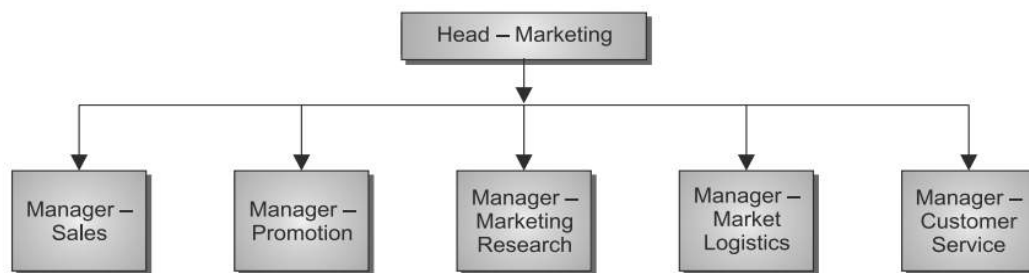


## EVOLUTION OF SALES MANAGEMENT

Before the industrial revolution, which began about 1760 A.D. in England, small-scale manufacturers had a commanding influence on the economy. Manufacturing received most of the attention, because that was the major problem. Goods were sold to nearby customers without any problem. After the industrial revolution in United Kingdom and the American Revolution in the United States, large-scale manufacturing organizations with huge quantities of goods started dominating the economy. Separate functional departments were established, which included manufacturing, finance and sales. Due to manufacturing of large quantities of goods, selling to nearby markets was not adequate and there was a need to expand the market. This was possible with the involvement of intermediaries such as wholesalers and retailers, selling the company's goods to consumers who were located far away from the manufacturing unit. In the meantime, marketing activities like advertising and sales promotion, conducted by the manufacturer's sales department, became not only important, but also complex. It, therefore, became necessary to split the marketing functions into sales functions and other support functions like advertising, sales promotion, marketing research and market logistics (or physical distribution). This kind of typical organization, shown in Figure 1.1, is seen even today. Fig. 1.1 Typical Marketing Organization Structure. It is important to understand that in spite of fragmentation of marketing functions, the sales department continues to occupy an important position even today, because it is the income (or revenue) generating function and no other function in an organization brings in income (Money)



**Fig. 1.1 Typical Marketing Organization Structure**

### WHAT IS SALES MANAGEMENT?

Sales management has been defined in many ways. One definition is:

*“Sales management is the management of the personal selling part of a company's marketing plan.”*

Another most acceptable definition from American Marketing Association is:

“Sales management means the planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervizing, paying and motivating as these tasks apply to the personal sales force.”

However, this definition does not include evaluating and controlling sales force performance. Besides, the definition of American Marketing Association made sales management nearly same as “the management of sales force”. This meaning of sales management is not in line with the broader responsibilities of modern sales managers. The responsibilities of modern sales managers, in addition to the above mentioned definition, are: (i) building sales force organization structure and territories; (ii) coordinating and communicating internally with other functions or departments of the company and externally with customers, intermediaries and agencies like advertising; and (iii) working as a member of strategic management team.

## **NATURE OF SALES MANAGEMENT**

The nature or characteristics of sales management can be explained by the following three ways:

- (i) Its integration with marketing management
- (ii) Scope of sales management
- (iii) Role and skills of modern sales managers

### **Integration with Marketing Management**

As sales management is a part of marketing management, sales planning should be integrated with marketing planning. A company's marketing team typically consists of two basic groups:

- (i) Field selling (or personal selling) team
- (ii) Headquarter marketing team

Field selling teams (or field sales force) remain in their territories/branches/regions contacting existing and prospective (new) customers. The headquarter based marketing team performs support and service functions or activities to assist field salespeople in their jobs. These headquarter based service and support functions are as follows:

**Promotion/Marketing Communications** Consists of advertising, sales promotion, public relations, publicity, Direct Marketing and Events/Experiences.

**Marketing Research** Collecting and interpreting information on customers, competitors, products, markets and so on. For example, field salespeople need information on competitors' prices, discounts, payment terms and standard delivery time when they negotiate with customers for getting orders.

**Market Logistics** Physical distribution of finished goods including warehousing, inventory, transportation and order processing. For instance, a dealer of Mahindra automobiles resolved the problem of on-time delivery by keeping higher inventory of fast moving models and colors of vehicles.

**Customer Service** Pre-sales and post-sales services as well as delivery service to existing and prospective customers. For example, the problems related to post-sales service were resolved by the Mahindra dealer by assigning a service advisor to every vehicle when it came for service to the showroom.

**Coordination** Sometimes, there is a need to coordinate between customers, the company's salespeople and production or operations by employing inside salespeople. Increasing number of companies are employing inside salespeople to support customers and outside (or field) salespersons.

Figure 1.1 shows a typical marketing organization structure, which integrates sales and marketing functions. The support activities are either handled within the company or outsourced to specialists like marketing research agencies and advertising agencies. However, the real integration between sales and marketing teams would take place if there is a harmonious relationship that is built on the understanding of common goals and effective process of delivering intended service to the customers.

### **Scope of Sales Management**

During the early period of gradual development of sales management, the scope of sales management was narrow. The main activities of sales management were recruiting,

selecting, training, motivating and supervising salespeople. At the present period of time, sales management has much broader scope. In addition to the traditional activities as defined by American Marketing Association that is indicated earlier, sales managers are responsible for many more tasks. These include participating in strategic planning, forecasting sales, taking part in budgeting process, designing sales territories, developing sales force organization structure, coordinating internally with various departments or functions in the company and externally with customers and advertising agencies. Sales managers should ensure that all these tasks are effectively integrated.

The primary objective of sales management is to achieve the targeted or budgeted sales volume. Sales managers are also responsible to reach the goals of market share and sales growth. They are involved in the process of setting these objectives or targets. Whether these goals are achieved or not, depends not only on the performance of the sales team, but also on the quality of marketing decisions, the company's products and services as well as on marketing environment.

It is important to understand that jobs of first-level sales managers (for example, district, branch, or area sales managers) differ from other management jobs. These sales managers cannot directly supervise the work of the salespersons reporting to them on a daily basis, because many times the salespeople work away from the company offices to meet their business customers and intermediaries like distributors, dealers, and retailers. Thus, the scope of modern sales management extends from the management or administration of sales force to the various tasks described earlier. In addition, the top-level sales manager is a key member of the marketing team that makes several marketing decisions, such as pricing, marketing channels, promotion and market logistics.

### **Role and Skills of Modern Sales Managers**

The role of a traditional sales manager has changed and hence, we will discuss the role of a modern sales manager. Instead of giving orders in an arrogant manner like a "boss", a modern sales manager behaves like a team leader with an ability to influence the salespeople towards achievement of objectives and treats them equally. Instead of salespeople coordinating with internal company departments or functions like advertising, sales promotion and shipping, the modern sales manager takes the responsibility of internal coordination. This helps salespersons to spend more time with their customers, understand customer needs clearly and give superior customer service.

Some of the important roles or functions of the modern sales managers are as follows:

**Strategic Planning** The sales manager at the senior level is a part of the company's top management team for strategic planning. In particular, the modern sales managers' role is to develop long-term and short-term sales forecasts, to obtain information about changing needs of customers as well as strengths and weaknesses of competitors. These inputs from the senior sales manager are useful for evolving the company's strategic plans.

**Coordination** In addition to managing the salespeople, the first-level sales manager has to coordinate with other functions or departments within the organization and also with customers, intermediaries like distributors, dealers and retailers. The first-level sales manager, like area sales manager, supports his salespeople; for example, coordinating with production planning and market logistics departments to ensure timely delivery of products to customers. The district or branch managers, who are also called first-level sales managers, conduct monthly or quarterly coordination meetings to discuss and resolve various issues with distributors or dealers.

**Use of Technology** Modern sales managers use computers and technology more than the past sales managers. Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) software packages are used to ensure superior customer service and customer satisfaction than competitors in globally competitive markets.

**Managing Multiple Channels** Besides the company's salespeople (i.e. personal selling channel), a modern sales manager manages other marketing (or distribution) channels, such as telemarketing (using the telephone), online selling through Internet, manufacturer's representatives (or the agents), and the intermediaries like distributors, wholesalers, dealers and retailers. Even in personal selling, the sales manager has options like team selling, independent sales representatives, key account executives and part-time salespeople.

**Skills of a Sales Manager** A sales manager's job is complicated. It also varies widely from company to company and from consumer marketing to business marketing. Management thinkers propose a long list of skills, which can be summarized into three important skills: (i) people, (ii) managing and (iii) technical.

#### **People Skills**

The people skills include the sales manager's ability to motivate, lead, communicate, and coordinate effectively with the people around him. The ability to develop team-oriented relationships is important. With respect to salespeople, the first-level sales manager should understand the salespersons' individual needs and skills and carry out coaching or mentoring to improve their performance. In addition, the sales manager should be able to resolve conflicts between persons working with him.

#### **Managing Skills**

For managing the sales force, the sales manager should have administrative or managing skills like planning, organizing, controlling, and decision-making. These skills can be learnt by attending management development programs and also by observing or studying the behavior of successful and unsuccessful managers.

#### **Technical Skills**

These are specific tasks or functions such as training, selling, negotiating as well as the ability to use computers (or information technology skills) and problem-solving abilities in the specific industry discipline. Although sales skills alone do not necessarily make a good sales manager, some ability in selling is needed, as successful sales experience can help a sales manager resolve sales related problems faced by the salespeople.

### **IMPORTANCE OF SALES MANAGEMENT**

Sales management is very important not only to a company but also to a student. A large number of people are employed in selling products and services to individual and household consumers, private and public sector companies as well as to institutions like hotels, restaurants and hospitals.

In this section, we will discuss the significance of sales management to both companies and students.

#### **Importance to a Company**

Sales management is the only function or department in an organization that brings in revenue. That is why sales management and financial results of a company are closely related. Financial results of a firm are stated in terms of sales (or sales revenue) and net profit (sales minus expenses). Thus, the financial results of an organization can be influenced to a large extent by the quality and performance of sales management. The marketing effectiveness of a company depends not only on the development of the marketing plan, including sales strategy, but also on implementation of the plan and the strategy. Salespeople are responsible to carry out the sales strategy and hence, their

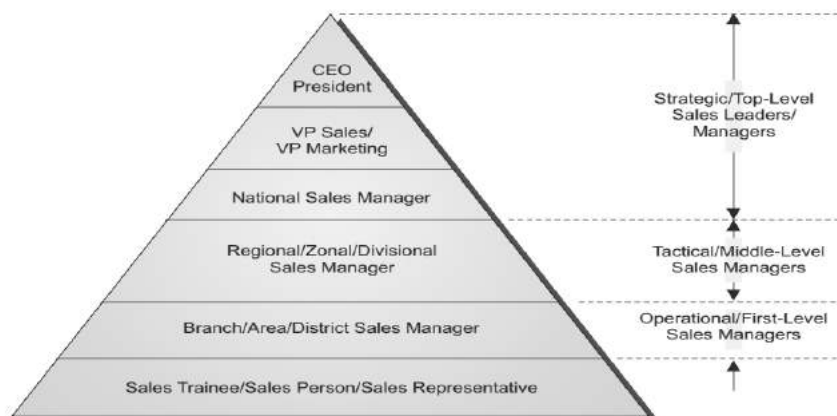
selection, training, motivation, and compensation are key indicators to the performance of sales management and that of the organization. Perhaps, the only exceptions are companies that do not use personal selling (i.e. not selling the company's products and services through the company's salespeople), instead use the intermediaries like manufactures' representatives (or agents), distributors, wholesalers, dealers or retailers. Personal selling is less used in marketing of consumer goods and services, as compared to B2B (business-to-business) marketing, where the products and services are mainly sold through the company's salespeople.

### Importance to a Student

Many students find their career opportunities in sales and sales management. This chapter discusses various types of sales positions, such as delivery salesperson, outside order taker salesperson, inside order taker salesperson, missionary salesperson and key account sales executive. There are also many sales management jobs available in today's business world, such as branch/area/ district sales manager, regional/zonal/divisional sales manager, national/general sales manager and vice-president/director (sales). No other functions in management have so many positions available. In medium and large organizations, there are many sales management positions, but only a few managerial positions in finance, human resource, production or logistics. Generally, compensation is much higher for sales management positions than any other management areas. Normally, a good salesperson with some managerial potential can become first-level sales manager (see the next section on "levels of sales management positions" in this chapter) in about four to six years. For carrying out various activities of sales management, a fresh graduate would need knowledge of sales management. That is why, it is important for a student to study sales management. LO 3 Describe the levels of sales management positions

### LEVELS OF SALES MANAGEMENT POSITIONS

There are three levels of sales managers in the organization structure of many firms (i) Strategic or top-level managers, (ii) Tactical or middle-level managers, and (iii) Operational or first-level managers, as shown in Figure 1.2.



**Fig. 1.2 Levels in Sales Management—Organization Hierarchy**

### Strategic (Top-level) Sales Managers

The highest level in sales management is often called director (sales), vice-president (sales), general manager (sales) or national sales manager. They are responsible for long-term (i.e. strategic) marketing and sales planning, including scanning external environment, setting long-term and short-term objectives and goals, developing strategies for achieving them, making decisions for implementing strategies and action plans and controlling the performance. They are also a part of top management team for the organization's strategic

planning and coordination between various functional areas. For example, after joining the company, the general manager (sales and marketing) of Steel Tubes Ltd. had set a strategic goal of becoming number one in terms of market share in precision steel tubes industry in three years from number three position. A market survey was undertaken to obtain information about the customers, competitors and external environment. Based on the findings of the market survey, a strategic marketing plan for the next three years and the marketing plan for one year was developed, discussed at the annual marketing conference, and finalized with a few changes. It was also the responsibility of the general manager (sales and marketing) to implement the marketing and sales plans through the branch and regional sales managers. Performance control was done by measuring the actual performance and reviewing the same against the goals or targets every quarter, when corrective actions were discussed and finalized for implementation.

