SALES PLANNING

Sales managers are guided by strategic planning at the company level and at marketing level. While preparing a sales plan, which consists of sales objectives, sales strategies and tactics (or action plans), they should have a complete understanding of the process of sales planning. Figure shows the relationship between objectives, strategies, and tactics.

Fig. 1.3 Relationship between Objectives, Strategies and Tactics

Sales Objectives

Objectives are the statements of intents and when they are quantified to specific and measurable targets with respect to time periods, they are called goals. For example, a company's sales objective is to have a good growth in sales. This sales objective is quantified to a sales goal of 15 percent growth in sales to be achieved during the next financial year. The sales objectives and goals are derived from the company's marketing objectives and goals, which in turn depend on the company's objectives and goals. This concept is illustrated for an organization. A company's goal is to increase net profits by five percent in 2014–15 over the net profits of 2013–14. Its marketing objective is to improve the market share and its sales goal is to achieve a sales growth of 15 percent in 2014–15 over the previous year of 2013–14.

Sales Strategies and Tactics

Strategies are ways of achieving the objectives. Tactics (or action plans) are the activities or the actions that should be carried out in order to implement the strategy. The sales strategies are mostly related to sales force strategies. We shall illustrate with examples to show the relationship between sales objectives, strategies and tactics.

Let us consider a company, which wants to achieve the sales objectives or goals of increasing the sales volume for its product–steel by 15 percent and reduce the selling expenses by 5 percent in the year 2015–16. The marketing strategies considered are:

- Enter export markets
- Penetrate the existing domestic markets
- Utilize existing sales force resource optimally
- Use effective and efficient marketing channels

From the marketing strategies, the sales strategies and the tactics were developed as shown in Table. The company's marketing head and regional sales managers worked out the marketing and sales strategies at the beginning of the financial year 2015–16. The sales force tactics (or action plans) were derived from the sales force strategies. The action plans should indicate who would take action and when. However, this is not shown in Table, as it would have made the table rather unwieldy.

Sales Objectives/Goals	Marketing Strategy	Sales force Strategy	Sales force Tactics (Action plans)
Increase in sales volume by 15 percent	• Enter export markets	• Identify the countries and the distributors	• Marketing or sales head to get relevant market information to decide selection of countries and the distributors
		• Sign sales agreements with the distributors	• Negotiate and sign agreements in 3–5 months
	• Penetrate the existing domestic markets	• Review and improve sales force training, motivation and sales incentives	• Train each salesperson in his deficient or weak areas • Effective supervision by field sales managers
		• Ensure all market segments are covered	• Link sales force incentives to segment-wise sales targets
Reduce selling expenses by 5 percent	• Utilize existing sales force resource optimally	• Use 'ABC Analysis' technique for customer visit plans and tele-marketing for prospective customers	• Focus company sales force selling to A class, (high potential) customers to increase its business share
	• Use effective and efficient channels	• Use Internet (online) selling and telemarketing, in addition to company sales force and intermediaries	• B and C class customers to be served by agents, dealers, telemarketing, and online selling

Sales planning sets sales targets and defines the steps a company takes to reach those targets and meet the goals set by the plan. A sales plan is the document that outlines the strategies employed to achieve success. Effective sales planning addresses a variety of markets and evaluates the product or service needs of the consumer. In this article, we define sales planning and provide tips and a template to begin the sales planning process.

What is sales planning?

Sales planning is the process of defining sales targets and creating a strategy that meets goals and achieves sales and marketing results. The sales plan works in collaboration with the marketing plan and the business plan. The marketing plan details the strategies while the business plan sets the initial intentions for the company. Annual or quarterly sales plan updates ensures the plan stays on course and allows for changes.

Like marketing and business plans, sales plans are living documents that evolve over time. Past experience often dictates the desired achievements of the sales plan, allowing for alterations as the plan is put into action.

Ideally, sales planning addresses six factors that encompass a winning sales strategy:

1. Create a situational analysis

By gathering data and analyzing trends, sales plans assess the current situation to outline strategies based on historical data. Data and trend analysis can identify obstacles and build on the strengths of the sales plan. These actions provide the blueprint for designing new strategies.

2. Identify objectives and goals

Effective sales planning defines company sales targets to include the interests of both the consumer and the business. Sales goals aim to increase revenue, launch a new product or increase brand awareness. Examples of sales goals are:

- Increase monthly or annual revenue
- Lower costs and increase profit margin
- Boost customer value
- Increase sales leads

3. Set a strategy
When setting a strategy, sales teams outline individual roles and responsibilities based on team member strengths and abilities. For example, assign the team member who excels at social media posts to oversee that sales channel. Strategies should integrate with finance and operations to set and achieve targets and improve sales forecasting.

4. Set a sales budget
Sales planning defines the budget(s) for the project and outlines how and when revenue is spent or generated. Setting and adhering to a budget allows sales teams to use resources effectively while keeping the company within its financial constraints.

5. Develop communication and engagement
Effective sales teams understand the objectives of the company and the goals of the sales plan to carry out tasks according to expectations. Communication provides clear direction for sales teams and engages team members to meet their specific goals or milestones. Involve stakeholders in the sales planning process to ensure sales plans are comprehensive and integrate relevant departments.

6. Set controls and measurements
Controls and measurements determine the direction a company is moving, or whether it's time to change strategies and consult past sales data for insight. Controls determine the metrics used to gauge success, while monitoring the progress of the sales plan promotes strategic improvement.

Why is sales planning important?
Sales planning is an important aspect of business that identifies current issues, such as a lack in sales, and seeks to find solutions or develop strategies. Sales planning takes advantage of new opportunities, such as when a company develops a new product, to create brand awareness or interest. Sales plans address various sales opportunities and the plan's objectives may vary depending on whether the company sells directly to the consumer, or to another business.
Ideally, a sales plan:

- Define targets
- Creates strategies
- Identifies tactics
- Motivates teams
- Sets budgets to achieve targets
- Reviews goals and suggests improvements

Tips for sales planning
Writing a successful sales plan begins with perspective, advances to insight and progresses to action. Below is a list of tips for future sales planning:
Understand your customer
For a company to effectively sell a product or service to a consumer, it's crucial to understand the needs of the consumer. Companies often conduct market research or host focus groups to target customers and understand how to fulfill expectations or solve a problem. Send out surveys to customers to get feedback on products or services and incorporate those ideas into the next sales plan. Use all responses and data to build a profile of your ideal customer. Your customer profile, or persona, determines:

- Where to find customers
- Consumer preferences

- Consumer spending habits

Define the obstacles

Sales plans analyze the competition to determine how they are successful or where they lack direction. Understanding how the competition works adds to sales planning to create innovative solutions or improve current practices. List the pros and cons of your competition to strategize how to improve on their strengths while outlining how to avoid negative impacts.

Consult with key people and encourage feedback

While marketing and sales are the primary drivers of a sales plan, consulting with other departments or key personnel helps to complete the sales plan and address all contingencies. Finance personnel may have input on budgets, while upper management can provide feedback for current or past sales or revenue expectations. Sales plans are a conglomeration of ideas and concepts from a range of sales and marketing team members. Once it's complete and prior to implementation, review the sales plan with teams or personnel and encourage feedback to improve the plan.

Set realistic goals

It may be a lofty goal to increase sales by 150%, but not always a realistic one. A sales plan's success should be measurable, so that companies have a detailed record of what worked and what did not. Use the SMART method to set sales goals and consider celebrating each success with team members to encourage success.

Use your own experience

Calling on past personal experience can shape a sales plan by providing insight on what customers ultimately want from a product or service. When forming a sales plan, keep your own experiences in mind. Think back to when you purchased a product or service and use your experience to analyze:

- How you heard about a product
- Where you bought the product
- How and why the product appealed to you
- How you evaluated the product
- How you approached the purchase
- What factors led to the final decision

Trust assumptions

Data often gives an accurate estimate of how a past sales plan worked or how to improve the plan. Sales forecasts make assumptions about future sales or activity based on historical trends or buying practices. When writing a sales plan, rely on assumptions to guide the strategies. Remember that sales plans are flexible and subject to change as conditions warrant.

Define the value

Consumers choose products for the benefit, rather than the features. Sales plans define the value of a product or service and what it will do for the consumer. Sales planning seeks to define the company's competitive advantage and how the company differs from its competitors.

Define milestones

Sales plans may have an ultimate goal, but also set milestones to make sure the plan is on the right path. Milestones motivate teams and encourage healthy competition to meet them. To define milestones, make comparisons between the business and standards of the industry. For example, if your industry's average email open-rate is 27%, sales planning might set a goal to increase your company's open rate by 10% overall with milestones of 2% in the first quarter, 3% in the second and 5% in the third.

Focus on your niche

A niche is not only a specific product or consumer, it includes company culture, branding and messaging. A niche defines the company's current market position and identifies its competitors. Focusing on a niche guides the sales plans so it builds on the strengths of the business, overcomes obstacles and increases visibility. Effective sales plans consider how to expand the niche. For example, a company that sells ice cream products may also sell ornate ice cream sundae glasses, or offer demonstrations on how ice cream is made to engage customers and encourage sales.

Identify strategic partners

A sales plan organizes strategies to increase sales; this includes naming resources that achieve goals and boost product awareness. These resources might originate inside the company, or similar businesses work together to cross-promote products. Sales planning determines incorporates strategic partners who can:

- Provide product demonstrations
- Give informative speeches or product presentations
- Host webinars to promote sales
- Develop mastermind groups for further strategizing

Template for a sales plan

Below is a template for a sales plan that you can adapt to begin effective and comprehensive sales planning:

Mission

[Define company's mission and/or vision. Include a brief history that provides background information]

Team

[Determine teams and assign team members. Draw on member strengths and assign roles to achieve targets.]

Target market

[Describe your target market in detail. Include: demographic, likes, dislikes, needs and wants. Explain how the sales plan serves the market]

Tools, software and resources

[List all available resources: collaboration software, training, documentation, sales tools, sales contests, budgeting tools]

Positioning

[Identify competition in detail. Include: price variants, product comparison, market trends and influences]

Market strategy

[Discuss promotions, advertising and actions that generate leads, interest or awareness.]

Prospecting strategy

[Determine how to follow up on leads and assign sales methods that correspond to the lead.]

Action plan

[Define how to implement the sales plan. Include objectives for sales, referrals or leads.]

Goals

[Set goals for each objective in the action plan]

Budget

[Determine costs of the sales strategy. Include: salary, training, tools, contests, team activities, travel, food]

SALES STRATEGY

The company marketing strategy provides an overall game plan, but individual customer orders are won by having an effective sales strategy for each individual customer. Figure shows four parts of an effective sales strategy: (i) customer classification strategy, (ii) customer relationship strategy, (iii) selling methods, and (iv) marketing channel strategy.

