplifies decision making. ECR fits in this spirit, as do many manufacturing methods based on tight planning and management of supplies. Here, the most important information flow occurs inside the chain from retailers back to suppliers of manufacturers.

Supply chains for these products need to be physically efficient. At the factory, this means running at high capacity; in the warehouse, fast-turning inventory. Products are designed once and for all to make them easy to manufacture and to maximize their performance. Cost and quality are the criteria used to select suppliers.



Innovative goods demand the opposite. The greatest risk with these products is to miss the market by having the wrong item at the wrong time at the wrong price. The key to innovative goods is speed: Demand can't be estimated, only noted as it begins to surge. Hence, the point of sale is a critical information flow. For innovative goods, the opportunity cost of a stockout is very high, given the high margins. And by the time the stockout is rectified, the item may have lost favor, leaving the supplier with drastically devalued stocks.

Supply chains for innovative products need to be market responsive. To do this, product design must be modular to postpone final assembly as long as possible. Performance and cost are less critical here and can be sacrificed somewhat to achieve modularity. Suppliers are selected for quality and flexibility, not lowest cost. The manufacturing system keeps buffer stocks of supplies, just in case. An obsession exists with reducing the lead time needed to fill an order, even though this raises transportation and fulfillment costs.

Market responsiveness and physically efficiency are two endpoints on a continuum, along which a supply chain philosophy can be fitted.

An intriguing element here is that where a brand falls on the spectrum from highly functional to highly responsive depends on the brand's marketing strategy. Thus, the same product category can have more innovative or more functional brands, each calling for a different supply chain. For example, in cars, some brands are very conservative and stable, often appealing to a buyer who resists change (Cadillac Seville, Ford Fairmount). Others have an ephemeral, faddish appeal (the BMW Z3 roadster, the Mazda Miata). The more functional brand needs a more physically efficient supply chain and doesn't need to be so market responsive. The more innovative one needs somewhat more market responsiveness and can afford somewhat less physical efficiency in its supply chain.

Two Kinds of Supply Chains

	Physically Efficient Supply Chain (Functional Goods)	Market-Responsive Supply Chain (Innovative Goods)
Objective	Cut costs of manufacturing, holding inventory, transportation	Respond quickly as demand materializes
Consequences of Failure	Low prices and higher costs create margin squeeze	Stockouts of high-margin goods Heavy markdowns of unwanted goods
Manufacturing Goods	Run at high capacity utilization rate	Be ready to alter production (quantity and type) swiftly Keep excess production capacity
Inventory	Minimize everywhere	Keep buffer stocks of parts and finished goods
Lead Times	Can be long, because demand is predictable	Must be short
Suppliers Should Be	Low cost Adequate quality	Fast, flexible Adequate quality
Product Design	Design for ease of manufacture , and to meet performance standards	Design in modules to delay final production

Supply Chain Management: Why Only Now?

On paper, supply chain management is an eminently sensible idea, so sensible that one wonders why it is having its heyday only now. Even now, SCM is more a slogan than a reality at many companies, and the methods needed to make pull systems work are still very difficult to implement. Pull systems in channels are so different from push ones that it is a very challenging task to make the changeover. Internal and external barriers to implementation exist everywhere. What does a company need to build a supply chain management mentality into its marketing channels? Experience from data suggests that these elements are critical:

1. **Pressure:** A common threat is a marvelous impetus. A huge opportunity (e.g., European economic union) can be

phrased as a threat (develop pan-European logistics or be shut out of the game).

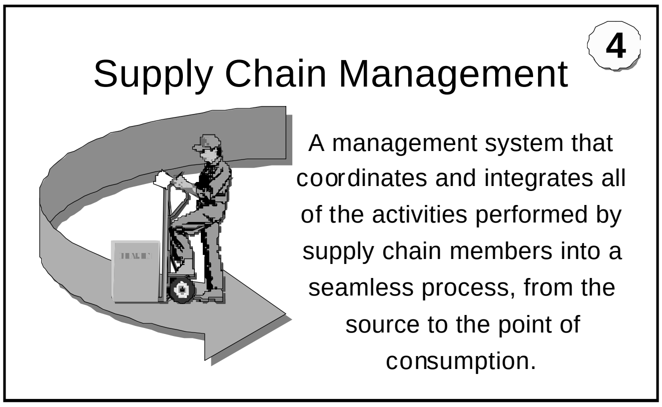
2. Industry agreement on standards (preferably regional, even global) for ED!. This means agreement on coding of goods and the definition of templates (e.g., for invoices) as well as on software.
3. Heavy EDI investment, or more generally, heavy IT (information technology) investment.
4. Excellent cost accounting (speedy, accurate, detailed, activity based).
5. Internal incentive systems that focus on system gains and reward managers for making local sacrifices (i.e., in their own functions) for system gains.
6. Internal culture of cross-functional integration (as opposed to functional silos). Task forces and .team incentives are valuable tools here. Participative management and flattened hierarchies are also conducive to devising and implementing the dramatic changes that SCM thinking demands.
7. Effective channel management, .i.e., trust, good working relations, good design, the judicious exercise of power-in short, the implementation of the principles.