### **Middle-level (Tactical) Sales Managers**

These positions mostly carry the title of regional, zonal or divisional sales managers, whose major responsibilities are to manage several branches or districts reporting to them and also to implement the strategies and action plans approved by the top-management. In some companies, these positions are eliminated in order to make the organization flatter. Such organizations, sometimes, use cross-functional team selling for high sales potential customers. For instance, GC Ltd. had four regional sales managers located at Delhi, Kolkata, Mumbai and Chennai, for a range of consumer durable and industrial products. Each Regional Sales Manager (RSM) had three to four branch managers reporting to him. The main responsibilities of the RSM were to: (i) allocate the regional sales and expenditure budgets to the respective branches, along with finalization of action plans for achieving the budgeted goals, after discussions with branch heads; (ii) implement marketing strategies and action plans; (iii) review branch performance every month and decide corrective actions; and (iv) suggest increments, promotions and training needs for all persons working in the region.

### **First-level (Operational) Sales Managers**

This is the first level or entry-level position of sales management with titles such as branch sales managers, area sales managers, or district sales managers. They are directly responsible to achieve sales goals and objectives by providing day-to-day supervision to salespeople. They implement the strategies, procedures and rules decided by higher levels of management. For example, as the branch manager of Ahmedabad office, A.R. Shah's sales performance for the year 2014–15 was above the yearly sales goal, but the profit contribution was below the target. The main reason was that the branch selling expenses were higher than the budget. After the analysis, it was found that six out of eight salespersons' travelling and lodging expenses were higher than the budgeted levels. During the performance review with the regional sales manager, Shah admitted that his supervision of salespersons was focused on achievement of sales targets, rather than the expenses of the salespeople. The regional sales manager pointed out that the branch manager's responsibility was not only to achieve the sales targets consistently but also to control the expenditure so as to achieve the profit contribution goal.

### ***Staff Sales Management Positions***

In most medium- and large-sized organizations, there are staff managerial positions, which provide assistance or help to the line sales managers and the salespeople. Sales training manager, customer service manager, or sales co-ordination manager are some of the examples of staff sales management positions. It is important to understand that these staff

managers have an advisory role and that they do not have a line authority on line sales managers and the sales force.

## **NATURE OF PERSONAL SELLING**

We know that personal selling is an important element of a company's promotional or communication mix. It is also called 'field selling' or 'selling through the company's salespeople'. Personal selling is defined as, "personal communication of information so as to persuade a prospective customer to buy a product, a service, or an idea that satisfies the needs of the buyer". The personal communication to a customer is usually done by a company's salesperson. The nature or characteristics of personal selling includes: (i) Transactional and relationship selling, (ii) Varying sales positions, and (iii) Sales as a career.

### **Transactional and Relationship Selling**

Personal selling is mainly transaction-oriented because its purpose is to close a sale to a particular customer. The focus of the salesperson is to get the customer order or to close immediate onetime sale of the product or service. However, in the face of intense competition, companies at the present period of time are trying to improve their performance with high sales and profit potential customers by building a long-term supplier-customer relationship. The process by which a selling firm builds long-term relationships with key customers for the purpose of creating mutually satisfying relationships is called relationship marketing or relationship selling (since salespeople and sales managers play key roles in carrying out relationship marketing programs). Relationship marketing programs should be targeted toward customers with a high relationship orientation (i.e. need and desire for a relationship). Not all customers desire strong long-term relationship with suppliers. These customers perceive relationship marketing as unwanted hassle, extra cost, or waste of time. They prefer transaction oriented sellers who cut the price to get the sale. In relationship selling, the relationship between buying and selling firms is built on cooperation, commitment, communication and trust. In addition, the relationship between a supplier and a customer is determined and controlled by a few major factors, as explained in Exhibit 1.1.

#### **Exhibit 1.1 Major drivers of customer relationships**

Based on the empirical research from 1987 to 2004<sup>1</sup> representing different relationships, the major drivers of customer relationships are:

- **Conflicts** or disagreements between partners should be resolved amicably. If not, the relationship is damaged. Conflict has a major impact on the customer relationships, though it is a negative influence.
- **Competence** or expertise of a seller has the greatest positive impact of all the positive factors on a customer. Hence, a selling firm should focus on training its sales and service people in terms of their knowledge, skills, and attitude so that customers perceive the information provided by them in a more reliable and valuable way.
- **Communication** or the amount, frequency, and quality of information shared between a seller and a buyer has a significant positive effect on all aspects of relationship. It can help resolve disagreements, align objectives and expectations, and discover new value creating opportunities.

In general, the most effective relationship marketing strategies are: (i) minimize conflict between a seller and a buyer; (ii) improve seller expertise; and (iii) ensure bilateral communication between a buyer and a seller. to households as well as delivery

### **Varying Sales Positions/ Sales Jobs**

There are a wide variety of sales jobs or sales positions. These jobs differ in terms of degree of problem solving and requirements of selling simple to complex products and services. For instance, the job of a Britannia company's salesperson of taking orders for biscuits from wholesalers and large retailers is quite different than the job of a business development executive of Infosys selling an Enterprise Resource Planning (ERP) system to a bank. It is, therefore, useful to broadly classify the many types of sales jobs and place them into different categories:

**Delivery Salesperson** The main responsibility of the salesperson is to deliver a product to household customers or business customers. Examples include delivery of Milk and Newspapers to households as well as delivery of soft drinks and bread to retailers. Delivery salespeople also take orders from customers, but they do not engage in creative selling. Customer needs and the salesperson's good service as well as pleasant manners can lead to more sales.

**Inside Order Takers** These salespeople mainly act as an inside order taker by responding to customer demands. There are two types of inside order takers. One type of salesperson stands behind the counter, like in a garment retail store. The salesperson gives service to the customer by responding to the customer's demands. Opportunities for creative selling are less. The second type of salesperson takes customer orders on telephone and also does outbound calling. This is called telemarketing (or teleselling). Examples include banks and credit card companies, who are the major users of telemarketing (or inside order takers) in India.

**Outside Order Takers** These salespeople go out to the market and sell the company's products and services to the intermediaries like distributors, wholesalers, dealers, and retailers. For instance, the company's salespeople selling Fast Moving Consumer Goods (FMCGs) like soaps, detergents, and biscuits to distributors and wholesalers, whose sales representatives, in turn, sell the products to retailers. The company salespeople perform other tasks like setting up retailers' product displays, solving the problems of intermediaries and training intermediaries' salespersons. These salespeople do little creative selling

**Creative Sellers** These salespeople use imaginative ways to get orders; for example, selling tangible durable products like vacuum cleaners and refrigerators, as well as intangible services, such as insurance policies and educational courses. The salesperson should first clearly understand the prospective customer's needs or problems by asking questions. Thereafter, the salesperson shows how his product or service meets the customer's specific needs better than any other product or brand.

**Consultative Sellers/New Business Sellers** These types of salespeople are experts in solving problems of business customers. They are creative and problem solvers who serve as consultants to their customers. For instance, a salesperson from a material handling company noticed a very long time taken by trucks from suppliers for unloading incoming materials in a passenger car manufacturing factory. He talked to the purchase executive of the car manufacturer and submitted an offer for Hydro-Electric equipment that would minimize the unloading time to five minutes from existing 15 minutes. The offer was accepted and the supplier fulfilled the promise. This resulted in the supplier getting orders for many such types of equipment not only from this factory but also from two more

factories of the manufacturer who was benefited by substantial savings in the time, space and costs.

**Key Account Sales Executive** A key account is an important customer who has a high sales and profit potential. A key account sales executive is given the responsibility to look after a few (typically three to five) number of such important customers. The supplier firm develops a Key Account Management (KAM) program with an objective of becoming a preferred or sole supplier to the key accounts. The KAM program includes complete understanding of the customer's business and needs, adopting relationship management approach, and using team selling method to deliver a solution that matches the key account's needs. For example, a manufacturer of precision steel tubes has key account teams focused on the manufacturers of two-wheelers and bicycles, who have high sales and profit potential. Each key account team has a key account sales executive as a team member to coordinate between selling and buying organizations.

**Sales Support Salespeople** These salespeople support sales representatives with their specialized product knowledge to solve customers' technical problems. They are not responsible for selling a product or service. Sometimes, these sales support people are included as part of the sales teams selling to key accounts to provide technical information before the sales, during negotiations, or after the sales to solve customer problems. They are also involved in educating and training customers. Examples include industries such as steel, chemicals, and software services needing technical inputs from sales support engineers during negotiations between buying and selling organizations.

**Missionary Salespeople** They are a type of sales support salespeople. They do not ask for orders, but provide product information and promote goodwill about the product and the manufacturer; for instance, medical representatives in pharmaceutical industry calling on doctors who write prescriptions when they are with their patients. Thereafter, the patients buy the drugs from a pharmacy. It should be understood that the responsibilities of many salespersons may not clearly fall into one of the eight categories described above. It is the task of sales managers to determine the activities or responsibilities of the salespeople in their organizations.

**Sales as a Career** As seen in Figure 1.2, the path to a career in sales management mostly starts with the position of a sales trainee or sales representative. We have also read about different types of sales positions from a delivery salesperson to a salesperson solving a customer's problems. Thus, there are a range of sales positions as well as a range of managerial positions in sales management.

Many people find their career opportunity in sales and marketing. Generally, sales offers more jobs than any other area of marketing, because each product or service has to be sold by a salesperson either to a household consumer, a manufacturing firm, an intermediary like a distributor or a retailer, an institution like a hospital or a college, or to a government organization like railways.

**Rewards in Sales Career** Sales is also one of the most financially rewarding occupations. Sales career can hardly be boring, because it deals with people, whose wants or needs are ever-changing. It is one of the exciting and challenging careers. Even in a bad economic situation, a good salesperson is the last to be fired even if a company decides to cut back its employee strength.

Most companies develop attractive compensation plans for their salespeople in order to attract and retain good quality salespeople. After the initial training period of about 6 to 12 months, a new sales trainee typically gets a compensation package consisting of a fixed amount (i.e. a salary), a variable amount (i.e. a commission, profit sharing or bonus) and fringe benefits [for example, insurance, medical reimbursement, pension, Leave Travel

Assistance (LTA)]. Generally, reimbursement of expenses, such as travelling, lodging and boarding is not considered as a part of the sales force compensation package. In case of team selling, where joint efforts are required from members of selling teams (derived from various departments such as sales, logistics, and customer service), some form of shared reward like a bonus is given for an outstanding performance.

In addition to financial rewards by way of attractive compensation, sales persons are given non-financial rewards such as recognition and promotion. These rewards help salespeople develop a feeling of self-esteem. Personal satisfaction is important in any career. Successful salespeople do get personal satisfaction because they give effective services to their customers and contribute to the success of their companies. Most salespeople sell in a competitive environment and good salespeople get personal satisfaction by winning orders from customers in a highly competitive market. Outside or field salespeople (unlike inside salespersons) are not restricted by the rigidity of an office, as they are able to travel, meet different kinds of people and face different situations. The variety and diversity of selling job make most salespeople enthusiastic.

More CEOs come from sales and marketing background than from any other functional areas. One of the major reasons for this is that salespeople understand the business from customers' perceptions and of all employees; they are closest to the customers. Hence, it is said that a sales career is one of the fastest routes to the top position in an organization.

Typically, a college graduate enters sales career as a sales trainee and then advances to a sales representative position. Depending on his performance, the career path may take positions of senior salesperson or key account executive to sales supervisor, area sales manager or district sales manager, which is the first-level sales manager's position. After this, the advances in career could be in the middle-level and top-level sales managers as shown in Figure 1.2.

However, if a person has completed a post-graduate diploma or degree program in management (PGDM/MBA), his growth in sales and marketing management would be faster as compared to a college graduate. After serving for a couple of years in the initial sales positions, the first important position can be a sales executive, marketing executive or area sales manager.

### **Salesperson to Sales Manager**

In most companies, the path to a career in sales management starts from the position of a sales representative. Most companies want to have a person who is good in selling as well as in managing salespeople. However, the qualities required for a good sales manager are very much different from those needed by a salesperson. Most companies do consider top performing salespeople, when a vacancy for the first-level sales manager develops. Some of the important qualities to look for in selecting a person for the position of an area sales manager (i.e. the first level sales manager) from a group of salespeople are as follows:

- Ability to be a team-player.
- Discipline in work habits like punctuality in attending meetings, customer appointments, and so on.
- Ability to manage a team and good communication skills.
- Selling skills—good in selling products, services, or ideas.
- Well balanced person with controlled self-esteem.

After the right person is selected for the position of a first-level sales manager, it is important that the selected person is given a short training on sales management. The person

should be made aware of the changes that take place on promotion of a salesperson to sales manager. Some of these changes are as follows:

**Changes in Goals and Objectives** A sales manager achieves the organization's or the territory's goals and objectives, but a salesperson tries to achieve personal goals of sales volume, sales calls, customer satisfaction, and so on.

**Change in Responsibilities** The major responsibilities of a sales manager are sales administration work, including managing salespeople reporting to him. The major responsibility

**Change in Views** A salesperson sees his job as completing certain activities given by his superior. However, a sales manager views his job as completing the activities pertaining to his territory effectively in order to achieve the goals or objectives of the sales territory, through his team.

**Change in Skills Requirement** A salesperson needs to have selling, negotiation and communication skills. In addition to these skills, a sales manager must have managerial skills such as planning, directing, motivating, training and controlling the salespeople.

**Change in Relationships** A salesperson needs to have a good relationship with customers, peers and superiors. When the salesperson gets promoted to the position of a sales manager, he has to develop new relationships with other managers, subordinates, who were his former peers and his new superiors.