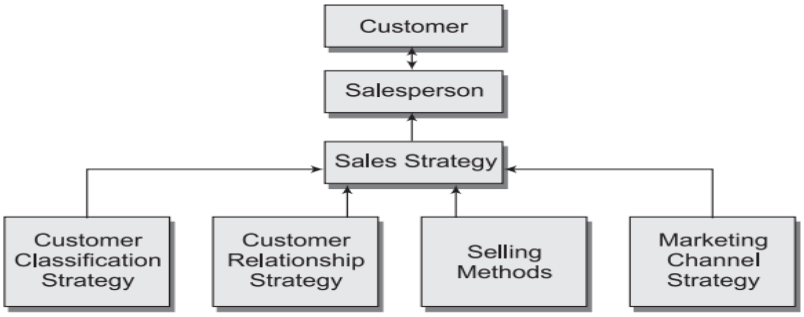


Fig: Framework for Sales Strategy

Customer Classification Strategy

Within a target market segment, the accounts or individual customers are classified into different customer groups. All customers within a target market segment are not the same. Some customers may have a good relationship with competitors, a few customers may have large sales potential and other customers may require medium or low value of the company's products or services. Hence, each customer is classified or categorized into one of the customer groups. Let us consider an example of a business marketing company.

A compressor manufacturing and marketing company had targeted automotive market segment as one of the target segments. Within the automotive segment, it classified the customers into three different customer groups or customer segments:

- Class A: High sales and profit potential customers
- Class B: Medium sales and profit potential customers
- Class C: Low sales and profit potential customers, including customers who have good relationship with competitors

The company developed different marketing strategies for each of these customer groups, since their needs are different, as a part of strategic decisions. However, finally, the sales strategy is developed for each individual customer.

Customer Relationship Strategy

Buyers and sellers, particularly in business markets, have some kind of business (or working) relationships. These relationships have a range or spectrum. At the one end of the relationship range is a transactional relationship and at the other end, it is a partnering or collaborative relationship. In between these extremes are value added or solutions relationships, which are intermediate type of relationships. The company decides a customer relationship strategy for different customer groups as well as for each individual customer. For example, for Class A customers with high sales and profit potential, the company develops "collaborative relationship"; for Class B customers with medium sales and profit potential, the relationship to be developed is called "value-added"; and for low sales and profit potential customers, the company chooses to have "transactional relationship". We shall now briefly discuss characteristics of different customer relationship strategies.

Transactional Relationship

Transaction-oriented customers show less loyalty to a particular supplier. They switch suppliers for lower costs. Sales managers and salespeople would consider such customers for transactional relationship. In addition, the customers who have low sales and profit potential as well as those customers who have excellent relationship with competitors are the right customers for transactional relationship. Such customers are many and are offered standard products and services. The selling firm keeps its cost low and keeps the relationship on short-term basis. It is one-off relationship, where salesperson does not contact the customer after the order is executed. A typical example of transactional relationship is a government customer, like Indian Railways, where the relationship is short-term. The selling firm is required to quote the lowest price against the tender enquiry and generally, sell standard products or services. Such customers typically do not expect superior quality of products or services from the suppliers. They are interested in the lowest price and availability of the product or service as per their specifications.

Value-added Relationship

These customers have medium sales and profit potential. The focus of salespeople is on complete understanding of present and future problems or needs of the customer, and offering better solutions or meeting those needs better than the competitors. For instance, a paint manufacturing company invited three material handling firms to offer solution to their material handling requirement for the newly built factory near Mumbai. The order was placed with the supplier who offered the best solution at competitive prices with effective pre-and post-sales services as per the requirements. The relationship between the buyer and the seller is medium- to long-term and can be called “partnering”.

Collaborative Relationship

In a collaborative relationship between a buyer and a seller, the aim is to build long-term and mutually satisfying relationship with key customers in order to earn and retain their business.10 The foundation of collaborative relationship is commitment and trust. Both the buyer and the seller should accept that the relationship is so important that it deserves maximum efforts to continue with it. The collaborative relationship includes joint problem solving, multiple connections and integration of business processes of the two companies. The products and services offered are customized. Even though the sales people want to select the customers with high sales and profit potential for collaborative relationships, it is equally important that such customers also wish to have a collaborative relationship with the supplier firms. Class A customers with high sales and profit potential are suitable for collaborative relationships.

Customers who are chosen for collaborative relationships are typically few in numbers and the cost of serving them is high. A good example of collaborative relationship is found in automotive industry, in which most two wheeler and four wheeler manufacturers have collaborative relationships with some selective vendors of components. Here, the buyers and sellers work closely together for mutual benefits. Their manufacturing processes are integrated to solve the problems related to costs, quality and availability. The aim of the selling firm is to become the preferred supplier.

Selling Methods

Salespeople should use different selling methods or selling approaches to suit different relationship strategies. The different methods of selling (or sales presentation methods) have been explained earlier in selling process. These are: (i) stimulus response method, (ii) formula method, (iii) need satisfaction method, (iv) team selling method, and (v) consultative selling method.

The selection of the selling method for a specific type of relationship is an important part of a sales strategy. To make this point more clear, let us consider the earlier example of compressor manufacturing company. The suitable selling method for Class A (major or key) customers, with whom the selling firm wants to have collaborative relationships, is team selling method and/or consultative selling method. For Class B (medium sales and profit potential) customers, with value-added relationships, the proper selling method would be need-satisfaction, or problem solving method. The third group of customers, classified as Class C and large in numbers, with transactional relationship strategy, should have typically stimulus response or formula method of selling. Sales managers and salespeople must understand that it is crucial to match selling methods with customer relationship strategies.

Salespeople should understand that the guidelines illustrated above in terms of matching the selling methods to relationship strategies are for specific groups of customers in a market segment. This is a strategic sales approach. However, certain amount of flexibility should be used while dealing with individual customers within a customer group. For instance, if there is a customer whose present sales and profit potential for the company's products/services is low, but has a potential to become Class B or Class A in near future, the salesperson should not hesitate in using need-satisfaction or consultative selling method that is proper for the customer.

Marketing Channel Strategy

Another issue in the sales strategy is to select an appropriate marketing channel (also called sales channel, distribution channel, or trade channel). A marketing channel is defined as a set of interdependent organizations involved in the process of making a product or service available for use or consumption. The various marketing channels available to firms for making a product or service available to customers are: (i) personal selling through the company salespeople, (ii) industrial distributors, dealers, wholesalers, or retailers, (iii) manufacturer's representatives, independent representatives or agents, (iv) telemarketing by using telephone, (v) Internet, and (vi) brokers and commission merchants.

The selection of a suitable sales or marketing channel may be decided by a buyer or a seller. If the selling organization has made available the channel that suits the buying firm, the marketing channel facilitates the selling process. But, if the marketing channel provided by the selling firm is not convenient to the buyer, the selling firm may not make the sales. For example, Dell Computer company uses the telephone and the Internet as marketing channels all over the world. However, in India, these marketing channels are not suitable for many prospective customers who prefer the company salespeople or the dealers to demonstrate and discuss before buying computers. The company has realized subsequently the preference of the Indian customers and has added the company's salespeople and the dealers as new channels to the existing channels.

A manufacturer selling products and services may need different channels for different activities or functions. The company uses the Internet and the telephone as marketing channels for selling activities, specific transport carriers as delivery channels and local repair people as the service channel. Many selling firms use multiple channels to serve different target market segments. For example, an electrical equipment manufacturing company uses the company's salespeople to serve high potential corporate and government customers, i.e. the company's authorized dealers, to serve large number of small and medium-sized enterprises; the Internet is used to serve those buying firms who want to buy on online basis.

DEVELOPING SALES FORECAST

The purpose of a sales forecast is to plan the company's operations in an effective manner. The sales forecast is used by other functions, viz. (i) by the manufacturing or production for setting up the production capacity and planning the production, (ii) by the finance for raising cash for investment and operations as well as for profit planning, (iii) by the purchase of materials for planning the purchases, and (iv) by the human resource management for manpower planning.

Thus, the sales forecast has a role as a forerunner to all planning activities in an organization. Accurate sales forecast is very important because all functions of a firm base their plans on the sales forecast. It is the responsibility of the sales and marketing managers to prepare an accurate sales forecast. If the sales forecast is not accurate, the plans based on it will be incorrect. No doubt, an accurate sales forecast can play an important role in the success of a company.

TYPES OF SALES FORECAST

The term "forecast" is generally used for prediction or estimation for a future period, such as weather forecast. A sales forecast is the estimated units or rupees (or dollars) of sales for a specific future time period based on an assumed marketing environment and a proposed marketing plan. Firms refer to a sales forecast by defining three factors: (i) the product level, (ii) the geographic area, and (iii) the time period.

Fig: Types of Sales Forecast

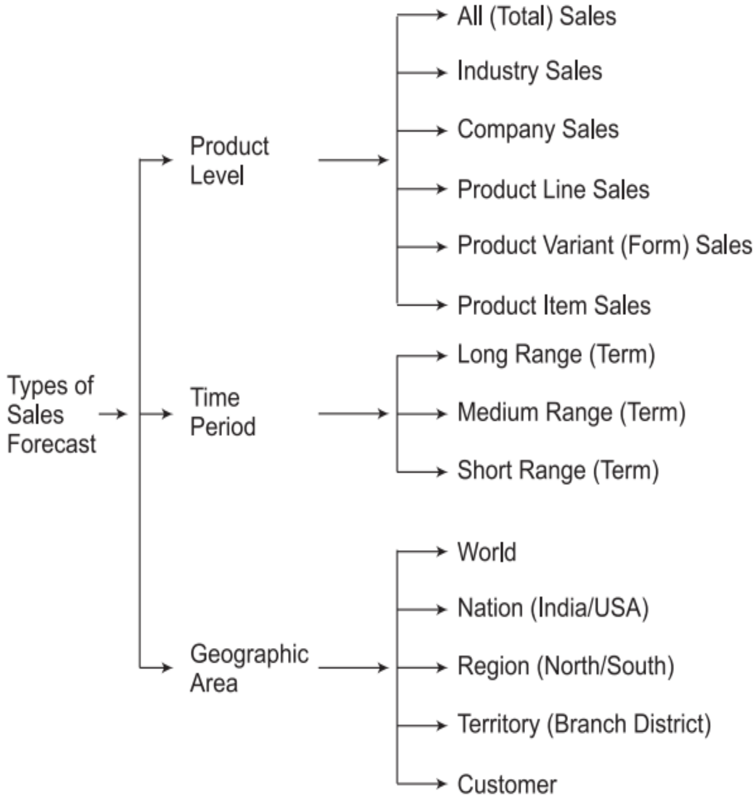


Figure 3.4 shows 90 different types (i.e. 6 × 3 × 5) of sales (or demand) forecast that can be made based on six different product levels, three separate time periods and five different geographical areas. It is, therefore, important that sales managers should specify the product level, the geographic area and the time period, when a sales forecast is communicated. For example, a company may plan a sales forecast for short-term (six months) for a particular product (or product line) for the four geographical regions to decide if the regional distributors are required.