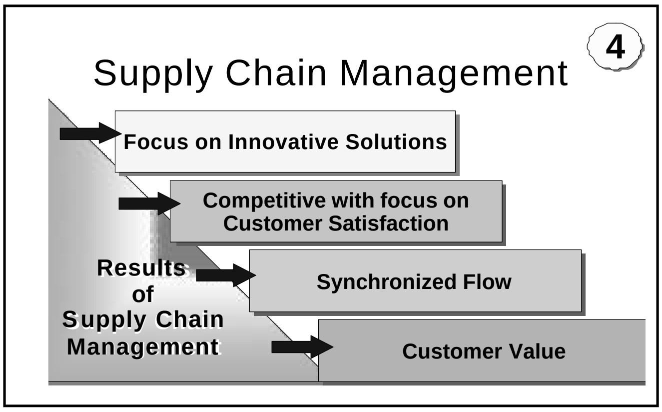
Conclusion

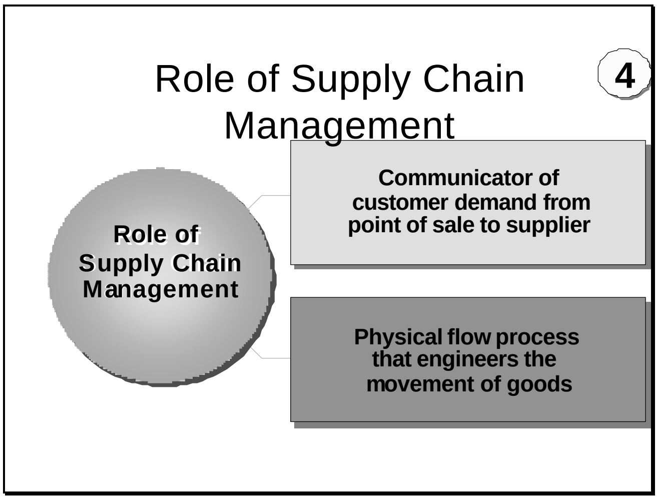
In this lesson we discussed the importance of supply chain management. It leads to the idea of supply chain management , a paradigm that starts with customer service and argues that this results from the cumulative efforts of the entire channel. Customer service cannot be interpreted as the sole responsibility of any single channel member. The guiding principle is to unify product flows and information flows up and down the production and distribution chain.

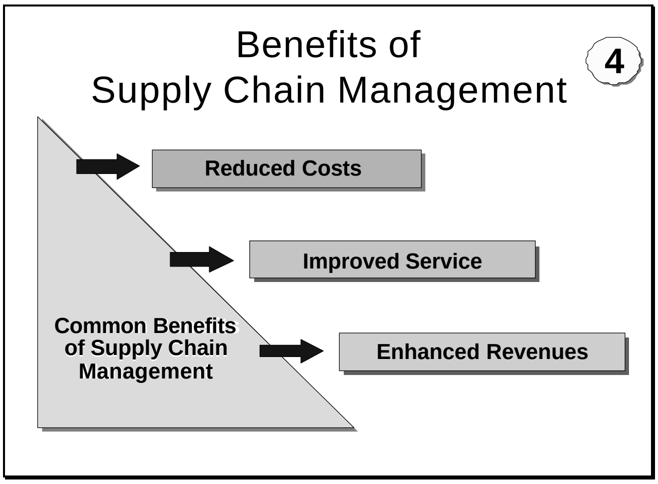
Notes -

Points to Ponder









Questions

Q1. What do you mean by supply chain management?

Q2. How has ECR affected distribution channel?

Q3. What is Physically efficient supply chain?

Q4. What is market efficient supply chain?

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