### **Changing Role of Sales Force**

In this section, we shall be discussing two extended roles of sales force—value creation for customers and value addition to the organization. **Value Creation for Customers** A cross-section of salespeople, sales managers and CEOs think that the purpose and role of the sales force are changing. The traditional role of the sales force has been to communicate the value of the selling firm's offering. In today's organizations, it is difficult for individuals and functions to survive and succeed unless they add or create value to the customer. What does "create value" mean? The basic and simplest equation of value is:  $\text{Value} = \text{Benefits} - \text{Cost}$ . This shows that there are two ways to create value. Either a company can create additional benefits or reduce the cost of the benefits it already provides.

For example, in consumer marketing, a marketing organization can create value by giving a wider choice of distribution channels from where an individual customer can buy a product. The different channels available to consumers for buying can be Internet, a retail store near his residence or a specialty store. In case of business marketing, the sales force can create value by clearly understanding the business customer's needs and offering a customized product or service to meet the specific needs.

Let us take the example of a software company, NM Technologies, which quotes for a software product to a pharmaceutical company. The salesperson of NM Technologies quotes \$400,000, after finding out that the customer's labor cost will be reduced by \$100,000 by using the software. Thus, he pitches for Return on Investment (ROI) of 25 percent (i.e. \$100,000 savings per year divided by \$400,000 cost of software). The competitor, AM Technologies quotes a price of \$450,000, which would reduce the labor cost by \$90,000. But the software offers additional benefits by which it would mark for attention overdue accounts receivables that will encourage the customer organization to take action to collect the receivables. This would result in a cash flow of about \$250,000. The software also has a provision of reminding the company staff about refilling the stocks of the stockists on daily basis, which would increase the revenues by \$300,000 and profits by \$100,000 per year. Thus, AM Technologies' offering's benefits workout to increase in profits by \$190,000 (i.e. \$90,000 cost reduction + \$100,000 profit increase). This makes  $\text{ROI} = \$190,000$  divided by

\$450,000 = 42 percent. In addition, the cash flow increase is \$250,000. Compared to NM Technologies benefit of 25 percent ROI, AM Technologies benefits of 42 percent ROI and increased cash flow made the buying decision of the customer easy, due to superior value creation.

Earlier it was stated that there are two ways of creating value—to give more benefits or to reduce cost. The selling organization faces the question—which way is better? The answer depends on the customer. Some customers view the product as a commodity and want the benefits in terms of lowest price or cost. Many government organizations follow this buying strategy. Other type of customers want customized solutions and long-term (strategic) relationships with suppliers. These customers look for more benefits, such as reduction in raw material consumption, minimization of billing errors, better customer (i.e. the customer's customer) retention, revenue growth and brand enhancement. For creating these benefits, selling teams are needed, which are led by the sales leaders. These sales leaders, also called key accounts managers, get people together from various functional areas (a cross-functional team), that is, engaged with the customer team. Thus, relationships are built between the selling organization and the customer organization at various levels. This type of strategic value creation and relationships are very selective and typically restricted to a few large profit potential customers.

### **Value Addition to the Organization**

The sales force must recognize that their focus is not only to collect orders but to generate a profit for the organization they work for. Many salespeople do not emphasize on profit. In the process of getting orders, large discounts are given, terms of payments are relaxed and delivery penalties are agreed. They get orders at any cost. This results in increased sales turnover but reduced profits.

Salespeople must understand that when they are selling several products of the company, they should know that different products have different contributions (to overheads and profits). In other words, they should sell more of those products which have high contributions, and should sell less other products which have low or poor contributions.

For instance, a steel component manufacturing company had two product categories (or product lines)—category 'A' had low contributions and category 'B' had medium to high contributions. The marketing head explained to the field sales force to book more orders for category 'B'. However, some salespeople focused more on category 'A' because it was easy to get orders to achieve the sales targets.

Many salespeople do not pay adequate attention to the terms of payments when they make an offer or during negotiations with customers. They give direct credit of 30, 45 or 90 days to customers who are not creditworthy. These salespeople do not understand that profits are realized only if 100 percent payments are received. If payments are not received from the customer, the profit remains on paper and gets added to 'debtors', but never realized. Salespeople should be very careful in giving credit to a customer. It should be given only after creditworthiness of the customer is established through accounts or finance department.

The above mentioned three issues—generations of profitable orders, selling high contribution products more and attention to terms of payments—would help the sales force to add value to the organization they work for.

## **SALES ORGANISATION**

The organisation is a mechanism to realise our objectives. Since the market conditions change, the sales organisation keeps on changing, always accommodating the necessary environmental changes. This ensures survival as well as growth.

Organisation is a structure as well as a process of putting together this structure. In organisational process, lines of authority are defined. We know who is our superior, and whom we are reporting to. The superior has the authority to direct us. He assigns part of his work load to us, and creates our duties/responsibilities. We then have an obligation to him to carry out the tasks assigned. This obligation is our accountability. To ensure smooth flow, the organisation requires balance and coordination. It should also provide for career progression and should economise on executive time.

### **SALES ORGANISATION**

We have to first identify the expectations of the sales function, and its overall place in the total organisation. To begin with, corporate objectives are identified — both qualitative and quantitative. We then decide how to go about achieving them and at what cost. We identify sales positions, classify them into groups, and decide the hierarchy. We then assign positions to persons. The resulting structure is evaluated in terms of its balance and flexibility.

Sales organisation is used, to attain the qualitative and quantitative objectives of personal selling. These objectives are related to sales volume, profitability and market share. Sales organisation is used not only to achieve the present objectives, but also to attain a particular future position. Sales organisation is a second priority, when a typical company starts its operations. It first concentrates on the production and financial aspects. As it evolves it keeps on evolving the production and finance departments, but somehow tends to overlook the sales function. It is kept constant without much alteration as the company evolves. What changes is the selling style and the size of the salesforce. Sales organisation must be adapted to the changing environment.

### **Purposes of Sales Organisation**

Good organisation avoids overlapping of work load and wastage of efforts. It also avoids the friction involved, and results in organisational cooperation. As in any organisation, there are informal groupings in a formal sales organisation. These should be used strategically for the benefit of the formal organisation.

Sales organisation allows delegation of authority and assignment of responsibility. Specialised tasks are performed by persons best suited to do so. As the organisation grows, there are necessary changes to accommodate the additional responsibilities. The administrative distance between the top sales executive and the customers is far more in a large organisation. Perhaps, we can think of having a special customer relations or service officer in such a situation.

Sales organisation is used to achieve coordination and balance. There should be a teamwork. Motivation to strive towards the common goal in the individuals also enables coordinated functioning. There should be harmonization of the personal goals and the organisational goals. Such harmony can be brought about by training, seminars, group interactions, two-way communications. There should not be over specialisation, there should be a dialogue between the specialists and others.

In a sales organisation, the authority flows from the top down to the field level salesmen. The reporting is upwards. This is essentially a line structure. In line structure, there is unity of command — one subordinate reports to one boss only. In a growing organisation, however, there is a need to have functional specialists like distribution manager, logistics

manager, marketing research manager, product manager and promotion manager. A salesperson is directed by his immediate superior about his sales goals, but is directed at the same time by the MR specialist about a questionnaire he has to fill up to collect the data. He receives instructions about sales promotion from the promotional manager. Thus, he is in line relationship with his supervisor but in functional relationship with his functional superiors. This violates to some extent the principle of the unity of command. The attempt should be harmonisation of the commands emerging from different sources. A sales organisation that is sound has in-built arrangements to achieve this harmony.

A good sales organisation economises on executive time. Top executives manage by exception. In a good organisation, the proper span of control is expected. A large span is possible when the coordinator is having skills to coordinate such a large number. Lower-level sales executives have a larger span. Higher level executives have to devote time to planning and conceptualisation. The spans are therefore, kept narrow and the span also depends upon the abilities of the subordinates. Structured tasks enable a wider span. Concentration of subordinates at one location also enables us to have a wider span.

Good communication system allows us to widen the span.

### **PURPOSES OF A SALES ORGANIZATION**

An organization structure defines relationship among jobs and amongst the people in a company. The aim is to arrange the tasks or jobs in such a manner that the people involved can perform effectively and efficiently and act together rather than perform individually. An organization structure is a tool that managers use to employ resources for getting things done. A sales organization structure should be evolved in such a way as to assist the sales manager and salespersons to carry out the required tasks efficiently and effectively. It gives a framework showing what tasks or activities are performed by whom in the sales organization. The purposes of a sales organisation are: (i) determining a degree of centralization, (ii) allowing a degree of specialization, (iii) defining line and staff positions, (iv) showing a market orientation, (v) achieving an effective co-ordination, and (vi) ensuring a reasonable span of control. These are discussed in this section.

#### **Determining the Degree of Centralization**

A centralized structure has authority and responsibility placed at higher levels of management. In a decentralized organization, the responsibility and authority for carrying out tasks are delegated to lower-level managers. No company is totally centralized or decentralized. In many companies some activities like purchase of high value items and pricing decisions are centralized to minimize costs, and some activities like evaluating and controlling salespeople are decentralized for better control and communication. However, most companies have either a centralized or decentralized orientation. A decentralized sales organization structure helps decision-making at lower levels, resulting in faster customer service. However, care should be taken that some people at lower levels do not misuse the authority and are trained adequately in decision-making. For instance, in an equipment manufacturing company, after-sales technical service is decentralized to branch sales offices to ensure effective customer service, but training of branch service persons is centralized for better quality and less costs.

#### **Allowing the Degree of Specialization**

A general approach is that each salesperson carries out all selling activities and each sales manager performs all sales management tasks. However, this generalist approach becomes less effective as the number of salespeople and complexity of the company's products and/or markets grow. Hence, some degree of specialization is required, so that individuals can concentrate on a few activities. For example, some salespeople may sell

only some products or may visit specific types of customers, such as government, institution or trade, and some managers may focus on obtaining market information or training salespeople. By focusing on a few tasks, individuals can become experts on those activities, resulting in better performance of the organization. There is a trend towards specialization. The question is whether a company should go for geographic, product, market, or functional specialization? We shall discuss this later in this chapter.

### **Defining Line and Staff Positions**

Sales management positions are grouped into line or staff. Line positions in sales management have line authority, which means people in management positions have formal authority or power to direct and control immediate subordinates. Line sales managers have responsibility and authority to direct and control subordinates reporting to them. Line sales managers are involved in performing sales management activities and are responsible for achieving certain sales targets or goals. Staff management positions have staff authority, which means advising or recommending roles in their respective areas of specialization or expertise. For instance, training manager and marketing research manager have advisory responsibility and not sales generating responsibility. We shall discuss about line and staff organizations later when we discuss basic types of sales organizations.

### **Showing Market Orientation**

When markets are varied and complex, the company gives an adequate response by having a market orientated organization structure. Present and potential customers fall into many market segments, such as consumer (e.g., individuals and households) and business (e.g., OEMs, institutions, government). Each market oriented sales team develops suitable sales strategy for the segment it serves. As the sales organization is market-based, each market-oriented sales team can adapt its selling strategy to respond to the changing market conditions. For instance, if an original equipment manufacturer (OEM) buyer prefers to deal with suppliers on online basis, the company with market-oriented organization structure will quickly make all the products and services available on the Internet, and conduct business electronically. If the customer is a government organization like railways, the dealing salesperson should be familiar with the tendering process and policies like buying from the lowest price bidder.

### **Achieving Effective Coordination**

In principle, all functions in the organization should interact harmoniously in order to achieve the firm's objectives. However, in practice, inter-departmental relations are not harmonious and have rivalries and distrust. In a typical organization, each function has a potential impact on customer satisfaction, and hence all the departments need to "think customer" and work together to satisfy customer needs and expectations. It is, therefore, necessary to have effective co-ordination between sales and other marketing units as well as sales and other non-marketing departments such as finance, production, and other functions. One of the ways to have an effective co-ordination is to have regular meetings with other functions or departments. Such meetings help to understand each other's viewpoint, which becomes the basis for effective coordination. Other means of achieving coordination are training programs and effective supervision.

### **Ensuring a Reasonable Span of Control**

A span of control refers to the number of individuals who report to each sales manager. For instance, if a sales manager's span of control is ten, it means he or she has ten subordinates to supervise. A general guideline is that the span of control should be six or eight. However, the recent trend is towards a flat organization structure, which means reducing the number of organizational (or hierarchy) levels, in order to get closer to the customer. Flat organization structures are used to achieve decentralization, whereas tall

structures are more suitable for centralized organizations. Span of control depends on the job descriptions of subordinates as well as abilities of subordinates and sales managers.

The above mentioned purposes of sales organization are useful when designing a new sales organisation or revising the organization structure.

### **BASIC TYPES OF SALES ORGANIZATIONAL STRUCTURES**

Many factors influence the structure of the sales organizations. Organizational planners should know major influencing factors, such as customers, competitors, products, company's personnel, company size and marketing channels. The four basic types of organizational structures are: (i) line sales organization, (ii) line and staff sales organization, (iii) functional sales organization, and (iv) horizontal organization. We shall now discuss the main characteristics, advantages, and disadvantages of each type of sales organization.

#### **Line Sales Organization**

It is the simplest sales organization structure. All managers, from top sales manager to middle level managers, have line authority. As discussed earlier, line authority means people in management positions have formal authority to direct and control immediate subordinates. Line managers are responsible to achieve certain sales targets or goals.

Figure 5.1 shows a typical line sales organization.



This organization structure is widely used in small firms and in companies having a small number of salespeople. The advantages of line sales organization are clear authority and responsibility, quick decision-making, and low cost. However, the disadvantages are that too much depends on the head of sales, who has no support from subordinates with specialized knowledge and skills, such as advertising, sales promotion, and marketing research. The sales head does not have adequate time to do planning and analysis. As the organization grows, the line sales managers are overburdened, and in turn make them ineffective. At this point, a growing organization should consider changing over to line and staff sales organization structure, or any other suitable structure.

#### **Line and Staff Sales Organization**

In this type of organization structure, a group of specialists are made available to the sales or marketing head. These specialists, called staff, are experts in certain support activities such as marketing research, sales training, advertising or communications, and marketing services. Staff managers have the role of advising or assisting line sales managers. Staff managers like marketing research manager and communications or promotional manager do not have the authority to issue directives to salespeople, who report to line sales

managers such as area sales managers or branch sales managers. However, staff managers have line authority over their own staff people.