BASIC TERMS USED IN SALES FORECASTING

Before we discuss the approaches and the methods of sales forecasting, it is necessary to define and understand some of the basic terms used in forecasting the company sales or the customer demand. These terms are closely related, used loosely and therefore, can cause misunderstanding among academicians and managers.

Market Potential

It is the best possible (or maximum) estimated sales of a given product or service for the entire industry in a given geographic market for a specific period of time. For example, the market potential for Personal Computers (PCs) in India for the year 2016–17 is estimated to be 11 million numbers. Market potential is also called 'industry sales forecast'. The following four parts must be included for a complete definition of market potential as well as sales potential and sales forecast:

(i) Item marketed, such as a product or service. (ii) Sales estimated in units or value (rupees or dollars). (iii) Description of the market by a geographical area or type of customer, or both. (iv) A specific time period, such as a particular year.

Market Forecast

It is the expected industry sales or market demand of a given product or service at one specific level of industry marketing expenditure, in a given geographical market, for a specific period of time. Market forecast is also called market size. For instance, the market forecast for smartphones in India for the calendar year 2017 is 174 million units.

Sales Potential (or Company Sales Potential)

It is the best possible (or maximum) estimated sales of a given product or service for a company in a given geographical area for a specific period of time. Sales potential is also defined as the maximum share (or percentage) of market potential that is expected to be achieved by a company. For instance, sales potential of ICICI Prudential is expected to be close to 10 percent of the gross premium collection of life insurance industry in India in coming years.

Sales Forecast (or Company Sales Forecast)

It is the estimated company sales of a given product or service, under a proposed marketing plan, in a given geographical market, for a specific period of time. There is a relationship between the company's sales forecast and the proposed marketing expenditure (or marketing plan). The sales forecast is the result of a proposed or assumed marketing expenditure plan. It means, the sales forecast would have to be revised, whenever changes are made in the marketing expenditure. A company may make a sales forecast for an entire product line (like detergent from Hindustan Lever) or a product item (such as, "Wheel" brand).

Sales potential and sales forecast are usually not the same. Sales potential is what a company would achieve under ideal conditions. Typically, the sales forecast is less than the sales potential, for different reasons, such as limited production facilities and/or inadequate financial resources.

FORECASTING APPROACHES

The two basic approaches for forecasting, as shown in Figures 3.5 and 3.6, are: (i) top-down (or break-down) approach, and (ii) bottom-up (or build-up) approach.

Top-Down or Break-Down Approach

In this approach, typically the company sales forecast is developed at the business unit (or SBU) level, by using suitable forecasting methods. The head of sales/marketing then breaks down the company sales forecast into regions, districts, territories, salespersons and individual customers' sales goals. The steps followed in this approach are shown in Figure 3.5.

Fig. 3.5 Development of Top-Down Approach

The step 1 of Figure 3.5 includes external environmental factors such as political, economic, social/cultural, demographic and technological. A company should collect current and past information on those factors that are relevant to its business. The task involved is forecasting future trends, which is covered in the strategic marketing textbooks. The key steps in Figure 3.5 are step 2 and step 3.

In step 2, some of the sales forecasting methods used for forecasting industry sales (or market demand) are: (i) executive opinion, (ii) regression analysis, (iii) moving averages, (iv) exponential smoothing, and (v) decomposition, which will be described subsequently in this chapter.

In step 3, for estimating the company's share of the total industry sales, a number of factors must be considered, including the company's current market share, target customers and their perceptions about the company's performance on key factors like quality, service and price in comparison with that of the major competitors and the company's relationship with the major customers.

With respect to step 4, the company sales forecast is usually lower than the company sales potential due to various reasons such as insufficient funds, increase in competition or shortage of raw material.

The last step of breaking down the company sales forecast to different regions and territories is done based on market potential of different geographical areas. For this, two main methods are available: (i) market build-up method, primarily used by business marketers, and (ii) multiple-factor index method, mainly used by consumer marketers.

Market Build-up Method

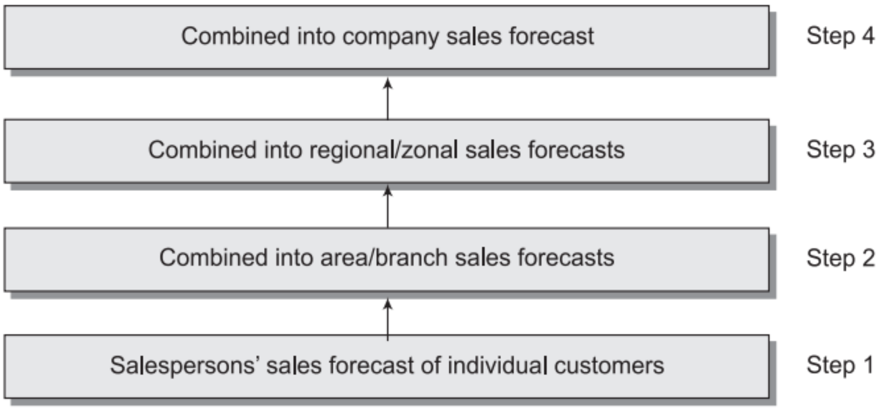
The first step in this method is to identify existing and potential business buyers in the geographical territory. This information can be obtained from the state governments' industry departments. The second step is to find their potential purchases of the product under study. This data can be found based on a market survey to be conducted internally by the company or outsourced to a marketing research agency. The final step is to add-up the business potential of all the buying firms to obtain a fairly accurate estimate of market potential for the product or service for a specific geographic territory.

Multiple-Factor Index Method

For the consumer marketing company, the estimation of market potential for a geographical area is done not by identifying individuals and households, because they are very large in numbers. This method first identifies the factors that influence the sales of a product or service. Generally, there are more than one sales factor, such as population and income that influence sales. These factors are given certain weights, corresponding to the degree of sales opportunity. Let us take an example of a company, manufacturing and marketing detergents all over India. The company wants to find the market potential of detergents in all cities, including Bengaluru. The major factors that influence the sales of detergents are population, personal income and retail sales, which are given weights of 0.4, 0.3, and 0.3, respectively. Suppose Bengaluru has 0.7 percent of India's population, 1 percent of India's disposable personal income and 0.9 percent of India's retail sales. The multi-factor buying index for Bengaluru would be: 0.4 (0.7) + 0.3 (1) + 0.3 (0.9) = 0.85 Based on the Indian detergent industry forecast of `112 billion for the year 2012–13, the market potential for detergents for Bengaluru would be: 0.85 percent of `112 billion, i.e. equal to `0.95 billion for the year 2012–13.

Bottom-up or Build-up Approach

Bottom-up or build-up approach starts with the company's area or branch managers asking their salespersons to estimate or forecast the sales for individual customers in their respective territories, as shown in Figure 3.6. Salespersons are given guidance by their respective area/branch sales managers on how to get information from the existing and potential customers on the estimated purchases of the company's products and services for the specified future time period. Each area or branch manager then adds the sales forecasts received from the salespersons, modifies the same wherever needed and sends the combined sales forecast figure for each product in units and value to his superior, that is, regional or zonal sales manager. Each regional/zonal manager adds the sales forecast received from the area or branch managers, modifies the same, if needed, and sends the regional sales forecast to the sales/marketing head. The head of sales/marketing repeats the process and presents his proposal to the CEO for discussion, modification and approval of the company's sales forecast.



The bottom-up approach requires some other sales forecasting methods, in addition to sales force composite, such as survey of buyers' intentions, Delphi and test marketing.

Some companies use both top-down and bottom-up approaches, in order to increase their confidence in the sales forecast. However, comparison of the two approaches indicates that top-down approach needs less time and cost, as it uses the data on forecast from the secondary sources like the planning commission report on market forecasts and indicators by the Centre for Industrial and Economic Research, New Delhi. The bottom-up approach is more accurate for short-term forecast (up to one year), as it is based on primary data collection, which means more cost and time. Firms may develop sales forecasts internally or buy forecasts from outside sources such as marketing research companies or specialized forecasting firms like Centre for Industrial and Economic Research, New Delhi. We shall now examine different methods of sales forecasting, keeping in mind that sales forecasting is the responsibility of the sales function.

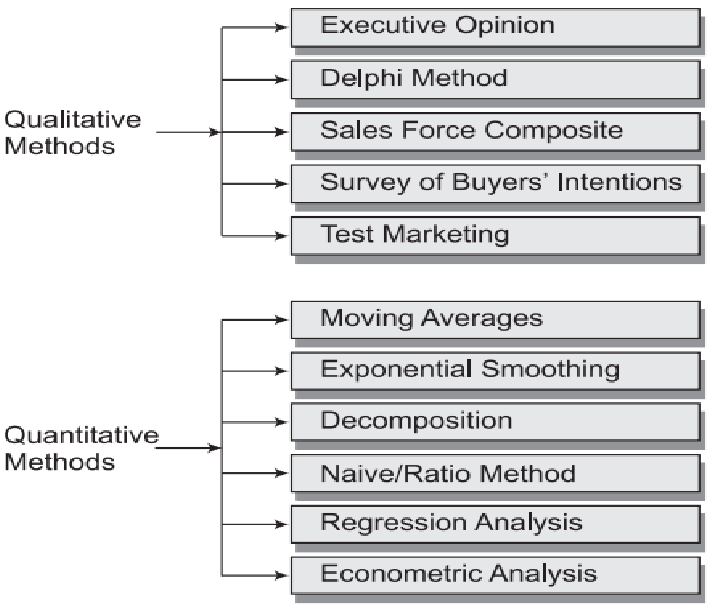


Fig: Qualitative and Quantitative Forecasting Methods

Moving Averages Method

In this method, a company sales forecast is developed by calculating the average company sales for previous years. As shown in Table 3.2, a company's sales forecast was worked out by calculating moving averages for three and six year time periods.

The formula used is:

$$\text{Sales forecast for next year} = \frac{\text{Actual sales for past 3 or 6 years}}{\text{Number of years (3 or 6 years)}}$$

Another form of this technique is: Salest+1 = 1/n ($sales_t + sales_{t-1}$ + --- + $sales_{t-n}$) where, $sales_{t+1}$ is the sales forecast for the next period, $sales_t$ is the sales in the present period, $sales_{t-1}$ is the sales in the period immediately past, and so on.

3.2 Moving Averages Method: An Example

Moving Averages Forecast			
Year	Actual Sales	3 year	6 year
2010	840		
2011	880		
2012	864		
2013	832	861	
2014	862	858	
2015	948	852	
2016	956	880	871
2017 (forecast)		922	890

(Figures of Sales are in ₹ million)

When a forecast is developed for the next period, the sales in the oldest period are dropped from the average and replaced by the sales in the newest period and hence, the name "moving averages". If a company operates in a stable environment, a short two or three years' average may be most useful. However, if a firm is in an industry with cyclical variations, the moving average should use the data equal to the length of a cycle or a longer averaging period. Sales forecasts, using this method, are less accurate for products or services that experience sudden changes in sales or if there are major changes in the business environment due to unexpected entry of a strong competitor into the market.

The advantages of this method are:

- Relatively simple method.
- Easy to calculate.
- Widely used for short-term and medium-term sales forecasts.

The disadvantages of this method are as follows:

- Unable to predict a downturn or upturn in the market.
- Cannot predict long-term sales forecast accurately.
- Data is needed for products with stable sales histories.

Sales Trend Analysis

Sales Trend Analysis looks at historical revenue data to identify patterns, used extensively in budgeting and forecasting. It is a useful method to detect short-term changes in revenue growth and performance.

Trends

A Trend is an upwards or downwards shift in the development of a metric over time. It's useful for estimations of future performance, and a straight-forward, measurable way to track our progress towards our goals. Trends show us how data changes over time. We still need to link these changes to the underlying causes and look for actions to take. And this is where Sales Trend Analysis comes to help.

Why Perform Sales Trend Analysis

Sales Trend Analysis is a concise process with results that are of critical importance for the business.

We can plot sales trends from historical data, and use them to estimate future performance. Keep in mind that these can end up being highly incorrect. Therefore, it is better to forecast based on more drilled-down data, and perform additional analysis, to better estimate sales over future periods.

Sales Trend Analysis gives valuable insights into how our business operates. We gather actionable information on the performance of our business, which can significantly improve our decision-making process. Employing Sales Trend Analysis leads to decisions based on the actual data of the company.

The method has various use cases. The most common include:

- Studying sales patterns to predict future performance;
- Finding uncommon developments over the period, which we need to address in our forecasts;
- Estimating and forecasting future sales revenue;
- Identify the volume to stock-up from different components and products;
- Prepare rolling dashboards, outlining the last twelve-month period visually;
- Perform analysis to identify slow-moving inventory;
- Profiling customer behavior, preferences and buying habits;

The main benefit of analyzing Sales Trends is the improvement in the decision-making processes in the long run. The data-driven approach to our sales strategy is better than the common 'as we go' decision process.

Performing Sales Trend Analysis

To perform a robust and insightful sales trend analysis in a company that operates with physical goods, we need a sound inventory management system. We can set up our model in Excel, which can take a bit more time, but will ensure that anyone can use it. The alternative is to use specialized software, which might require significant additional training and investment.

Simply plotting all revenue on a chart is not a good idea. Many large companies have diversified product portfolios and operate at different locations and channels within the same organization. Therefore it is a much better idea to split revenue into streams and categories.

Sales Sub-categories

We usually analyze sales broken down into sub-groups based on categorical values. We can drill-down revenues in many ways, depending on what's essential for the business. The most common ones include:

- Product — this can help us identify products with reduced performance, and modify our strategy accordingly;
- Product category — helps us make timely decisions to cut prices, advertise, discontinue product groups, and set up goals per product line;
- Region — we can analyze new markets separately, and see how well the company is building the brand and distribution network;
- Client — sudden fluctuations in sales to a client need to be investigated, as they might help us pinpoint an issue with the product or service. We can also find indications that a competitor has lower prices or higher quality;
- Channel — usually, when developing new channels, we expect an initial spike in sales and flattening of the trend over time.

When performing Sales Trend Analysis, we need to make sure that the data is complete and up to date. It is critical to use the proper visualizations and know the data well enough to perform adequate drill-downs and gather meaningful insight.

Sales Metrics

Sales-related metrics that are usually subject to trend analysis include:

- Sales revenue;
- Sold quantities;
- Material cost;
- Absorbed overheads;
- Cost of Goods Sold (COGS);
- Gross Profit Margin (GPM);
- Contribution.

It is better to perform Sales Trend Analysis on a year-on-year basis, instead of a month-on-month basis. This way, we ensure that we tackle seasonality in our business.
Example

Here's a breakdown of all sales invoices issued by a company for the financial years 2014 to 2018. The data shows the amount, client, quantity, period, and others.

Sales Data Breakdown per Invoice
Magnimetrics

in EUR

Amount	Client ID	Delivery Method	Quantity	Order #	Invoice #	Date	Invoice Year	Invoice Month
124,782	C000-01253	Truck	342	So0000-A9445371	G0005577	6/18/2014	2014	6
9,009	C000-01253	Truck	1	So0000-A9445371	G0005578	6/18/2014	2014	6
-	C000-01253	TNT	20	So0010-A3375046	G0005711	7/31/2014	2014	7
133,039	C000-01253	Truck	332	So0010-A8481054	G0005930	12/1/2014	2014	12
8,820	C000-01253	Truck	1	So0010-A8481054	G0005931	12/1/2014	2014	12
163,485	C000-01253	Truck	350	So0010-A8481054	G0007226	11/6/2015	2015	11
7,980	C000-01253	Truck	1	So0030-A8248408	G0007227	11/6/2015	2015	11
6,867	C000-01253	Truck	31	So0030-A8248408	G0007270	11/24/2015	2015	11
1,302	C000-01253	Truck	1	So0030-A8248408	G0007271	11/24/2015	2015	11
45,087	C000-01253	Truck	51	So0040-A5826116	G0007783	3/18/2016	2016	3
(45,087)	C000-01253	Truck	(51)	So0040-A7391711	G0007783	3/18/2016	2016	3
52,353	C000-01253	Truck	51	So0040-A7404269	G0007783	3/18/2016	2016	3
3,465	C000-01253	Truck	1	So0040-A5826116	G0007784	3/18/2016	2016	3
97	C000-01253	TNT	1	So0060-A7479918	G0009287	11/28/2016	2016	11
105	C000-01253	TNT	1	So0060-A7479918	G0009288	11/28/2016	2016	11
97,549	C000-01253	Truck	217	So0060-A9052157	G0009556	2/14/2017	2017	2
3,780	C000-01253	Truck	1	So0060-A9449274	G0009557	2/14/2017	2017	2
140,665	C000-01253	Truck	332	So0090-A3752656	G0011580	12/11/2017	2017	12
8,736	C000-01253	Truck	1	So0090-A3752656	G0011581	12/11/2017	2017	12
-	C000-01253	UPS	8	So0100-A2244307	G0012256	4/10/2018	2018	4
105	C000-01253	UPS	1	So0100-A2244307	G0012257	4/10/2018	2018	4
210,168	C000-05890	Client pick-up	483	So0000-A3729502	G0005093	2/26/2014	2014	2
234,856	C000-05890	Client pick-up	395	So0000-A3729502	G0005102	2/27/2014	2014	2
199,802	C000-05890	Client pick-up	497	So0000-A3729502	G0005107	2/28/2014	2014	2

Next, we have a list of all our clients. The names might look silly, as we have replaced them with randomly generated ones. In this list, we have some additional info on each client.

Clients Info List
Magnimetrics

in EUR

Client ID	Client Name	Group	Country ID	Country
C010-69548	Tazzy	Foreign	CN	China
C007-43758	Tekfly	Foreign	RU	Russia
C010-42637	Teklist	Foreign	RU	Russia
C002-01408	Thoughtbeat	Foreign	MK	Macedonia
C012-50966	Thoughtblab	Foreign	LK	Sri Lanka
C007-30931	Thoughtbridge	Foreign	SI	Slovenia
C012-65113	Thoughtmix	Foreign	VN	Vietnam
C011-66147	Thoughtsphere	Foreign	FR	France
C005-43684	Thoughtstorm	Foreign	PH	Philippines
C008-90127	Thoughtworks	Foreign	CN	China
C005-96513	Topdrive	Foreign	NL	Netherlands
C004-63948	Topicblab	Foreign	JM	Jamaica
C012-82842	Topiclounge	Foreign	KE	Kenya
C003-39409	Topicshots	Foreign	PH	Philippines
C005-97361	Topicstorm	Foreign	CZ	Czech Republic
C008-73956	Topicware	Foreign	PL	Poland
C002-54529	Topiczoom	Foreign	PH	Philippines

Using a simple vlookup we can combine the two sheets by transferring the columns that we deem meaningful.