Figure 5.2 represents a typical line and staff organization structure.

Line and staff organization structure is likely to be used in medium- and large-sized companies when (i) number of customers is large, (ii) market coverage is national or regional, (iii) sales force size is large, and (iv) many products/services are sold.

The advantages of this structure are:

- Better marketing decisions due to assistance from specialists staff such as promotional manager and marketing research manager who are experts in their respective areas.
- Better sales performance, as sales managers can focus their efforts on selling function.
- Top sales and marketing managers can concentrate on planning, coordination, human resource, and control aspects, as their detailed work became less.



**Fig. 5.2 Line and Staff Sales Organization Structure**

The disadvantages of this structure include:

- Higher cost and coordination work.
- Slower decision-making.
- Conflict may arise if staff managers take line authority instead of staying in an advisory role.

### **Functional Sales Organization**

In this sales organization, the principle of specialization is fully used. Each staff specialist manager, such as marketing research manager and promotion manager, has line authority (or functional authority) of his function over salespeople. For example, marketing research manager can directly issue instructions to all salespeople to obtain certain market information. As shown in Figure 5.3, salespeople receive instructions from four different managers on different aspects of their work.

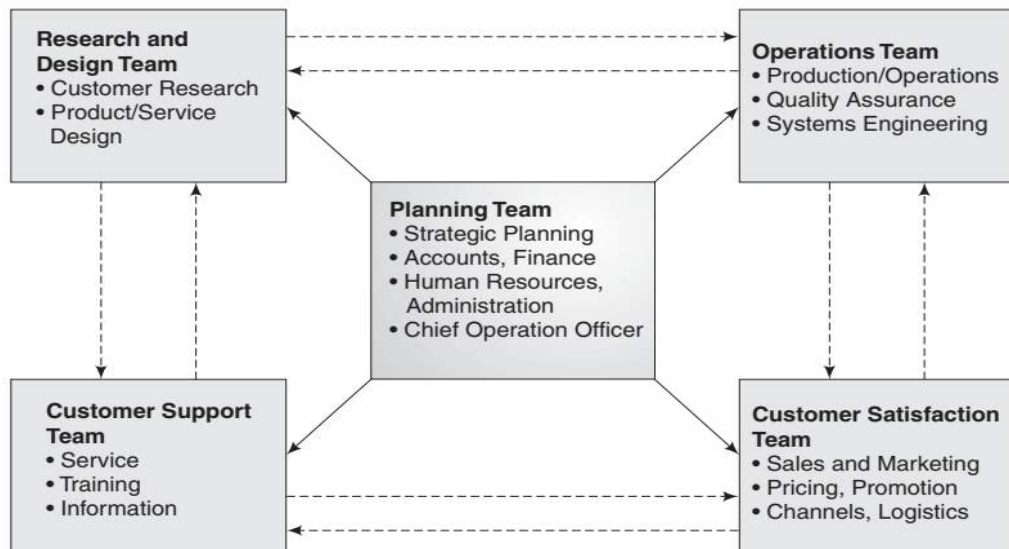


A few large-sized companies, with many products and/or market segments may use functional sales organization structure, with a modification of limiting the number of staff managers who may use the functional line authority. The advantages of qualified specialists guiding the sales force and high degree of division of labor get nullified by confusion and frustration of salespeople, who have to respond to several bosses. The main advantage of a functional sales organization is its administrative simplicity. However, its effectiveness is reduced as the company's products and market segments increase. Besides, the marketing head has a very difficult task of coordinating the competing functional heads who report to him. Hence, functional sales organization may be used in modified version, but in its pure form, it is not suitable.

#### **Horizontal Sales Organization**

This organization structure removes management (hierarchy) levels and also departmental boundaries<sup>2</sup>. The support functions like strategic planning, human resources, and finance are looked after by a small team of senior executives. All other people in the organization are the members of cross-functional teams, which perform many core processes like product design, sales, and production or operations. These teams also work with customer teams to solve the customer's problems. Companies like Motorola and General Electric, who are establishing long-term partnering relationships with their key customers and gaining greater customer responsiveness and efficiencies, have been adopting the horizontal organization structure, as shown in Figure 5.4.

The advantages are reduction in supervision, unnecessary tasks, and costs, and substantial improvement in efficiency and customer responses with enthusiasm.



## SPECIALIZATION IN SALES ORGANIZATIONS

Generally many medium- and large-sized companies expand one of the basic sales organization structures discussed earlier in some specialized design, in order to increase the effectiveness of their sales force. The bases of this specialization are factors such as: (i) geography, (ii) product, (iii) market, (iv) functional, and (v) a combination of these factors.

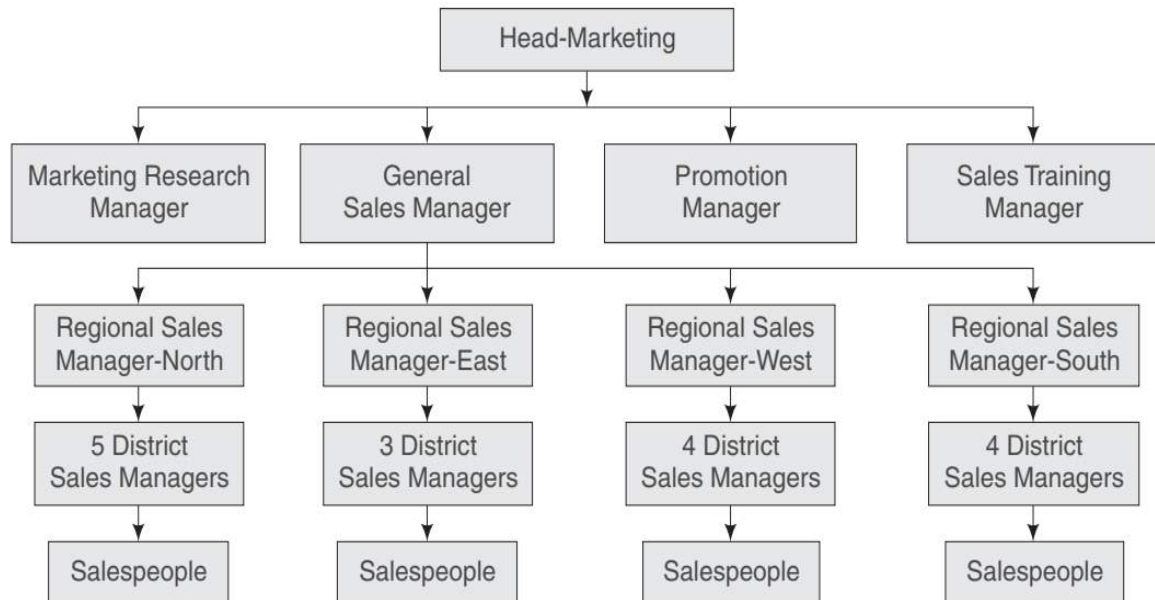
The question arises as to what criteria a company should use in order to select one of the several specializations mentioned above. The criteria or factors to be used are: (i) meeting customer needs, (ii) nature and number of products, (iii) abilities of the sales force, and (iv) sales costs. Based on these criteria, a company decides to divide its sales force into groups in order to increase the effectiveness of the sales efforts.

### Geographic Specialization

Many large companies, selling in national markets, organize their sales operations along geographic specialization. Typically, each salesperson is assigned a geographic area, and is made responsible for all selling activities to all customers within the assigned area. A reasonable number of salespeople are placed under a territory manager. The territory sales manager is generally called a branch, area, district, or regional sales manager. Companies with large number of salespeople, often have two or three levels of territorial sales managers, as shown in Figure 5.5. There is a trend towards regionalization and localization. The national market is subdivided into regional markets based on ethnic and demographic segmentation, with different promotional strategies for each region. Many companies now have local marketing managers (or area market managers) to support local sales efforts at regional and district levels in high sales volume markets. These area market managers help the company's marketing plan and strategies to adjust to the local needs. They prepare regional and district plans for selling all the products of the company.

The advantages of geographic specialization are as follows:

- Better market coverage
- Better control over sales force
- Superior customer service
- Quick response to local conditions and competition.



The disadvantage is that generally geographic specialization has a limited specialization of marketing tasks. This means each district sales manager is made responsible to work on local sales promotion, advertising, and information collection, in addition to managing sales people reporting to him. Therefore, a geographic sales organization is often combined with market or product sales organization. For example, Cambell Soup Company changed its sales organization from product specialization basis to geographic specialization basis in order to achieve the objectives of better service to retailers, lower selling cost, and simplifying its sales operations. Earlier the company had five different product divisions with five divisional managers, along with respective sales managers, and salespeople. This resulted in five Campbell salespeople calling on retail stores who were dissatisfied with the service. The revised sales organization helped the company achieve its objective as stated above.

### Product Specialization

Product specialization is useful when the company has a large number of products and/ or brands. There are two types of product specialization: (i) sales organization with product managers (or divisional marketing managers with responsibility for a group of products) as staff specialists, and (ii) sales organization with product specialized sales force. Figure 5.6 (b) shows the company having two groups of products – product group A and product group B. Each divisional marketing manager (usually called product manager) has the responsibility for planning and implementing a marketing plan for each group of products. They have no line authority over the field sales managers and the sales force. They can only recommend or request to the regional sales managers. Each salesperson sells all the products of groups A and B, as there is no specialization by product at sales people level. In Figure 5.6 (a), salespeople in each group sell only the products included in that group. The regional and district sales managers are line managers and have no staff assistance. The advantage of this organization is that each product gets a specialized attention from the salespeople and territory sales managers. But the main disadvantage of Figure 5.6 (a) is that more than

one salesperson from the company calls on the same customer, resulting in customer dissatisfaction and increase in selling cost. Organization structure in Figure 5.6 (b) corrects the problem of duplicate calls on a customer, but its weakness is the lack of product specialization by salespeople.



Fast moving consumer goods (FMCGs) companies like Proctor and Gamble use the product staff specialization [Figure 5.6(b)] organization to ensure adequate attention to product lines and brands at the planning level. The product managers develop a cost-effective marketing mix strategy for each product and brand, and react quickly to changes in market place. The trend is to move from product or brand driven organization (like Pepsodent toothpaste) to category management (like any toothpaste category) to customer-need management (mouth care). Thus, the focus of the organization is on a basic customer need.



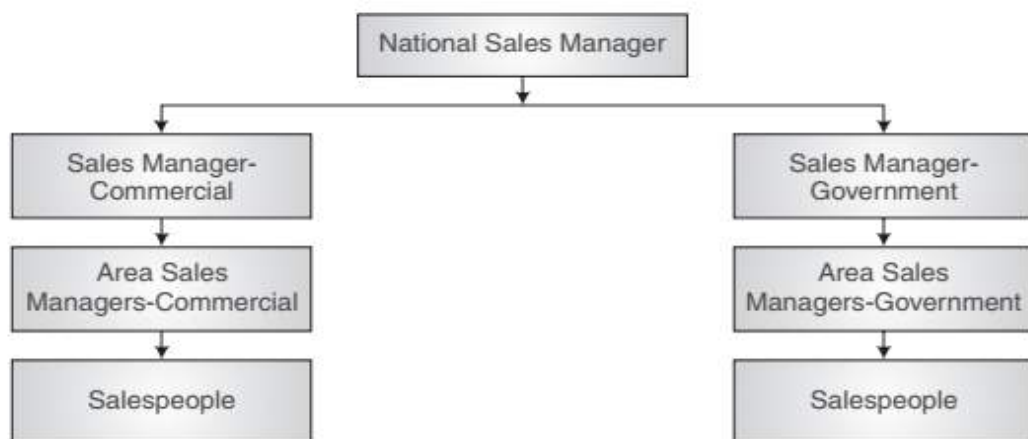
### Reality Bite

Many consumer goods companies like Proctor and Gamble and Pillsbury, and some service organizations, such as large commercial banks, use sales organizations with product, brand, or divisional marketing managers, who support specific product groups [see Figure 5.6(b)]. Each product or brand manager is responsible for ensuring effective planning, coordination, development, promotion, and achievement of objectives for the respective product group or the brand. Some other companies, which have wide range of products, like 3M Corporation, uses sales organization with product specialization sales force [see Figure. 5.6(a)]. In 3M, separate groups of salespeople sell different group of products, such as healthcare, safety and security, home and leisure, displays and graphics, and so on.

### Market Specialization

An increasing important type of specialization is market specialization. Market specialized sales organization is desirable when customers are classified by specific types, user industry, or by channel of distribution<sup>4</sup>. Figure 5.7 shows a sales organization structure with market specialization. In this structure, salespeople carry out all the selling activities for all products but for certain specific customer groups. These customer groups, such as government, commercial, and dealers have different buying practices and preferences. The use of market specialization in sales organization structure is increasing in recent years, while the use of product specialization has been reducing.

The advantage of market specialization is that sales and marketing efforts are organized to meet the needs of specific customer groups. This is consistent with the customer orientation or market-centered philosophy of the company. There are several examples of companies reorganizing along market specialization. Crompton Greaves, which had product groups orientation, changed over to customer type sales organization as shown in Figure 5.7. Similarly, Xerox switched from product-oriented sales organization to a market-oriented structure. Other examples of companies that have already changed over to the market specialization sales organizations are IBM<sup>5</sup>, General Electric, and Hewlett-Packard.



There are some disadvantages of market specialization structure such as duplication of territory coverage (different salespersons working in the same territory but covering separate customer groups) and higher selling costs.