Sales Data Breakdown per Invoice
Magnimetrics

in EUR

										2	3	4	5
Amount	**Client ID**	**Delivery Method**	**Quantity**	**Order #**	**Invoice #**	**Date**	**Invoice Year**	**Invoice Month**	**Client Name**	**Group**	**Country ID**	**Country**	
124,782	C000-01253	Truck	342	So0000-A9445371	G0005577	6/18/2014	2014	6	Aibox	Foreign	CN	China	
9,009	C000-01253	Truck	1	So0000-A9445371	G0005578	6/18/2014	2014	6	Aibox	Foreign	CN	China	
-	C000-01253	TNT	20	So0010-A3375046	G0005711	7/31/2014	2014	7	Aibox	Foreign	CN	China	
133,039	C000-01253	Truck	332	So0010-A8481054	G0005930	12/1/2014	2014	12	Aibox	Foreign	CN	China	
8,820	C000-01253	Truck	1	So0010-A8481054	G0005931	12/1/2014	2014	12	Aibox	Foreign	CN	China	
163,485	C000-01253	Truck	350	So0010-A8481054	G0007226	11/6/2015	2015	11	Aibox	Foreign	CN	China	
7,980	C000-01253	Truck	1	So0030-A8248408	G0007227	11/6/2015	2015	11	Aibox	Foreign	CN	China	
6,867	C000-01253	Truck	31	So0030-A8248408	G0007270	11/24/2015	2015	11	Aibox	Foreign	CN	China	
1,302	C000-01253	Truck	1	So0030-A8248408	G0007271	11/24/2015	2015	11	Aibox	Foreign	CN	China	
45,087	C000-01253	Truck	51	So0040-A5826116	G0007783	3/18/2016	2016	3	Aibox	Foreign	CN	China	
(45,087)	C000-01253	Truck	(51)	So0040-A7391711	G0007783	3/18/2016	2016	3	Aibox	Foreign	CN	China	
52,353	C000-01253	Truck	51	So0040-A7404269	G0007783	3/18/2016	2016	3	Aibox	Foreign	CN	China	
3,465	C000-01253	Truck	1	So0040-A5826116	G0007784	3/18/2016	2016	3	Aibox	Foreign	CN	China	
97	C000-01253	TNT	1	So0060-A7479918	G0009287	11/28/2016	2016	11	Aibox	Foreign	CN	China	
105	C000-01253	TNT	1	So0060-A7479918	G0009288	11/28/2016	2016	11	Aibox	Foreign	CN	China	
97,549	C000-01253	Truck	217	So0060-A9052157	G0009556	2/14/2017	2017	2	Aibox	Foreign	CN	China	
3,780	C000-01253	Truck	1	So0060-A9449274	G0009557	2/14/2017	2017	2	Aibox	Foreign	CN	China	
140,665	C000-01253	Truck	332	So0090-A3752656	G0011580	12/11/2017	2017	12	Aibox	Foreign	CN	China	
8,736	C000-01253	Truck	1	So0090-A3752656	G0011581	12/11/2017	2017	12	Aibox	Foreign	CN	China	
-	C000-01253	UPS	8	So0100-A2244307	G0012256	4/10/2018	2018	4	Aibox	Foreign	CN	China	
105	C000-01253	UPS	1	So0100-A2244307	G0012257	4/10/2018	2018	4	Aibox	Foreign	CN	China	
210,168	C000-05890	Client pick-up	483	So0000-A3729502	G0005093	2/26/2014	2014	2	Ainyx	Foreign	ID	Indonesia	
234,856	C000-05890	Client pick-up	395	So0000-A3729502	G0005102	2/27/2014	2014	2	Ainyx	Foreign	ID	Indonesia	
199,802	C000-05890	Client pick-up	497	So0000-A3729502	G0005107	2/28/2014	2014	2	Ainyx	Foreign	ID	Indonesia	
110,880	C000-05890	Client pick-up	528	So0000-A3729502	G0005108	2/28/2014	2014	2	Ainyx	Foreign	ID	Indonesia	
164,118	C000-05890	Client pick-up	560	So0000-A3729502	G0005111	3/1/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
141,120	C000-05890	Truck	560	So0000-A3869021	G0005137	3/6/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
136,080	C000-05890	Truck	540	So0000-A3869021	G0005153	3/10/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
140,542	C000-05890	Client pick-up	537	So0000-A3729502	G0005154	3/11/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
117,909	C000-05890	Client pick-up	414	So0000-A3729502	G0005156	3/11/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
134,568	C000-05890	Truck	574	So0000-A3953019	G0005159	3/12/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
164,435	C000-05890	Truck	440	So0000-A3953019	G0005162	3/12/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
204,101	C000-05890	Truck	682	So0000-A3953019	G0005163	3/12/2014	2014	3	Ainyx	Foreign	ID	Indonesia	
154,073	C000-05890	Truck	497	So0000-A3953019	G0005164	3/13/2014	2014	3	Ainyx	Foreign	ID	Indonesia	

Next, we prepare some pivot tables that will allow us to look at sales aggregated on different bases.

Sales Aggregation Tables
Magnimetrics

in EUR

Pivot Tables	2014	2015	2016	2017	2018
Sum of Amount	**Column Labels**				
Row Labels	**2014**	**2015**	**2016**	**2017**	**2018**
Foreign	79,507,281	119,668,908	138,051,000	116,094,722	157,228,476
Related Parties	13,189,489	19,744,025	4,181,510	4,722,260	2,640,741
Grand Total	**92,696,770**	**139,412,933**	**142,232,510**	**120,816,982**	**159,869,217**

Sum of Amount	Column Labels				
Row Labels	**2014**	**2015**	**2016**	**2017**	**2018**
Air	50	8,089	-	798	85
Client pick-up	22,033,204	30,099,074	9,967,819	6,640,488	8,829,153
Container	1,240,696	10,532,115	10,308,059	535,980	3,576,390
DHL		16,746	12,851	32,747	3,991
Railroad			20,566	98,728	75,365
TNT	25,859	123,282	87,541	9,859	25,419
Truck	69,389,772	98,627,575	121,838,060	113,386,669	147,229,312
UPS	7,189	6,052	(2,385)	111,713	129,503
Grand Total	**92,696,770**	**139,412,933**	**142,232,510**	**120,816,982**	**159,869,217**

Sum of Amount	Column Labels				
Row Labels	**2014**	**2015**	**2016**	**2017**	**2018**
Aland Islands			15,805		
Albania	2,788		15,284	3,804	30,021
American Samoa			147		
Angola	89,460				
Argentina	3,363,546	6,927,719	3,359,498	4,466,675	1,844,899
Armenia		2,894			
Australia	876				
Azerbaijan			281,946	69,958	147
Belarus	664,917	514,044	242,260		
Bhutan			5,040	12,835	12,096
Bolivia	1,113				
Bosnia and Herzegovina		3,730	9,164	161,576	40,177

	20	20	20	20	20	Total
China	17,998,009	28,898,864	20,066,239	13,515,433	16,253,130	96,731,675
Finland	16,866,377	20,002,217	18,154,541	20,301,291	13,417,240	88,741,666
Mexico	16,171,467	20,572,343	13,006,683	10,671,935	14,344,023	74,766,450
Brazil	145,271	3,536,381	16,034,277	20,793,505	21,901,979	62,411,412
Madagascar	5,700,227	9,621,658	10,833,930	8,290,055	6,941,169	41,387,040
Indonesia	7,063,267	8,522,717	7,274,854	1,063,449	15,838,404	39,762,692
Japan	678,729	1,548,279	8,264,506	8,045,383	7,673,657	26,210,553
United States	3,206,490	2,142,232	13,122,243	3,718,331	2,867,336	25,056,632
Malaysia	435,644	1,623,658	2,685,642	4,288,531	13,623,870	22,657,345
Portugal	3,515,729	2,553,686	3,187,716	32,806	11,462,119	20,752,056
Argentina	3,363,546	6,927,719	3,359,498	4,466,675	1,844,899	19,962,337
Cambodia	1,656,861	2,643,875	3,910,096	3,709,305	4,255,330	16,175,466

SALES BUDGET

What is a sales budget? A sales budget consists of detailed estimates of expected volume of sales and selling expenditure. The sales volume part of the sales budget is based on the sales forecast.

The sales volume budget is generally set slightly lower than the sales forecast to avoid excessive risk. The accuracy of the sales budget is very important in the success or failure of the firm's total budget. This is because the sales budget is used mainly for planning the company's production, purchasing and cash flow.

The sales volume budget, which is derived from the sales forecast, is broken into (i) product wise and size-wise or model-wise quantities, the average selling price per unit and resulting sales revenue, (ii) territory-wise quantities to be sold and sales revenue and (iii) salesperson-wise sales volume targets or quotas during yearly, quarterly and monthly budget period. Out of the three breaks of the sales volume budget mentioned above, (ii) and (iii) data are needed by the sales and marketing professionals, but other departments or functions need information on (i), i.e. each product-line and product item's estimated sales in quantities month-wise. For example, the sales budget for ceiling fan includes size-wise (32", 36", 42", 48", 56" and 60") sales forecast in numbers for each month for 12 months of the budget period. As mentioned earlier, the sales budget includes a detailed estimate of the sales volume as well as the selling expenditure.

The selling expenditure budget consists of the selling-expense budget and the sales department administrative budget. The selling-expense budget includes expenditures for personal selling activities, such as the salaries, commissions (or incentives) and other expenses for the salespeople. Any plans for increase in number of salespeople or technical service people during the budget period must also be included in this budget.

The administrative budget of the sales department should include the salaries of territory sales managers, sales supervisors, their secretaries and office staff. The budget should also include operating expenses like rent, power, supplies, office equipment and general overhead.

Thus, the national sales manager is responsible for preparing three detailed budgets: (i) the sales volume budget, (ii) the selling-expense budget, and (iii) the administrative budget of the sales department.

Purposes of the Sales Budget

The sales budget is the key factor for the successful performance of the sales department. There are many purposes or reasons of the sales budget, which include planning, coordination, and control.

Planning

The budgeting process in a company consists of profit planning based on forecasted sales minus the estimated cost of achieving the sales. The sales budget is the sales goal or a standard of performance at the company level. The company level sales goal is then broken down to detailed sales goals (or quotas) by products, territories and salespersons. Sales quotas or targets include sales volumes, selling expenses and key activities or tasks to be performed by the salespersons. Although the typical budget period is one year, the sales budget and quotas are prepared on quarterly and monthly basis. Once the sales budget and quotas are set up, the marketing, sales and branch managers start preparing plans or proposals for achieving the sales goals. Salespeople will then learn about their quotas or targets from their immediate managers and also how to achieve the same through an action plan.

Coordination

At the corporate level, the budget process is used for coordinating the activities of various functional areas. For example, the sales budget is finalized in a coordination meeting involving the functional heads like production, finance, marketing and human resource. During the operation of the budget, the production planning is done in consultation and coordination with sales and marketing functions. Within the marketing function, there is a need to coordinate the efforts and expenses of sales department with other support functions like advertising, sales promotion, customer service and marketing research. It is only through the coordinated efforts of all the functional areas, the sales budget can be achieved.

Control

A sales budget, as mentioned earlier, marks a standard of performance. In fact, the sales budget stated in terms of sales volume and selling expenses becomes a standard of performance, against which the actual performance is measured. Once the yearly sales budget at the company level and quotas at the marketing units (like territory, salesperson) level are finalized and broken down to quarterly and monthly goals, the same are measured against the actual performance. If the actual performance of a salesperson or a branch manager is found to be favorable during a monthly or quarterly budget review meeting, he/she is appreciated and suitably rewarded. However, if the performance is unfavorable with respect to the budgeted sales volume or selling expenses, the reasons are identified and corrective actions are initiated so that in the next review, improvement in the performance takes place. This process is called 'control', which is possible due to establishment of sales budget.

Methods Used for Allocation of Money

Sales managers are required to decide expenditure levels for each item of selling expenses. The methods used for allocating money to each category or item of selling expenses are: (i) percentage of sales, (ii) executive judgment and (iii) objective and task.

Percentage of Sales Method

Sales and marketing managers use this method by multiplying the sales volume budget by various percentages of each category of expenses. For example, the sales manager may decide travel expenses for salespeople to be 0.3 percent of the budgeted sales revenue, advertising expenses to be one percent and sales promotion to be 0.8 percent of the budgeted sales volume. The sales manager may decide these percentages based on the past experience or on the basis of marketing and sales plans. These percentages are used during the monthly and quarterly evaluation of performance on sales volume and selling expenses for each sales territory manager and salesperson. The multiplication of the budgeted sales volume with the percentage of each expense category becomes the budgeted amount rupee (or dollar) for that category. The success of this method depends on the accuracy of the sales forecast, which is the responsibility of sales managers. To ensure that actual expenditure is close to the budgeted expense, the sales manager keeps his attention on the percentage budget for each expense category.

The Executive Judgment Method

Here, the sales manager uses his judgment to decide the budgeted selling expenses for each expense category. The judgment may be based on marketing and sales plans as well as opinions of senior sales executives.

The Objective and Task Method

The first step is to look at the sales volume objective to be achieved during the budget period (say one year). Then based on the marketing and sales strategies, the tasks or actions are decided that are required to be carried out in order to achieve the earlier stated sales objective. The third step is to estimate the costs of carrying out the tasks. The costs are then added up to find out whether the profit objective can be achieved. Review of sales revenue, cost and profit figures continues until the sales and marketing managers are satisfied with the sales and profit objectives, the tasks and the budgeted cost/expenditure of various items of selling expenses.

The Sales Budget Process

Most companies have certain processes or procedures for the preparation of sales budget. They have developed certain formats, worksheets, guidelines and time table for the preparation of the annual sales budgets. The steps generally followed for the sales budget process are mentioned in this section.

- **Review the Situation**

The sales manager should review the past budget performance as well as the current and future (i.e. budget period) marketing environment. The review of past budget performance can help the sales manager to understand the deviations of the actual sales performance against the budget and the items or elements where the company showed favorable or unfavorable variances. Similarly, a review of the current and future forces of marketing environment such as customers, competitors, economy, technology, government policies and regulations would help the sales manager and the marketing manager to understand the changes taking place in the external environment. These review meetings of the sales and marketing key executives would help evolve guidelines and assumptions to be made for the budget period by all the field sales managers. If possible, the field sales managers and sales supervisors should also be involved in understanding the market situation. Ideally, this activity should start about 4–6 months prior to the commencement of the new accounting year.

- **Communication**

The head of sales function should communicate in writing to all the field sales managers (such as area, branch, district and regional managers) about the budget preparation, including the formats, guidelines, assumptions and timetable. Each first-level field sales manager estimates the sales volume in units, the average selling price and the value for each product and service to be sold, along with the estimated selling expenses (consisting of salaries, commission and sales-force expenses like travel, lodging, food and entertainment to customers) and administrative budget (which includes salaries of sales managers, supervisors, office staff, operating expenses like rent, supplies, power, office equipment and general overhead).

- **Preparation of Subordinate Budgets**

The subordinate budgets means the sales budgets prepared by the first-level sales managers, such as branch, area or district managers as well as the middle-level sales managers like regional, zonal or divisional sales managers. The first-level sales managers, in the companies which follow build up or bottom-up approach in the budgeting process, are asked to estimate sales for each product item in terms of sales (in units), average price per unit and the resulting sales revenue. Branch or district managers can follow one or more suitable sales forecasting methods, such as moving average, exponential smoothing, naive/ratio or sales force composite. In the case of sales force composite method, as explained earlier in this chapter, the branch manager should give adequate training or guidance to the salespeople in the preparation of the sales budget for their respective territories. For preparing the sales expenditure budget, the branch manager can use either the percentage of sales method or the judgment method as described earlier in this chapter. At the regional or zonal level, the sales budgets are prepared after receiving the branch-wise sales budgets from the respective first-level managers. The regional or zonal managers modify (if necessary) and add the respective branch or district sales budgets. They, thereafter, submit their sales budgets to the national sales manager or the marketing head.

- **Approval of the Sales Budget**

In consultation with the marketing head, the national sales manager prepares two or three alternative proposals of the sales budget and makes a presentation to the top management of the company. After a detailed discussion on the alternative proposals, the sales budget finally gets approved by the top management.

- **Other Departments**

The final sales budget is given to other departments or functions like production, finance, materials and human resource to prepare their budgets. Thereafter, the approved sales budget is broken down into each sales territory and into the quarterly and monthly periods. Only the sales budget has revenue and expenditure budgets, whereas all the other departments in the company have expenditure budgets. Accounts/Finance department prepares cash budget and profit budget, based on the sales revenue information given by the sales department and the expenditure budgets given by all the departments or functions. The budget preparation process has become more efficient with the use of computers.

SALES QUOTAS

In the previous chapter, we discussed the sales forecast and the sales budget. The next logical step for a company is to set up the sales goals or sales quotas, for marketing (or sales) units, such as regions, sales territories, salespersons, distributors and dealers. We shall now discuss the various parts of sales quotas, which are often tied to sales force motivation and compensation.

What are Sales Quotas?

Sales quotas are sales goals (or performance standards) set by a company for its marketing units for a certain period of time. The marketing unit includes a sales region, a sales territory, a branch office, a salesperson, a distributor or a dealer. Sales quotas (also called quotas) can be set on sales volume (rupees or dollar sales, and unit volume), selling expense, profit margin, selling and non-selling activities, customer satisfaction or some combination. For example, each salesperson is given a sales volume goal and a selling expense budget as a sales quota for the year 2016–17. Annual sales quotas for each marketing unit are broken down to quarterly and monthly quotas.

Sales quotas are developed from the annual marketing plan of the company. After preparing the sales forecast, the company decides its annual sales budget, which includes the company's goals for sales volume and selling expenses. The company sales budget is then broken down to sales quotas for regions, branches and sales territories. Thereafter, each branch or area sales manager decides for his territory's quota for the salesperson, distributors and dealers, who are attached to the territory. How a branch or area sales manager sets the sales quotas for the marketing units reporting to him, will be discussed subsequently in this chapter.

IMPORTANCE/PURPOSES OF SALES QUOTAS

Importance, purposes or objectives of sales quotas are: (i) providing performance standards, (ii) controlling performance, (iii) motivating people, and (iv) identifying strengths and weaknesses.

Providing Performance Standards

A sales quota provides to the sales manager a tool to measure the performance of the salesperson. A quota also provides a goal (or a target) to the salesperson. Hence, a quota is a performance standard, against which the actual performance is compared to understand whether the salesperson is performing well or not. Even salespersons cannot be sure about their performance being satisfactory, without measurement of actual performance against standards like sales quotas. For example, a branch manager of a consumer durable marketing company sets sales quotas for his salespersons in terms of sales volume and selling expenses per annum. The yearly quota is further broken down to quarterly and monthly quotas for each salesperson. The branch manager uses these quotas as performance standards for each salesperson and measures the actual performance to compare with the quotas on monthly, quarterly and yearly basis. A study has found that 92 percent of the companies use quotas as a performance standard for salespeople.

Controlling Performance

By setting quotas for salespersons' selling and non-selling activities, sales volume, and selling expenses, the sales manager is controlling the performance of salespeople. For instance, when an activity quota of eight calls per day on retail units or four calls per day on business customers is set, the salespeople know that they have to make those many number of calls. The sales manager is indirectly monitoring or controlling the activities of salespeople by setting quotas. Similarly, to check wasteful expenditure on customer entertainment, lodging and meals, expense quotas are set as a percentage of sales. For example, in one company, expense quota for selling expenses (which included travelling, customer entertainment, lodging and meals) was 0.5 percent of sales. The company reimbursed sales expenses only up to 0.5 percent of sales. This helped to limit the selling expenses. The sales manager has the power to influence and direct the behavior of salespeople reporting to him. By setting quotas on sales volume, the sales manager directs the efforts or activities of salespeople towards the achievement of performance on sales. For example, a company wanted its salespeople to spend more time with customers, so the sales manager sets a quota of five calls a day for each sales person.

If the actual performance of the salesperson is favorable in comparison to the quota, the sales manager should appreciate and reward the salesperson suitably. However, if the salesperson's performance is unfavorable consistently over a period of time, the sales manager should find out the reasons for the poor performance by talking to the salesperson and the customers and reviewing the sales analysis and the sales reports of the salesperson. Only after understanding the reasons or causes of the poor performance, corrective actions, such as training in deficient areas, counseling the salesperson or reviewing marketing strategies can be carried out by the sales manager. This is how the sales manager controls the performance of the salespeople.

Motivating People

Most salespeople are motivated by money. Quotas directly influence salespeople's motivational levels and amount of energy. Sales force compensation is often tied to the extent or degree of achievement of sales quotas. The financial compensation includes salaries, commissions and/ or bonuses (which are also called incentives). The incentives, in most companies, are linked to the quotas. If salespeople believe that the quotas are achievable, they will put extra efforts to achieve the quotas and earn the rewards of incentive payments or recognition. Motivation of the salespeople is also linked to the setting of quotas. Sales managers should not set sales quotas that are too high and non-attainable. At the same time, they should not set easily attainable quotas. In both these situations, motivation of salespeople declines.

Sales contests are the additional motivating factors for special selling efforts of salespersons. The performance during the period of the sales contest is linked to quotas set for individual salespersons. Typically, special quotas are set for sales contests in order to create enthusiasm among salespeople, resulting in superior performance. The incentives or rewards for achieving special quotas during the sales contests are also attractive, in terms of winning trips abroad, e.g. Australia, Singapore, Malaysia, Thailand or Sri Lanka. Sales contests motivate average salespersons to turn in above average performances.

Identifying Strengths and Weaknesses

When the actual sales performance is compared with the respective quotas of different territories and salespersons, the sales manager can identify successful and unsuccessful performers. Further, analysis of causes of poor performance of some sales territories may reveal that the salespersons have not put in adequate efforts, the sales quotas were not set correctly or the supervision by area sales managers was not good. This analysis helps identify weaknesses as well as strengths of the company in comparison to its competitors. Talking to customers helps in the analysis because the customers' perceptions are important in understanding the reasons for the company's strengths and weaknesses. Sales managers should, therefore, not only review the actual performance of salespeople with their quotas on regular basis, but also talk to the key customers formally as well as informally.

TYPES OF SALES QUOTAS

Companies set many types of quotas. The most common types of quotas are: (i) sales volume, (ii) gross margin or profit contribution, (iii) expenses, (iv) activities, and (v) combination.