## Combination Sales Organization

So far we have assumed that a company organizes its sales force by using one of the bases of specialization, such as geography, product, market, or functional, as discussed earlier in this chapter. Table 5.1 summarizes what has been discussed previously by comparing the advantages and disadvantages of different sales organization structures. From Table 5.1, it can be seen that the strengths of one organization structure are the weaknesses of other sales organization structures. Due to this reason, many companies use combination or hybrid sales organization structures that include many specialization organization structures discussed earlier. These companies minimize the disadvantages and maximize the advantages shown in Table 5.1. An example of combination or hybrid sales organizations is shown in Figure 5.8. This sales organization structure combines geographic and market specializations, by first dividing the total domestic market into four regions, viz., North, East, West, and South. Thereafter, each region is further segmented into specific customer groups such as government, commercial, and dealer. The basis of specialization will vary from company to company, but some kind of specialization is needed for firms to remain competitive.

Sales Organizations	Advantages	Disadvantages
Functional	<ul style="list-style-type: none"> <li>• Simple to administer</li> <li>• Qualified specialists guide salespeople</li> <li>• High degree of division of labor</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult task of coordination of functional heads.</li> <li>• Sales force confused due to many bosses</li> <li>• Geographic/Customer duplication</li> </ul>
Geographic	<ul style="list-style-type: none"> <li>• Better market coverage</li> <li>• Better sales force control</li> <li>• Superior customer service</li> <li>• Quick response to local issues</li> <li>• No geographic/customer duplication</li> </ul>	<ul style="list-style-type: none"> <li>• Limited specialization of marketing tasks</li> <li>• Support of area market managers is needed to territory or district sales managers.</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Each product gets attention from salespeople/territory managers</li> <li>• Product managers develop cost effective marketing strategy for each product or brand</li> </ul>	<ul style="list-style-type: none"> <li>• High cost</li> <li>• Geographic or customer duplication resulting in customer dissatisfaction</li> </ul>
Market	<ul style="list-style-type: none"> <li>• Customer needs are better met</li> <li>• Market-centered philosophy implemented</li> </ul>	<ul style="list-style-type: none"> <li>• High cost</li> <li>• Geographic duplication with different salespeople working in the same territory</li> </ul>

Comparison of Different structures of Sales Organization



Combination/Hybrid Sales Organization

## **MANAGEMENT OF KEY ACCOUNTS**

Key accounts (also called major accounts, house accounts, national accounts, strategic accounts or global accounts) are customers who buy large volume of the company's products or services and are profitable. These are important accounts or customers to whom special attention is given by the companies. Some key accounts have one geographic location and hence, the supplier finds that such customers are easy to serve and these are called major accounts. On the contrary, there are other types of key accounts who have several geographic locations and are therefore, difficult or complex to serve. These are called national accounts. For example, Bosch Company at Bengaluru Motor Company's three factories), a senior design engineer, a senior technical service engineer, and a logistic executive. The team was headed by the marketing head. MM Company clearly understood TVS Motor Company's material handling requirements at their factories, offered customized equipment at competitive prices, extended warranty service to 24 months (instead of standard warranty of 12 months), gave free training to the technical staff, and carried out prompt after-sales-service including easy availability of spare parts. Collaborative relationship was developed at junior, middle, and senior levels between the two organizations. This resulted into 80 percent share of business of material handling equipment from TVS Motor Company to MM Company.

### **Creating a Sales Organization for Key Accounts**

Companies need to create or develop a separate sales organization structure for major or key accounts. We shall discuss the various alternatives available for the same hereunder.

#### **Alternative Sales Organizations for Key Customers**

Many companies have developed separate organization structures and marketing programs for key customers (or accounts).

These large customers are very important to the selling organization, because they account for a large share of the selling organization's sales volume and profits. There is a definite need for close co-ordination not only within the selling firm, but also between the buying and selling firms. This cannot be handled by the normal salesperson. Therefore, companies use the following alternative organizational methods for dealing effectively with their key customers<sup>6</sup>: (i) creating a key account management team, (ii) using existing territory sales managers, or (iii) creating a separate division of sales force.

##### **Creating a Key Account Management Team**

This sales organization structure is offered to key accounts that have multiple divisions or factories at many locations. These customers need uniform pricing and coordinated service for all their divisions. To meet these needs, the selling firm has a key account manager (KAM), who supervises the existing field salespeople calling on customer divisions within their territories. For example, Xerox company's key account managers work with local branch salespeople for key customers on both national and branch levels<sup>7</sup>. Similarly, key accounts managers of 3M Company work with local salespersons around the world on corporate strategic accounts (or key customers).

##### **Using Existing Territory Sales Managers**

Some companies ask their existing territory (or branch) managers to take the responsibility of looking after key customers located in their respective territories. This method may be acceptable if there are a few key accounts which have single locations, so that coordination between different territories or branches is not required. However, territorial manager's time spent on servicing key accounts may affect the quality of their sales force management.

##### **Creating a Separate Division of Sales Force**

Some companies have "key accounts programs", consisting of cross-functional people who handle all aspects of relationships with large accounts. The company's largest accounts get a "strategic account management team", consisting of cross-functional people, who are permanently assigned to

one customer. For instance, Proctor and Gamble stationed a strategic account management team in 1992 to work with Walmart at Bentonville. If a company has several such large accounts, it may create a separate division of the sales force. Some apparel manufacturers who produce and sell private-label clothing for large chains like Sears and J S Penney, have used this method. The sales organization structure integrates sales, marketing, and manufacturing activities that affect the key accounts. Another method is to create a separate sales force for serving key accounts. For instance, Hewlett-Packard has a separate sales force to look after major or key accounts. There are other groups of salespeople who handle distributors and smaller customers. Benefits of key account management are: (i) increased market share, (ii) enhanced customer satisfaction, (iii) superior sales and profit performance.

## SUCCESS FACTORS IN SELLING

Often a question is asked: 'Is selling an art or science?' The answer is: selling is both an art and science. Selling is an art because sales people deal with human beings who are often emotional, illogical and unpredictable. Also, successful salesperson has to use creative methods of selling and innovation with each prospect, which is an art of selling. Selling is a science because a good salesperson should follow the steps in the selling process to increase the probability of making the sale. To take the secrecy out of selling we need to change selling from an art to a science.

To succeed in selling, a salesperson needs to develop a set of necessary skills and possess certain characteristics. These may be called success factors. A good sales professional should develop a set of skills viz., communication skills, listening skills and negotiation skills. The probability of success in selling would be high if a salesperson carries on effectively with the selling process. We shall also discuss a set of characteristics that are required in a salesperson to ensure success in selling.

**Selling skills are critical in organizations that rely on ongoing buying from customers or clients. The ability to build relationships with customers, persuade them to make purchases and generate repeat business is at the heart of selling. Sales is a component of a company's marketing and promotions.**

## SELLING SKILLS

It is rather difficult to generalize about the characteristics of a good salesperson and the selling skills required for success in selling because there are different types of sales jobs. The characteristics and the selling skills would vary depending on the type of a given sales job.

Despite this statement, let us consider the following selling skills and the traits or characteristics for success in most, if not for all, sales jobs.

The characteristics are **empathy, burning desire, team selling** and **technology savvy** to be particularly important. The absolutely necessary skills for success in selling are **communication skills, listening skills, negotiation skills and problem-solving skills.**

## COMMUNICATION SKILLS

Communication skills are important to sales managers as well as to salespeople. The sales manager continuously transmits information from the upper management to the salespeople and from the salespeople to the upper management. This communication should be correct, complete and at an appropriate time. In a sales situation, communication is transmission of verbal and nonverbal information and understanding between a salesperson and a buyer. Two way communication is required to make a sale. Buyers generally react verbally and non-verbally to the salesperson's presentation. Modes of communication typically used in a sales presentation are words, visual aids gestures and non verbal communications.

## **Non-Verbal Communication**

Acceptance and openness can be communicated through positive body language. Resistance and rejection can also be communicated with unpleasant body language. Non-verbal communication consists of posture, gestures, eye contact, facial expressions, and overall grooming.

Some examples of body language or non-verbal communication are:

- Leaning forward shows interest.
- Facial expressions can show buying or rejection action.
- A buyer sitting with crossed arms or crossed legs shows a lack of openness.

Our non-verbal communication is driven by our subconscious. Hence, if there is a mismatch or contradiction between verbal and non-verbal communication, we should believe in non-verbal.

A brief description with examples of the various components of non-verbal communication has been provided here:

**Eye Contact** Comfortable eye contact establishes sincerity and trust. Staring directly at the prospect could be taken as a rudeness or arrogance. Having shifty eyes can communicate cunningness or uneasiness. Looking at the ceiling or the fan shows non-caring attitude.

**Posture** It refers to the way a person stands, sits and walks. A lazy or drooping way of standing or sitting and a protruding stomach can be interpreted as a lack of interest and tiredness.

**Gestures** Yawning, playing with a pen or key chain and drawing absent-mindedly indicate indifference. If an oral communication uses right kind of gestures, it can enhance the effectiveness of what has been said.

**Facial Expression** A smile represents friendliness. A stiff expression or tightening of jaw muscles is a symbol of opposition or hostility. Raising of eyebrows is an expression of disbelief.

**Overall Grooming** It means professional or personal appearance, which is important to create a favourable first impression of a salesperson. Therefore, a salesperson should take due care of his appearance and dress. Generally, professionals dress conservatively in formal trousers and tie and not in casuals like jeans.

## **Verbal Communication**

A salesperson must become aware of both verbal and non-verbal communication. A sales professional's tone should be pleasant and the pace of speech should be moderate—not too fast and not too slow. A good salesperson does not use vague words that have multiple meanings. Examples of such words are regularly, frequently and sometimes. These words are confusing, because the same words mean different things to different people, which become a hindrance in closing the sale. A salesperson should not use jargons and should use layman's language while talking to a prospective customer. Jargons can be used if the sales professional is talking to someone in his own profession. Successful sales professionals use positive and helpful phrases and questions as indicated next:

- What is your opinion about ----?
- Would you be comfortable with -----?
- What do you feel is the best way ----?
- Together I am sure we can -----?

## **Listening Skills**

In communication, there are two components: giving information and listening information. Both components are important but listening is more important than talking because it makes the other person feel significant. Salespersons are generally known to be good talkers. However, what separates successful salespeople from others is their ability or skills of listening. That is why good salespeople speak less and listen more. Effective salespeople listen very attentively and actively to what is said and what is unsaid by analyzing both verbal and non-verbal communications. A

prospective customer will speak if he/she is encouraged by the salesperson through his positive remarks and questions like “Can you add more details?” and “What you said is very interesting.”

Successful companies send their salespeople to the sales training programs conducted by Dale Carnegie or Toast-masters because these training programs give special importance to listening along with effective speaking.

Some of the important points for creating a positive environment for listening are:

- While listening, acknowledge and encourage the other person by nodding your head and occasionally saying “yes” or something to that effect.

- Maintain eye contact, without staring at the other person. Don’t keep looking around the room or outside.

- Don’t interrupt. It is bad manners.

- While listening, avoid creating distractions, such as playing with a pen or tapping your finger.

## **NEGOTIATION SKILLS**

Salespeople should have certain skills and qualities to be effective in negotiation. Whether salespeople talk to one person or a group of people, there is a possibility of negotiation. In a few exchanges between buyers and sellers, there may not be much scope for negotiation as pricing and distribution are administered, such as purchase of petrol and diesel and travel by Indian Railways. However, much of business (or industrial) selling (i.e. from one business firm to another business firm or B2B selling), negotiated exchanges on prices, payment terms, delivery period and other aspects will take place.

Some of the major skills and qualities required by salespeople to be effective in negotiations are: planning, subject knowledge, listening, patience, communication, intelligence, clear thinking, integrity and trustworthiness.

### **When to Negotiate?**

Negotiation is a proper procedure to be followed for making the sale when the following conditions or circumstances are present:

- The buyer puts certain conditions for buying to the seller. For instance, “If you will reduce the price of your product by 8 percent, I will buy”.

- When the agreement between the buyer and seller will have to take place on several factors, such as price, delivery, quality and payment terms.

- When the product or service to be exchanged is customized to the requirement of the buyer and may take a long-time to execute the order.

- When there is a zone of agreement between the two parties and the final price is to be decided through bargaining.

### **Preparing for Negotiation with Customers**

Successful salespeople prepare well for negotiations with customers by following the steps described as follows:

#### **Planning**

Gather information about competitors’ prices, quality, service, share of business and so on. The selling firm’s negotiators should also know the real needs of the customer, power or authority of the buying firm’s negotiators, important buying factors of the firm or the industry.

Some of the questions to be answered by the selling firm negotiators are:

- How flexible are the price, payment terms and delivery period?

- Are there any product features, training, or services that can be offered free as benefits, compared to the competitors?

- Which factors are not flexible?

- What are the limits beyond which we cannot make concessions?

### **Building Relationship**

Much before the final negotiation, salespeople should use the available time to build an environment of trust, understanding and relationship with the customer. Without the rapport or good relationship, it would be difficult to collect the required information. Hence, a lot of formal and informal meetings are needed between the buyers and sellers, not only for building relationship, but also to collect the required information. A good relationship between the two parties eases the tension during the negotiation process.

### **Purpose**

The purpose of negotiations could be several. It could be for increase in prices due to an increase in the cost of inputs such as excise duty, raw material, freight, and others or for getting higher share of business or for getting an entry into a high sales potential prospect or for getting payments against old/disputed bills. Whatever may be the purpose of negotiation, it helps salespeople to succeed, if they have a right approach or style of negotiation.

### **Styles of Negotiation**

Theoretically, there are four different styles of negotiation.

These are:

- (i) I win, you lose
- (ii) Both of us win
- (iii) You win, I lose
- (iv) Both of us lose

However in practice, styles (i) and (ii) are used usually, style (iii) is used sometimes and (iv) is rarely used.

Out of the four styles of negotiation, the style that is typically used for customers, suppliers, employees, and relatives is both of us win or win-win. Here, the negotiations are held for mutual satisfaction, and the focus is on development of genuine relationship based upon trust and understanding.