Sales Volume Quotas

The sales volume quota is the most widely used type of sales quota because it is simple to understand and calculate. Most companies set sales volume quotas for individual salespersons, distributors, retailers, geographical areas or product lines, for a specific period of time. For effective control, it is proper to set sales volume quotas for the smaller selling unit. For instance, instead of setting quotas for regions (such as North, East, West and South), it is better to set quotas for branches or districts within a region. Similar approach is used for setting sales volume quotas for products for specific time periods. For example, the management can achieve better direction and control by setting quotas for individual product items and brands, instead of setting it for entire product lines. Similarly, annual sales volume quotas are broken down to quarterly and monthly quotas. Generally, companies establish sales quotas for all those items for which they make a sales budget. Companies set sales volume quotas in rupees or dollars sales volume, unit sales volume, and/or point sales volume.

- **Rupees/Dollars Sales Volume Quotas**

When salespeople are required to sell many products, it is easier to manage if quotas are set in rupees or dollars rather than in units of product. For instance, in Crompton Greaves when the organization structure was changed from product division to customer segment orientation, the salespersons handling business customers were required to sell all 31 products of the company and their sales targets or quotas were expressed in rupees lakhs (or millions) per year, which were further broken down to quarterly and monthly quotas. Another reason for using rupees sales volume quotas is that it allows an analysis of selling expenses to sales, expressed in percentages or ratios.

- **Unit Sales Volume Quotas**

Companies set sales volume quotas in units (numbers, tons or liters) of products in three different situations. One situation is when salespeople are selling a few products. For example, a company, which markets only two products, viz. ERW and CEW precision steel tubes to business customers, has set sales quotas for branch managers and salespersons in rupees as well as in metric tons (MTs). The second situation is when prices of the product fluctuate rapidly, resulting in salespeople achieving the rupee sales quotas easily due to increase in prices. The third situation is when the price of each product or service is very high and it is easy to understand unit sales quotas. For instance, a company, manufacturing power transformers, sets sales volume quotas in numbers for its regions and sales engineers, because the average price of each power transformer is `20 million.

- **Point Sales Volume Quotas**

Some companies use sales volume quotas that are conveyed in 'points'. It is used in a situation when the company wants to improve its profitability, by asking salespeople to sell more those products that relatively contribute more to the profits. For example, a company had two products, product A's contribution to profit was two times that of product B. In order to improve the profitability, the company sets sales volume quotas in points, by assigning two points for each metric ton sales of product A and one point for each metric ton sales of product B. Salespeople could achieve their sales quotas in points easily by selling product A more than product B. This also helped the company to achieve its profitability goal. Sales volume alone does not show the effectiveness and productivity of a sales person. It does not point out the selling expenses, profit contribution and important non-selling activities of the salesperson. Hence, the sales managers use other types of quotas, goals or targets. Companies set goals or quotas to control gross margin or profit contribution and expenses of various marketing (or sales) units, such as districts, branches, regions, salespeople and products.

Gross-Margin or Profit Contribution Quotas

Gross margin quota is decided by subtracting 'cost of goods sold' from sales volume. The cost of goods sold information is given by the company's manufacturing department, which tells how much it costs to manufacture the product. The problem of gross margin quota is that sales managers and salespersons have no control on the cost of manufacturing and hence, they are not responsible for gross margins. Some companies, therefore, decide profit contribution quotas by subtracting the cost of goods sold and the salespeople's direct selling expenses from the sales volume as shown in Table 4.4. Direct selling expenses of salespeople include apart from their salaries, travelling, lodging, boarding and customer entertainment. The problem of profit contribution quotas is that some salesperson may reduce necessary expenses like travelling, which may have a negative effective on sales. This can be seen in the case of the salesperson, Sunil, as shown in an example of Ludhiana branch in Table 4.4. However, profit contribution as a percent of sales is more in case of Sunil as compared with other two salespersons. Companies use profit contribution quotas to convey to field sales managers and salespeople that profits are more important than sales volume and that they should focus on profitable sales.

	Salesperson-Ashok	Salesperson-Sunil	Salesperson-Mahindra	Total Ludhiana Branch
Sales (₹)	4,10,08,000	3,85,15,000	4,60,07,000	12,55,30,000
Cost of Sales (₹)	3,07,56,000	2,88,86,250	3,45,05,250	9,41,47,500
Gross Margin (75%) (₹)	1,02,52,000	96,28,750	1,15,01,750	3,13,82,500
Salary (₹)	1,24,000	1,15,000	1,40,000	3,79,000
Direct Selling Expenses (₹)	3,90,000	3,10,000	4,70,000	11,70,000
Total Selling Expenses (₹)	5,14,000	4,25,000	6,10,000	15,49,000
Profit Contribution (₹)	97,38,000	92,03,750	1,08,91,750	2,98,33,500
Profit Contribution/Sales (%)	23.7	23.9	23.6	23.7

Expense Quotas

Companies are trying to control rapidly increasing costs of selling, such as travelling, lodging and food. The objective of setting expense quotas is to control the costs of marketing (or sales) units, such as sales territories and salespeople. Often expense quotas are used along with sales volume quotas, so that selling expenses are kept in line with sales volume. Therefore, expense quotas are stated as percentages of sales, so that salespeople give attention both to sales volume and the costs of achieving it. In some companies, other or direct selling expenses such as travelling, lodging, food and customer entertainment have a quota of 2 percent of sales. Such a uniform setting of expense quota as a percentage of sales has a problem as there are variations in territories in terms of degree of concentration of customers, resulting in variations in travelling, lodging and boarding expenses of salespersons. There are also differences in product mixes required by customers as well as market potential and abilities of salespersons. It is, therefore, advisable to administer the expense quotas intelligently and with flexibility. Sales managers should convey to salespeople that expense quotas are meant to make them cost conscious, allowing all reasonable expenditures and not allowing anyone to make money dishonestly.

Activity Quotas

Many companies set activity quotas so as to direct salespeople to carry out important job related activities. These activities are useful for achieving performance goals or targets of salespeople. The process of deciding activity quotas includes: (i) defining the important activities, (ii) finding out the time required for carrying out these activities, (iii) deciding the priorities to be given among the various activities, and (iv) deciding the quotas or frequency for important activities. Table 4.5 shows an example of how a company selling lighting products to household and business customers determines activity quotas for its salespersons.

Table 4.5 Activity Quotas for a Lighting Products Company Activities of a Salesperson

Activities of a Salesperson	Time Required	Priority (Importance)	Quotas (Frequency)
*Calling on present business customers classified into A, B, C	For A = 60 minutes B = 30 minutes C = 15/20 minutes	1 4 8	4 calls per month 2 calls per month 1 call per month
*Calling on 'hot' prospects	30–60 minutes	3	5 calls in two month
*Calling on retailers	20–30 minutes	2	Avg. 2 calls per month
*Payment collection from payment overdue customers	15 minutes	5	Avg. 1 call per month
*Obtaining and reporting market information	*Info. Gathering: 10 minutes per customer *Reporting = 30 minutes each week	6 7	During sales calls 4 times a month

It should be understood that activity quotas are set when salespeople not only have to carry out selling activities, but also important non-selling activities. Some of the important non-selling activities are payment collection from customers, getting and reporting market information. One problem faced by sales managers is how to ensure salespeople perform their activities effectively. To solve this problem, the method used is to combine activity quotas with sales volume and expense quotas which leads us to combination quotas.

Combination Quotas

Companies set combination quotas or goals when they want to control sales force performance on both key selling and non-selling activities. Combination quotas typically use 'points' as a common measure to overcome the problem of different measures used by various quotas discussed earlier. Because performances against combination quotas are computed as percentages, these quotas are known as point systems. Here the points are the percentage points.

Table 4.6 illustrates how points system is used in combination quotas.

Type of Quota	Quota	Actual	Percent Quota	Weight	% Quota × Weight
	For Salesperson: Srinivas				
Sales Volume (₹)	4,50,000,00	4,27,50,000	95	3	285
Selling Expenses (₹)	4,50,000	4,95,000	90	1	90
New Customers (Nos)	24	29	120	2	240
				6	615
	Total Point Score = $\frac{615}{6}$ = 102.5				
	For Salesperson: Pradeep				
Sales Volume (₹)	4,25,000,00	4,46,25,000	105	3	315
Selling Expenses (₹)	4,25,000	4,46,250	95	1	95
New Customers (Nos)	30	24	80	2	160
				6	570
	Total Point Score = $\frac{570}{6}$ = 95				

In Table 4.6, the selling expense quota is one percent of sales volume quota. Although Pradeep exceeded his sales volume quota, because he could not develop new customers to the extent of the quota, his total point score was less than 100. In case of Srinivas, the total point score exceeded 100, although he achieved 95 percent of sales volume quota. This makes combination quotas difficult for salespeople to understand. To overcome this problem, actual performance should be continuously monitored and discussed with salespersons with respect to the quotas and with the help of personal computers. The sales manager should also supervise on regular basis to ensure that some smart salespersons do not try to beat the system in any ways.

Another application of the combination quotas is to evaluate salespeople's performance in selling various products of the company. The company decides weights for various products based on profitability of each product. Each salesperson has a sales volume quota for each product. Similar process, as shown in Table 4.6, is followed to calculate the performance of each salesperson by calculating the total point score.

Sales managers should not use too many types of quotas or too many products in the combination quotas system, because it will confuse the salespeople. The focus should be on a few items of quotas or products that are important to the company.

METHODS FOR SETTING SALES VOLUME QUOTAS

Sales volume quotas or other types of quotas are set by companies by using several methods. The quotas are set based on: (i) territorial sales potential, (ii) past sales experience, (iii) total market estimates, (iv) executive judgment, (v) salespeople's estimates and (vi) compensation plan.

Territorial Sales Potential

This method is commonly used by large firms for setting sales quotas. The procedure used includes first estimating the market potential (or industry sales forecast) for a product line for a geographical area, using sales forecasting methods discussed earlier in Chapter 3. The second step is to estimate the multiple factor index, as explained earlier in Chapter 3, for each sales territory or geographical area. Next, the expected industry sales in each territory (also called 'territorial sales potential') is obtained by multiplying the industry sales forecast by multiple factor index. Finally, the company's estimated market share in the territory is considered out of the territory market potential in order to come up with sales volume quota for the territory. For example, estimated market potential (or industry sales forecast) for skin care products in India is `13.50 billion. The multiple factor index, using population and buying power, of Mumbai is estimated at 1.5. Then expected industry sales for skincare products in Mumbai is `202.5 million (13.50b × 0.015). Further considering the company's estimated market share of 20 percent, the sales volume quota for Mumbai's salespersons would be `40.50 million (202.5 × 0.20).