This is achieved by the following guidelines:

- Much before the final negotiation, build an environment of trust and confidence.
- During the negotiation, be polite and humble, which would help the customer to communicate in easy manner.
- In the initial stage of negotiation, the focus should be on identifying and agreeing to the problems rather than solutions.
- Both sides should then work together, pooling their resources, ideas and sharing information to solve the problems stated earlier.
- Both sides should make concessions at regular frequency.
- Defensive posture, legalistic, or contractual approach should be avoided.

Salespeople should recognize, based on the following tips, if the prospect or the buyer uses 'I win, you lose' style:

- The buyer starts with tough demands or unreasonable offer.
- The buyer raises voice or makes emotional outbursts.
- The buyer does not reciprocate or is stingy to the concession made by the seller.
- The buyer ignores the time deadline.

Once the salesperson recognizes that the customer or the prospect is using this style against him, he should defend his position in the following manner:

- He should take equally strong position by presenting a clear but unemotional opposition to the prospect's demand.
- He must explain why he holds his position and seek the reason from the prospect for holding that position.

- He should stress on the consequences of a failure to resolve the issue. The purpose here is to move the other party from win-lose style to win-win style.

It may be difficult to remember the above points and how to use them. The solution to this difficulty is to practice. By practicing these points in role-playing exercises, negotiating skills can be improved.

### **Some Tips on Negotiation**

- Observe the verbal and non-verbal language of the other party. The salesperson's own verbal and nonverbal signals should reflect positive attitude.
  - Don't argue. Avoid rude and loud behavior.
  - Be assertive, not aggressive. Assertiveness means firmness with politeness, whereas aggressiveness is firmness without politeness.
  - Maintain eye contact without staring. Eye contact shows confidence and trust, whereas staring points out that the salesperson is daring and challenging.
  - Stay focused on the topic of negotiation; don't go off-track. Keep asking questions to uncover the real anxiety or problem without being aggressive.
  - Don't blame anyone because that makes the environment tense immediately.
  - Avoid sarcasm.
  - The salesperson should not reveal his weakness. For instance, if the salesperson has to achieve a target by the end of the month, he should not show his desperation.
  - Don't make emotional decisions during negotiation that may have a problem carrying out later.
- A good sales professional realizes that his ability to persuade the other person to his way of thinking should be used without offending.

### **PROBLEM-SOLVING SKILLS**

Consultative salespeople or sales teams in business-to-business (B2B) selling situations create a value for their customers by solving the customers' problems. For example, a sales engineer from a material handling equipment manufacturing company noticed that unloading of components from heavy commercial vehicles (or trucks) was taking a long time in a passenger car manufacturing company. Not only the truck owners were unhappy about the long queues of trucks, but also the company's management was concerned as these trucks occupied a large portion of the factory area, apart from the truck drivers causing a lot of nuisance for the company employees. The sales engineer, after talking to the purchase executive, collected all the relevant information including the average time taken by a truck to unload incoming material. He called a design engineer from his factory and made a presentation to the buying centre members on how their equipment, called "Lift Table", could reduce the unloading time to about 30 percent of the time taken for unloading without their equipment. They also showed the third party certificates of their customers about the performance of the equipment. The buying centre members gave approval to the sales engineer to submit the quotation with technical and commercial details. The order was placed, after discussion, for one number lift table. The equipment was delivered and installed in five weeks from the date of the order. The trials showed a substantial reduction in the time of unloading of materials from the truck as per the claims of the supplier. The problem of long queue of trucks was resolved satisfactorily. The supplier firm received a repeat order for three number of the equipment.

Sometimes, a cooperative problem solving approach is adopted by having teams from buying and selling firms working jointly on problems like cost reduction or quality improvement. Such an approach leads to a strong relationship between the two organizations. The problem solving process typically includes the following steps: (i) identify or define the problem, (ii) create or

develop alternative ways of solutions, (iii) select one of the alternatives as a solution, (iv) implement the selected solution, and (v) evaluate the solution.

## **CHARACTERISTICS OF AN EFFECTIVE SALESPERSON**

Though every selling position and situation is different, most sales managers agree that there are generally desirable characteristics for effective salespeople. These are briefly mentioned below:

- **Burning desire** or ego drive indicate a strong personal desire to succeed. Sales happen as a result of hard work and effort.

- **Team selling** is now the main method of selling to key customers. Hence, **cooperativeness** as a trait is considered important for a salesperson to work on teams.

- **ICT Savvy**: The salesperson must be able to work with electronic communication and technology. Salespeople need to be comfortable with information and communication technologies (ICT) so that they can use information and multimedia options effectively.

- **Empathy**: Empathy (i.e. the ability to understand and feel as the customer does) is an important characteristic that helps a salesperson to build relationship with customers.

- **Behavioral Factors**: Characteristics such as positive attitude or behavior and discipline are considered as vital for a salesperson. A positive attitude determines the success of a salesperson. The difference between a positive and a negative attitude can be illustrated by a very frequently used story of two salespersons who once went to Africa. Both salespersons went to sell shoes in different parts of Africa. They both saw people without shoes. One salesperson immediately sent a message to his manager saying ‘There is no market for shoes here. No one wears shoes and therefore, I am coming back.’ The other salesperson sent a message saying ‘There is a huge market for shoes here. Nobody wear shoes and hence, we can make everyone wear them, be ready for large sales.’

- **Discipline**: Another behavioral factor of an effective salesperson is discipline. It is defined as doing what ought to be done, when it is ought to be done, and whether we like it or not. Discipline is the quality that gives strength and courage to a salesperson to face big challenges. Thus, the success factors in selling include effective use of the selling process, development of negotiation, communication and listening skills as well as possession of certain key characteristics as mentioned above.

## **BUYER SELLER DYAD**

### **Let us understand what is Buyer Seller Dyad?**

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

Franklin Evans researched buyer-seller dyads in the life insurance business. Prospects who bought insurance knew more about salespersons and their companies, and felt more positively toward them, than did prospects who did not buy. Further- more, the more alike salespersons and their prospects were, the greater was the likelihood that a sale would result. This was true for physical characteristics

(age, height), other objective factors (income, religion, education), and variables that relate to personality factors (politics, smoking).

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

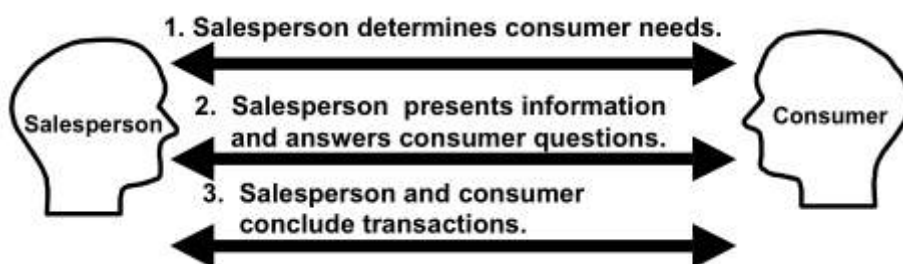
Henry Tosi studied dyads of wholesale drug salespeople and retail pharmacists who made buying decisions. When the buyer perceived the salesperson's performance to be similar to his or her concept of "ideal" performance, the number of sources from which purchases were made was low. Although this did not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

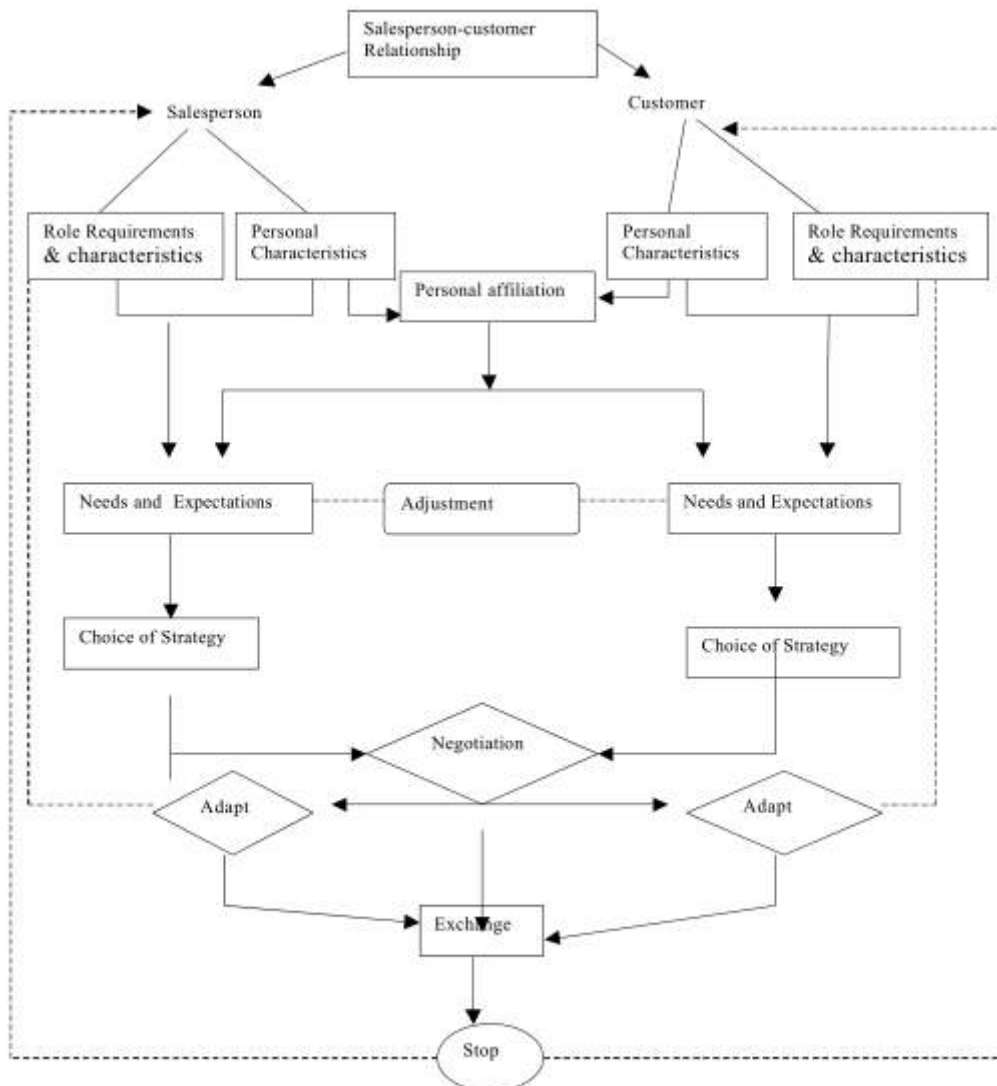
**Another factor influencing buyer-seller dyadic interactions is the buyer's initial conditioning with respect to selling.** Salespeople have been maligned and the butt of nasty stories for generations. People are taught from childhood to beware of the tricky salesperson.

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

### The Buyer-Seller Dyad

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





*Conceptual model of 'Salesperson - Buyer Dyadic Relationship'*

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

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

## Selling Process

In United Machines Ltd., the selling process typically started with prospecting (i.e. searching and identifying potential customers). This was mostly done by the outside (or field) salespeople by requesting the existing customers to suggest the names of prospective customers. It was also done by the inside salespeople, who work within a company, by using the Internet and telephone. The prospective customers are then qualified by using criteria, such as their requirements for the company's products, their financial ability to buy, likelihood to buy in near future, and approximate value of their requirements. Based on these criteria, the prospective customers are placed in three groups: group 'A' (high value of requirements in near future); group 'B' (average value of requirements in near future); group 'C' (requirements after a long duration of time). Prospects in group 'A' are handed over to the company's sales engineers for converting them to the company's customers. Prospects in group 'B' are given to inside salespeople to communicate with them and obtain more information by using the Internet and telephone. Prospects in group 'C' are kept in a separate file for follow-up after some time.

Let us take an example of how United Machines followed the selling process to convert a prospective customer like AC Equipment Pvt. Ltd. into a customer. The process started with an inside salesperson, by using the Internet and telephone, identifying AC Equipment Pvt. Ltd., who wanted to set up an industrial compressor manufacturing unit in Mumbai. The prospective customer, AC Equipment, initially needed conventional metal forming and metal cutting machines, which were manufactured by United Machines. Since the requirements were in near future and of a large value, the sales manager of United Machines asked one of his experienced sales engineer, Atul Tandon, to make a preliminary visit. Atul gathered as much information as possible about AC Equipment from various sources like the Internet, trade journals and the Chamber of Commerce and Industry. He then called AC Equipment's purchase executive for an appointment for a meeting.

The first meeting between Atul and the purchase executive was positive. Atul collected a lot of information about the requirements of AC Equipment in terms of their production plan, type of machines needed, purchasing process, key buying committee members, etc. He then fixed his appointments with AC Equipment's technical persons, such as production manager, design engineer and maintenance manager to understand the technical specifications and other needs clearly. For these meetings, Atul was accompanied by his company's design head and production executive. Atul collected "Request for Quotation" (RFQ) letter from AC Equipment, who also sent such letters to other machine tools manufacturers. Atul prepared and submitted the quotation after discussions with his sales manager, design and production heads. Thereafter, a team consisting of two technical persons and the purchase manager of AC Equipment visited the manufacturing plants of all the machine tool manufacturers who had submitted their quotations. Subsequently, AC Equipment shortlisted three prospective suppliers of machines, including United Machines and called them for presentations, followed by negotiations.

United Machines had three members in their sales presentation team – the sales manager, the design head and Atul. Need-Satisfaction method was used for sales presentation, pointing out specially designed and customized machines to satisfy the specific needs of AC Equipment. Additional benefits offered were effective after-sales service (i.e. visit by the company's technicians within four hours of the receipt of a call or a message), free training of their maintenance staff, two-years' of free warranty service and special competitive prices. Negotiations took place in a positive manner with "both of us win" style.

After about two weeks, United Machines Ltd. received the order from AC Equipment valued at `65 lakh (about \$100,000) for supply of metal forming and metal cutting machines, indicating the technical specifications and other terms. The sales manager congratulated Atul and other persons involved in the selling process. He asked Atul to check the order carefully for any discrepancies, visit the new customer and collect 30 percent advance payment that was agreed during the negotiation and mentioned in the order.

The opening vignette shows how the selling process was followed by United Machines Company. In this chapter, we shall discuss the steps involved in the selling process. Some exposure to selling is necessary for the students of sales management. To manage a sales force successfully, a sales manager should have adequate sales experience. For instance, if a salesperson, reporting to the branch sales manager approaches him for help in getting an order from a high-potential prospective customer, the branch sales manager should be able to solve the problem. Today's companies spend large amounts of money on sales training programs to train salespeople in the art of selling. If the training program is conducted by the branch sales manager or the area sales manager, he cannot do a good job without knowing how to sell.

LO 1 Recognize the steps of the selling process

### **STEPS IN THE SELLING PROCESS**

Most sales training programs follow the major steps for effective sales (or selling) process. Salespeople carry out various activities to create sales and satisfy customers. These activities of salespeople are recognized as the steps of the selling process. However, there is no one method that can be used to close every sale. Not all types of selling activities pass through the eight steps of selling shown in Figure. 2.1. The steps in the selling process are suggested to work better in certain situations, based on experience. There is no magic formula to make a sale. However, it is widely believed that if a salesperson follows the suggested steps, the chances of success are greatly improved. The more prepared a salesperson is, the greater the chance of making a sale. Research confirms that in order to perform at satisfactory levels, salespersons should master basic selling abilities.

Fig.



### **PROSPECTING**

Prospecting is the process of identifying potential customers for the company's products and services. Regardless of how busy the salespeople are or how well they perform, if they want to achieve consistently good results in sales, they must do prospecting every day. This is important because there will always be a small percent of the customer base that will leave the company. The inflow and retention of prospects should be more than the outflow of customers.

A prospect is an individual, a family or an organization who has a need for the product or the service a salesperson is selling, has the ability to take a decision to buy and also the money to buy. A prospect is not the same as a sales lead (also called a lead or customer lead). A sales lead or a lead indicates the name and address of a person or a business firm who is a probable prospect (also called suspect). Once it is found through the Internet or telephone that the sales lead (i.e. suspect or probable prospect) need the company's product, has the money and has the ability to make a decision to buy, the sales lead becomes a prospect or prospective customer (also called potential customer). For example, the marketing head of a machine-tools manufacturing company, United Machines Ltd., gets mails from the German collaborator, with the subject title as "**Sales leads**".

In the mails, the German machine-tools manufacturing company, which has a tie-up with the Indian company, United Machines, gives information about the Indian executives who had visited their booths at some of the machine-tools trade shows and exhibitions at Hannover, Germany and other places. The information includes the names of the company executives, the firms' names and addresses, telephone numbers, e-mail IDs and the websites. The marketing professionals in United Machines then use the sales leads information to contact the probable prospects through e-mails and telephone to find if the company's products are needed and that the probable prospects have the required abilities to buy. If the answers to the above questions are affirmative, then the probable prospects or the sales leads becomes the prospects or the prospective customers.

Earlier most organizations had left the task of prospecting or identifying leads to their salespeople. Now, many companies' marketing professionals are undertaking the responsibility of identifying the leads. This enables salespeople to use their time on important selling activities, such as discovering and understanding prospective customers' needs, making sales presentations, handling customer objections and closing the sales.

#### **Methods for Identifying Leads**

To maintain a constant flow of new prospects, companies use various ways for identifying or generating leads (i.e. obtaining names and addresses of probable prospects). Some of the major methods are: consulting existing customers, referrals from external sources, referrals from internal company sources, use of Standard Industrial Classification (SIC) System, referring publications, networking by salespeople, cold canvassing and using World Wide Web. All these methods have been explained in detail as follows:

**Consulting Existing Customers** This method is often used by salespeople when they are given the responsibility to generate their own sales leads<sup>2</sup>. Some customers hesitate to give referrals. Hence, it is important that salespeople build a good rapport or relationship with existing customers through effective customer service. This method is a convincing source of nearly two thirds of total sales leads<sup>3</sup>.

**Referrals from External Sources** Some organizations use external sources, such as suppliers, intermediaries, bankers, trade associations, Chambers of Commerce and commercial dot.com vendors. Many dot.com companies provide a list of leads for not too expensive fees. For instance, if one enters the keywords "sales leads" into "Google search", information of many sales leads companies appears. These companies sell leads by charging a reasonable amount.

**Referrals from Internal Company Sources** Sales leads can be generated by company websites, trade shows, direct mail, company advertisements and telemarketing. A large number of people visit trade shows. The trade show participating companies enter the visitors' names, addresses and their interest in the registers kept in the booths. This information indicates the visitors' interest in the company's products and services. Companies also mail business letters with attachments to prospects, asking their interest in the company's products and services. Although the response rate for direct mail is low, it is a good information source from probable prospects. Company advertisements normally include a toll-free number, which motivates prospects to respond. In inbound telemarketing, the prospect calls the company. This information about the prospect can be used by salespeople to make outbound calls to obtain more information. Outbound telemarketing (i.e. use of telephone) is also adopted by organizations to call prospects.

**Standard Industrial Classification (SIC) System** It is a major secondary data source, which is used in industrial (or business) marketing. Each firm is assigned a four-digit number on the basis of

its main line of business. For finding sales leads (or probable prospects), the company selling its products to a particular industry segment, say, pharmaceutical, finds the four-digit number of the pharmaceutical industry, viz. 3254. By referring to 3254 in International or Indian Standard Industrial Classification (ISIC) system, the company can discover names and addresses of a list of organisations that are included in the category 3254, their sales volumes, how many employees they have and so on. This list of firms is compared with the company's current list of customers. Thus, it provides an identification of the non-customer firms (i.e. probable prospects in each industry category). For example, a leading Information Technology (IT) company uses SIC system to identify and locate sales leads. Another related use of SIC is in estimation of market potential by using statistical series methods.

**Publications** Newspapers, yellow pages, directories, trade journals, computer generated databases, commercial publications published by government and private publishers are the sources for identifying leads.

**Networking by Salespeople** Salespeople become members of social organizations (e.g., Rotary and Lions clubs), civic organizations (e.g., Bangalore and Century clubs) and professional bodies (e.g., Management Teachers' Consortium and All India Management Association) to meet new people who may be potential customers or who may be able to provide leads. Salespersons may also communicate with friends, relatives and acquaintances to identify probable prospects or sales leads.

**Cold Canvassing** It is a method in which a salesperson makes unannounced calls on companies that may need the products and services the salesperson sells. The support for this method is declining as it is time consuming and also costly. However, it may be effective for widely used consumer products and services as well as for office supplies in business-to-business selling.

**World Wide Web** For searching and identifying leads, World Wide Web (WWW) can be used through its widely admired search engines. A lot of information is available for free through the use of popular search engines. For instance, "How to search on Google" gives a few tips to help find information. For complex searches, one can go to advanced Google search.

### QUALIFYING

It is important that the lead is qualified to meet the necessary standards or conditions to receive further attention. The necessary conditions or criteria for the probable prospect or the lead to get qualified to the prospect or potential customer are as follows:

- The probable prospect has a need for the product or the service being sold.
- The probable prospect (could be an individual, a family or an organization) can afford (or has a financial capacity) to buy the product or the service.
- The lead or the probable prospect has an ability to make a decision.

Most companies contact the leads by phone or mail to find out the answers to the above mentioned criteria. In the past, the salespersons were expected to contact the leads or probable prospects. Today, the marketing departments in many companies undertake the tasks of prospecting and qualifying. This is done because cost of a salesperson has gone up substantially in terms of salary, incentives and travelling. Hence, salespeople are used for selling and relationship building with key prospective customers. The leads, after qualifying, are placed in three groups, i.e. (i) hot prospects, (ii) warm prospects, and (iii) cold prospects.

**Hot Prospects** These prospects are likely to buy the company's products or services in the near future and are financially sound. Such prospects are handed over to the company's salespersons to convert them to the company's customers.

**Warm Prospects** These groups of prospects are the fence sitters. They want to buy the company's products or services but are non-committal. These prospects are given to the company's telemarketing team for follow-up.

**Cold Prospects** These prospects are likely to take a long-time to buy the company's products or services. They are indifferent and require a lot of efforts to be sold. Such prospects are kept in a pending list for future follow up

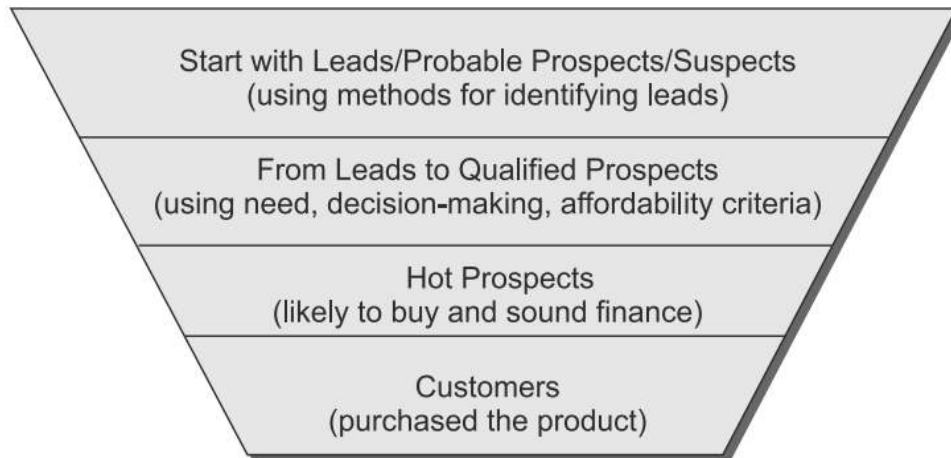
It is important that salespeople follow-up the hot prospects that are handed over to them, because a study<sup>4</sup> has found that generally salespeople get more than 80 percent of the buyers' business if they follow-up a sales enquiry, as compared to 40 percent share, if not followed-up. Sales managers

should also advise the salespeople that usually it takes about four calls on an organizational prospect to convert an initial enquiry or lead into sales.

### **Process of Prospecting and Qualifying**

Successful salespeople understand the importance of the process of prospecting and qualifying. They make use of the concept of the sales pipeline or sales-funnel, as shown in Figure. 2.2.

The process of prospecting starts with the company identifying the names and addresses of the leads (also called suspects or probable prospects). The company uses a number of methods for identifying leads as explained in this chapter earlier.



**Fig. 2.2 Sales Funnel**

The leads are then qualified by using the criteria of need for the product or service, ability to make a decision and affordability to buy. Out of the three groups (hot, warm and cold), hot prospects, who are likely to buy the company's products or services and have sound financial capacity have high probability of buying to become the company's customers. The process is called sales-funnel or sales-pipeline, because if a salesperson has 100 leads at a time, only about 50 become qualified prospects. From 50 qualified prospects, only about 20 are hot prospects. And finally about five prospects buy the company's products or services and become the company's customers. Successful salespeople always keep the sales-funnel full. For example, a leading software services company recruits management graduates in India to carryout prospecting and qualifying tasks using the Internet and phone. Thereafter, the qualified hot prospects are referred to the sales or business development executives located in the US and Europe for undertaking further steps in the selling process.

LO 3 Explain pre-approach steps, approach techniques and the buyer's needs

### **PRE-APPROACH**

The pre-approach step generally includes two tasks: (i) information gathering in greater depth about the prospect by carrying out customer research, and (ii) planning the sales call on the prospect

### **Information Gathering**

The salesperson needs to collect as much information as possible about the prospect before visiting. The information to be collected from the prospective company includes the type of business, its products and services, purchasing practices, location of plants, names and background of people who make buying decisions, purchasing orientations and practices, the major problems or issues faced by the prospect and the industry in which it is operating and so on. The sources of obtaining the information about the prospect include the Internet or online information services, trade magazines, industrial directories, chambers of commerce, annual reports of companies, existing customers and suppliers and government publications. Information based on the indepth research about the

prospective customer makes the salesperson confident. The more customer research the salesperson does, the more intelligent and informed he will sound when he finally approaches the prospect.

### **Planning the Sales Call**

When a salesperson plans the sales call, before paying a visit to a prospective customer, he should consider four questions:

- (i) Whom to see?
- (ii) Where to go?
- (iii) What are the call objectives?
- (iv) How to approach the prospect?

If the marketing department of a company undertakes the activities of prospecting and qualifying, the name and address of the prospect is available with the salesperson. However, if the salesperson is required to find whom to see in a prospective customer organization, he should start as high up in the hierarchy as possible and reasonable. This means that in the customer research done earlier, it was necessary to find the most senior person at the location to which the salesperson wishes to sell. This is not necessarily the managing director or CEO of the firm, but may be the branch, district or general manager. The salesperson should find out who in the organization has the responsibility for purchasing the product or service that he is selling. This approach helps the salesperson to contact the right person. The salesperson should ensure that he has the contact address, telephone number and the right maps.

The next important task for the salesperson is to decide what objectives he would like to achieve for the particular call. Obviously, the ultimate objective is to get the order or close the sale, but this may not be feasible in the first call. As mentioned earlier, it takes, on an average, four calls on an organizational prospect to convert an initial enquiry into sales. The objective may be to get more information on the buyer's needs, buying criteria or knowing and meeting key buying decision-making people. The salesperson must set an objective for each of the sales calls.

The salesperson should also plan how he will approach the prospective buyer, and which method or technique of approach would be suitable for the particular prospect. If the objective of the sales call is to discover and understand the needs of the prospect, what kind of questions the salesperson should ask. Because salespeople can change their objectives, sales call plans and sales presentations for different types of customers (such as individuals, households, government organizations, private sector buyers) and with differing sales situations (like new purchase, repeat purchase, change in supplier), personal selling is referred to as adaptive selling.