Past Sales Experience

Some companies consider past sales only for setting sales volume quotas. They take the past year's sales for each geographical sales territory, add an arbitrary percentage and decide the figures as sales volume quotas. Another alternative method is to take an average of previous three or five years' sales of each territory, add a percentage by which the market is expected to grow and thus, set sales quota for each territory. This method is better than the earlier method, because it considers the importance of the sales trend. The advantages in this method are that quota setting calculations are simple and costs of administration are low. However, there are several disadvantages.

Companies that use this method only for setting sales quotas assume that future sales are related to past sales. This assumption may not always be correct. Besides, if past sales were achieved by poor market coverage, the past mistakes will be carried on in future without any correction. Also, it ignores changes in sales potential of territories. Hence, companies should not consider past sales as the only method for deciding the territory sales quotas. It should be considered as one of the many methods for determining sales quotas.

Total Market Estimates

This method is used by small- and medium-size firms who do not have data, money and people to determine sales potential for individual sales territories. Such companies set quotas for sales territories based on the following year's total market estimates (also called market potential or industry sales forecast) as described in Chapter 3. They then decide the company's estimated market share for the following year from the total market estimate to arrive at the company sales forecast. The next step is to find out each territory's percentage share of the total company sales in the previous year. For instance, if a territory's past year's sales were seven percent of the total company sales, then the territory's sales quota would be seven percent of the total company sales forecast for the next year.

However, if the company is new and there is no information on past sales, the management first determines the market potential (or total market estimate) for its product. The company then estimates what portion (or share) of the market it could achieve in the first year. Thus, the company sales forecast is calculated by multiplying market potential by estimated market share. Thereafter, the company sales forecast (or sales budget) is broken-down to individual territories by multiplying it with multiple factor index for each territory. This procedure is used by new companies for setting sales volume quotas for its newly established territories.

Executive Judgment

Sometimes companies use executive judgment method only for deciding sales volume quotas, when the company is new, the product and territories are new or very little market information is available. In these situations, senior executives or managers use their judgment, based on their past experience to predict not only the company sales, but also sales quotas for territories. However, the quality of the judgment may not be good without any reference to quantitative market information, such as sales potential, population and market share. For instance, managing director of a material handling company asked its newly appointed vice-president (marketing) to double the previous year's actual sales to decide the company sales budget as well as sales volume quotas of several territories for the years 1994–95 and 1995–96. This decision was taken based on the discussion the managing director had with the chairman in the absence of market information. Although the territorial sales performance varied as compared to sales quotas, the company managed to achieve its sales budget. However, when the management again decided to double the sales budget and sales quotas for the year 1996–97, it failed to achieve its sales goals because of the recession in the economy. Based on this and several other examples, it can be said that the executive judgment method should be used along with other methods, but it should not be the only method used for deciding sales budget and sales volume quotas.

Salespeople's Estimates

Some companies ask their own salespersons to set their own sales quotas in situations, such as starting a field sales operation and expanding sales into new geographic regions or territories. The reason for this decision is that the salespersons are closer to their territories than management, and therefore, can do a better job. Asking salespeople to set their own quotas happens rarely, because salespeople either overestimate their abilities to set very high sales quotas or set too low sales quotas to earn high commissions or incentives. Salespersons' morale becomes down when they find that they could not achieve their own sales quotas, which were set too high20. When sales quotas are set too low, salespeople are not motivated to put forth maximum selling efforts. If quotas are set unrealistically high or low, either by the salespeople or by the management, it can cause dissatisfaction and low sale force morale. To ensure effective quotas, increasing number of sales managers discuss sales quotas with their salespeople. Sales managers use forecasting methods, past sales figures and combine these with the inputs from salespeople, before coming up with final sales quotas.

Compensation Plan

Some companies set quotas to fit with their sales compensation plan. For instance, the sales quota for this year is based on the past year's actual sales. If the last year's sales was `12 million, the sales quota for this year is set at `12 million and the salesperson is paid commission of a percentage of sales achieved over the quota of `12 million. Another method which is preferred by salespeople and used by some companies is based on salary plus commission plan. For example, the company wants to pay a monthly salary of `15,000 plus a commission of three percent on all monthly sales over `500,000. The sales quota of `500,000 is set in such a way that it is very difficult for the salesperson to exceed a total compensation of `30,000 (`15,000 salary plus `15,000 incentive) per month. The objective of the companies who use this method is that the salespersons should receive the projected amounts of compensation. These companies do not give any thought to sales potential of territories and past sales. Although compensation plan is often tied to the degree of quota achievement, sales volume quota should not be based on the compensation plan alone, because that would "put the cart before the horse".

LO 6 Plan the administration of sales quotas

ADMINISTRATION OF SALES QUOTAS

For effective administration of sales quota, the company's sales department should: (i) set realistic quotas, (ii) understand problems in setting quotas, (iii) ensure salespeople understand quotas, (iv) know marketing environment and (v) make sure flexibility in administration.

Set Realistic Quotas

Some companies, like Xerox, believe in setting high quotas that most salespeople find difficult to achieve, but are attainable by a few salesperson with extra efforts. Some other companies, like 3M, set modest quotas that majority of the sales force can achieve, so that salespeople would accept quotas as fair and attainable. However, a general view is that the salesperson's quotas should be at least equal to the last year's sales plus a percentage of the difference between the territory's market potential and last year's sales. When sales quotas are related to territory sales potential, they are considered as accurate and realistic. If salespeople feel that the quotas are unrealistic, they will not be motivated. A fair quota involves a proper blend of sales potential and previous sales experience. Good quotas are fair, accurate and attainable. For improving accuracy, set quotas for shorter periods so that periodic adjustments can be made.

Understand Problems in Setting Quotas

Underestimation and overestimation of territory sales potential, based on which the sales quotas are set, create problems. For instance, if the company underestimates its sales potential, the salespeople will easily achieve their quotas and the company will pay incentive amounts more than required. On the contrary, if the company overestimates its sales potentials, the salespersons will find it very difficult to achieve their quotas, which may lead to demotivation and dissatisfaction. This problem can be solved by making the quotas realistic as suggested earlier.

Another problem is faced by the company if it launches many new products into the market. Existing salespersons have to spend more time and efforts for introducing new products and thus, do not get adequate time to achieve quotas for the established products. A possible solution is to recruit new salespeople in order to increase the size of sales force. One more problem is faced by the company whose salespeople have to deal with a large number of products and customers. If quotas are set for each product, the salespeople may not achieve quotas for many products and also may not satisfy all the customers. The salespeople may get frustrated and may even quit the job. In such a situation, the salespeople should be allowed to focus on the major customers and products in order to maximize sales and profits.

Ensure Salespeople Understand Quotas

The company management must ensure that the salespeople understand the purposes or objectives of sales quotas. Salespeople should also understand quota setting procedure. This is important because if the salespersons understand the process of setting quotas, they feel the quotas are fair, accurate and achievable. If salespeople do not understand how the quotas are set, they feel bitter and suspicious. There are methods available to help salespeople understand quotas. These are:

Participation in Quota-Setting

By allowing salespersons to take part in the process of quotasetting, not only the understanding of salespeople about quotas increase, but also their questions are answered properly and salespersons' inputs can be used in quota setting. The salespeople will be more inclined to accept the sales quotas, if they are involved in its development.

Continuous Feedback

Sales managers should give continuous feedback to salespeople on their performance in relation to quotas and what should be done by salespeople to improve their performance. This requires frequent meetings between the sales manager and salespeople as well as regular reports. Sales management should communicate to salespeople that sales quota performance will be considered in their salary reviews and promotions.

Know Relationship between Quota Selection and Marketing Environment

Successful companies select the type of quota that is important to them based on the marketing environment and the company objectives. As mentioned earlier in the combination quotas, companies should have a few number of quotas, generally not more than three. If salespeople have too many quotas, their efforts and energy get scattered and they get confused.
The following illustrations would help to understand how successful companies select a few quotas that have relationships with marketing environment and sales situations: • When the company has

many new salespeople, it is proper to have one or two activity quotas to ensure that salespeople do the right things.

• When the company's products are in growth stage of product life cycle or in a high growth economy, the quotas should be on percentage growth in sales or growth in market share.

• When the company's product or service is in maturity stage, the sales growth will be limited, and profit contribution quotas would be important for salespeople and territories.

• When the company's objective is to increase sales from existing customers, the quotas for salespeople should include sales growth and customer satisfaction or customer service.

Make Sure Flexibility in Administering Quotas

Any major changes in market demand or the company's strategies or policies must be looked into and the quotas should be changed suitably. For example, if the company increases its prices by 10 percent, due to an increase in the cost of raw materials and other inputs, the sales quotas have to be suitably adjusted. However, small changes in the market conditions, which do not have much impact on the company sales, can be ignored.

Sales Objectives/Goals	Marketing Strategy	Sales force Strategy	Sales force Tactics (Action plans)
Increase in sales volume by 15 percent	• Enter export markets	• Identify the countries and the distributors	• Marketing or sales head to get relevant market information to decide selection of countries and the distributors
		• Sign sales agreements with the distributors	• Negotiate and sign agreements in 3–5 months
	• Penetrate the existing domestic markets	• Review and improve sales force training, motivation and sales incentives	• Train each salesperson in his deficient or weak areas • Effective supervision by field sales managers
		• Ensure all market segments are covered	• Link sales force incentives to segment-wise sales targets
Reduce selling expenses by 5 percent	• Utilize existing sales force resource optimally	• Use 'ABC Analysis' technique for customer visit plans and tele-marketing for prospective customers	• Focus company sales force selling to A class, (high potential) customers to increase its business share
	• Use effective and efficient channels	• Use Internet (online) selling and telemarketing, in addition to company sales force and intermediaries	• B and C class customers to be served by agents, dealers, telemarketing, and online selling

COMPANIES NOT USING QUOTAS

Some companies do not use sales quotas for different reasons. Companies such as Nortel and Siegel think that sales quotas drive salespeople to achieve sales volume, ignoring customer service and customer satisfaction, which have long-term impact of repeat business. These companies should use more number of parameters for evaluating and rewarding salespeople. Some other companies have difficulties in setting accurate quotas by combining various factors like territorial sales potential, salespersons' abilities and territory coverage difficulty. Some sales managers do not use the words sales quotas, but prefer to use the words 'sales goals' or 'sales objectives'. These sales managers use quotas, but under different names. Many executives prefer not to use sales quotas, if it means basing them on "guesstimates". Some sales managers do not use sales quotas because quotas place too much emphasis upon making sales. This may be a correct criticism of sales volume quotas, but not of all quotas.

In a situation, when a product or service is in short supply, sales quotas are not suitable. This is called sellers' market. Thus, sales quotas are proper in buyers' markets. Any organization that decides not to use quotas should have forceful reasons, because if they do not have sales quotas or goals, they cannot achieve the company goals and objectives.