### **APPROACH**

After collecting the prospect's name and other relevant information, as mentioned earlier in pre-approach, the next step is to make an appointment to see the prospect. This is called the 'approach'. The approach (or meeting the buyer for the first time) takes a few minutes of a call, but it can make or break a sale. When a salesperson meets a potential customer for the first time, the first impression should be favorable. The initial impression of a salesperson is based on his appearance, attitude and the opening line.

There are a few approach techniques. Introductory approach is mostly used by the salespersons as it is effective. In this approach, the salesperson states his name and the company name, preceded by a friendly and greeting smile and a firm handshake or 'Namaskar'. Most salespersons also present a business card. For example, "Good morning, Mr. Dasgupta, my name is Krishna Kumar from Crompton Greaves. I am here for 11 a.m. appointment". This is said with a friendly smile and a firm handshake. This is followed by a small talk that may be of particular interest to the prospect or new developments in the business. Anything will do to break the ice, but must not be stereotyped.

Another approach technique is to use an opening benefit statement. In this approach, the salesperson opens with a statement about how the product or service could help the buyer. For instance, a salesperson selling insurance policies may say, "By converting your existing insurance

policy to our insurance plan, you can get `2,00,000 more coverage at the same premium that you are paying now". One more technique, called product approach, is used by salespeople if the product is new, unique or colorful. Some salespeople carry the new product or its cut-out in order to make a smooth transaction into the sales demonstration or presentation. For example, the salesperson hands over the new bottle of Pepsi to the retailer and waits for the retailer to begin the conversation. However, studies have shown that successful salespeople do not talk about their products, services, or the benefits of their solution until late in the sales call. The purpose of the approach is to gain the buyer's agreement to move forward to the next step of discovering and understanding the needs of the buyer.

## **DISCOVERING AND UNDERSTANDING BUYERS' NEEDS**

Salespeople should know that individual consumers and business organizations buy products and services to satisfy their needs or to solve their problems. It is important, therefore, for salespersons to discover and understand their buyers' needs or problems. The best way to uncover and know the buyers' needs is by asking questions. Huthwait's research found that in successful sales calls it is the buyer who does most of the talking and not the salesperson. Effective salespeople get customers to talk by asking smart questions. Companies like IBM and Xerox sponsored Huthwait's research of 35,000 sales calls, based on which SPIN model was developed, particularly for high-value business-to-business sales.

In SPIN model, there are four types of questions that salespeople can ask buyers to find, clarify, and understand their needs. These are situational questions, problem questions, implication question and need-payoff questions. Before asking questions, the salesperson must earn the right to ask questions by taking permission; for example, "In order to provide the right solution, do you mind if I ask you a few questions?"

### **Situational Questions**

The questions that ask about the buyer's current situation are called situational questions to obtain information on how the customers may use their products. Examples are:

- How many people would occupy this conference hall which needs to be air conditioned?
- Who is involved in the buying decision for this product?
- How often do you carry out preventive maintenance of these machines?

Successful salespeople ask a few situational questions that are actually necessary. Research shows that senior buyers do not like answering factual questions. Hence, successful salespeople do their homework thoroughly at pre-approach stage and get required information from junior buyers.

To avoid asking unnecessary situational questions, salespersons should be sure that each question has a clear purpose. Also, the situational question should be related to the problem or the need the prospective buyer may have that the salesperson's product or service can resolve. The situational questions should be asked early in the sale so that salesperson can then move with ease into asking problem questions. Situational questions should not be asked on sensitive areas like conflict between different departments of buyers. If sensitive information is really required, it should be obtained indirectly and later in the sale when trust between the buyer and the seller has been established. Successful salespeople do not use SPIN questions in a rigid sequence. Hence, instead of asking many situational questions early in the sales call, they ask them when it makes sense to clarify and explore problems as they actually emerge. For example, the salesperson asks the potential buyer, "you said that employee turnover is a major problem for you. Can you tell me how do your compensation rates compare with your competitors?"

### **Problem Questions**

These questions are used to discover problems, difficulties or dissatisfaction the customer is experiencing with the existing situation. Salespeople ask problem questions to uncover implied needs of the buyer. Examples are:

- Have you experienced any problems in servicing your machines?
- Have you had any difficulty controlling quality?

- Have you experienced any delays in getting those materials from your existing suppliers?
- How satisfied are you with the response time of your current service provider?

Salespeople should do their homework so as to first ask a few situational questions, which will set the context for asking the problem questions. If required, salespersons do follow-up by clarifying problem questions when the buyer starts to reveal problems, difficulties or dissatisfaction. Salespeople should be extremely cautious in asking problem questions in cases such as when the customer has made a decision recently in an area, when the buyer has a personal or emotional involvement or when the buyer is already using the salesperson's product or service.

A good method to plan problem questions is by thinking about the problems the salesperson's product or service can solve for a customer. Successful salespeople ask follow-up problem questions to clarify specific difficulties or problems that the buyer has identified. This can be done effectively by using the word-why? For example, when a buyer says, "I am not satisfied with our current supplier of steel", a good salesperson will ask, "Why are you not satisfied?" This gives the salesperson a better understanding of the buyer's dissatisfaction.

An effective salesperson explores or uncovers a problem from more than one way. This is done so that the salesperson can develop different needs if the buyer deflects the first one. For instance, "I can see why shortage of trained manpower is a problem for you in production. Would this issue be of concern to other functional areas like finance, marketing or logistics?"

### **Implication Questions**

The implication questions ask the buyer about the implications, consequences or impact of the buyer's problem on its operations. Salespeople ask these questions to make the buyer think about the consequences of not solving the problem. Implication questions link a problem to other potential problems or consequences. Examples are:

- What impact the delays in receiving the components have on your production and customer satisfaction?
- Have these staff problems led you to lose any clients?
- What consequences the errors in your system have on your customers?

Successful salespersons plan implication questions before the sales calls, because they have to think implication questions by using their business and application knowledge. The purpose of the implication questions is to build the importance of a strong desire to buy the salesperson's product or service.

Salespeople should ask implication questions after problem questions, but before asking solution-value questions or need-payoff questions. This approach ensures that when the salesperson proposes a solution to the problem, the customer's interest will be high.

### **Need-Payoff Questions**

Solution-value or need-payoff questions ask about the value, importance or usefulness of the solution to a problem uncovered earlier. Salespersons use these questions to increase the acceptability of their solutions. The purpose of these questions is to develop the buyer's desire for a solution. Need-payoff questions are positive and constructive, because they focus on the solutions.

Examples are:

- If the rejection rate for this component at your quality inspection stage is reduced to less than one percent, how much money would that save you?
- By using our material handling equipment if you could save 2000 sq. ft. area in your warehouse, how much of saving would that mean?
- How important is it if the response time to your customers would improve by 50 percent?

By linking need-payoff questions to the buyer's responses or statements, the salesperson can prepare effective need-payoff questions. Also, if possible, the salesperson should use need-payoff questions that ask the buyer to identify clearly the benefits or pay-offs that are important to the buyer.

Examples are:

- Wouldn't personal computers save time of your field or outside salespersons?
- You mentioned earlier that your management would like to minimize the inventory carrying cost of incoming materials. By supplying our components three times a day, linking to your factory's

three shifts production timing, to ensure Just-In-Time (JIT) deliveries and excellent quality, wouldn't it achieve your management's needs?

In large- and medium-size organizations, the buying decisions are made by a group of people called 'purchase committees' or 'buying centers'. Hence, the salesperson's success in getting orders depend not just on how well he sells or convinces one buyer or purchase executive, but how well the buyer sells the salesperson's solution to other members of buying center. Needpayoff questions help the buyer to describe benefits to other members of the purchase committee. Thus, the buyer's confidence and enthusiasm in the salesperson's solution is increased.

The studies carried out by Neil Rackham<sup>8</sup> show that successful salespeople ask a few situational questions first. This is followed by problem (discovery) questions, implication questions, and need-payoff (or solution value) questions. Good salespeople use this sequence to ask questions to buyers. By following this process, successful salespeople uncover and understand the buyer's needs effectively.

#### **LO 4 Understand various methods of sales presentations, product demonstration and handling of objections**

##### **THE SALES PRESENTATION**

After understanding the customer's needs, the salesperson moves into the sales presentation. Although most presentations are oral, often business customers ask for written proposals, quotations or offers before oral presentations. A written proposal or quotation includes technical specifications of the product or service that meets customer's needs, price, terms of payments, delivery schedule, taxes and duties, proof of claims, additional benefits like service, training, guarantees that enhance the proposal. The objective of the sales presentation is to persuade the customer that the product or service being sold will meet the customer's needs better than that of competitors.

##### **Understanding Sales Presentation Methods**

Salespeople must know the various methods (or approaches) used for making a sales presentation. These are: (i) Stimulus-response method (or canned presentation), (ii) Formula method (AIDA model or formula), (iii) Need-Satisfaction method (with FAB approach), (iv) Team selling method, and (v) Consultative selling method.

##### **Stimulus-Response Method**

It is also called canned approach, a memorized sales presentation or a prepared sales presentation. This method assumes that if a salesperson makes the right stimuli (e.g. sales presentation), he can get a favorable response from the prospect. The salesperson does most of the talking. Without knowing the needs of the prospect, the salesperson presents all the features of the product and then asks the prospect to buy the product. If the prospect does not agree to buy, another attempt is made to sell the product. This method is used by telemarketing people, door-to-door salespersons, and for training new salespeople. When canned sales presentation is prepared by the company's experienced people based on research, it can be useful to new salespeople. However, making the same presentation to all prospects or giving the same sales talk is not effective for sophisticated buyers or for creative selling situations. The major fault in this method is that the salesperson does not find out the needs of the prospect by asking him questions. The salesperson talks about the product features which may not be important to the buyer.

##### **Formula Method**

This method is also based on stimulus-response thinking and is also known as 'formulated approach' or 'mental states selling'. The salesperson assumes that most buyers can be led through mental states or steps in the buying process, and hence uses a well-known formula.

It has four stages: (i) attention, (ii) interest, (iii) desire, and (iv) action (AIDA) <sup>9</sup> .

**Attention** The sales representative plans the sales talk by first getting the attention of the prospect by making a favorable statement about the prospect or the prospect's business. Favorable

first impression is also created by formal dress, neatness, a genuine and warm smile, and a firm handshake (it should show warmth and not a test of strength!). First impressions include body language, gesture, posture, handshake, smile, eye contact, manners, etiquette and greetings. It is very important that the salesperson's appearance and mannerisms are pleasant and courteous. A salesperson should build a rapport with the prospective customer with a sincere compliment or positive statement. Rapport-building leads to trusting relationship and feeling of comfort that eventually results in sales.

**Interest** The salesperson leads the prospect's mind to the second stage of gaining an interest. In other words, the salesperson finds out which aspect(s) or factor(s) of the product or service appeals or attracts the prospect. Different methods are used by salespeople to uncover the prospect's interest or need. Some salespeople carry a sample of the product, or the product, if it is not bulky, for showing or demonstrating to a customer. Some other salespeople carry visual aids like CD, the product leaflet or the product photographs. Successful salespeople know that customers appreciate the things of interest and show interest in products and services that help to solve their problems or satisfy their specific needs.

**Desire** The objective in this stage is to arouse a strong feeling in the prospect of wanting to have the product or the service that solves the prospect's problem. The salesperson continues with the sales presentation and demonstrates to the prospect how his product or service can solve the buyer's problem. In this process, the buyer may raise some objections, which need to be answered properly. We shall discuss how to overcome these objections subsequently in this chapter. Sometimes, salespeople face the problem of external interruptions like prospects getting phone calls. After the interruption, it is advisable that the salesperson quickly summarizes what has been said earlier before continuing with the sales presentation. The primary job of the salesperson is to ensure that the prospect's desire is fulfilled with his product or service.

**Action** The action, in this stage, means buying action or closing the sale. Some sales people use trial close to test whether the prospect is ready to buy. If the prospect's answer to trial close question is favorable, then the salesperson asks for the order. If it is unfavorable, the salesperson continues with the presentation to fully convince the prospect about his proposal.

We shall discuss more on trial close and closing the sale subsequently in this chapter.

The advantages of this method are that the salesperson has to plan the sales presentation and understand the customer's mental stages. The AIDA model is used throughout history. However, the AIDA's sales process has now changed (Figure 2.3) as also proposed by Shiv Khera in his book 'You Can Sell' Westland Ltd., 2012, p.109.

Establishing rapport is now the priority of the salesperson in the first stage of getting the prospect's attention. In the second stage of gaining the prospect's interest, the focus of the salesperson is on understanding the buyer's needs or problems. In the third stage, the salesperson offers a compelling solution to the prospect's problem that arouses the prospect's feeling of wanting to have the product or service. In the last stage, the buying action takes place, when the salesperson uses the techniques of trial close and closes the sale.

### **Need-Satisfaction Method**

This method is most challenging and a creative form of selling. It is an interactive sales presentation, which is different from the stimulus-response and the formula methods discussed earlier. The salesperson typically starts with 'uncovering and understanding the buyer's (or the prospect's) needs by asking situational, problem identification, implication, and need-payoff questions as described earlier in this chapter. Only after clearly understanding or investigating the needs or the problems of the buyer, the salesperson gives a written proposal (if the buyer wants it) or moves into sales presentation to show how his product or service can solve the buyer's problem. This is done in three ways: features, advantages and benefits.

**Features** These are defined as facts, information or characteristics of the salesperson's product, service or market offering. For example, "Our ceiling fans have two ball bearings".

**Advantages** The salesperson shows how the feature can help or give advantage to the prospect. For instance, "Because of the ball bearings, our ceiling fans hardly make any noise and have a longer life".

**Benefits** The salesman then describes how the feature or advantage meets a clear and specific need expressed by the prospect earlier. When a prospect states the benefit, it becomes a powerful statement that can be used by the salesperson effectively for making a sale. To illustrate from the earlier example, “our ceiling fans can be effectively used in the class-rooms where noise level should be low, as needed by you”. There is a very specific definition of benefits here, i.e. the benefits deal with specific needs mentioned by the buyer.

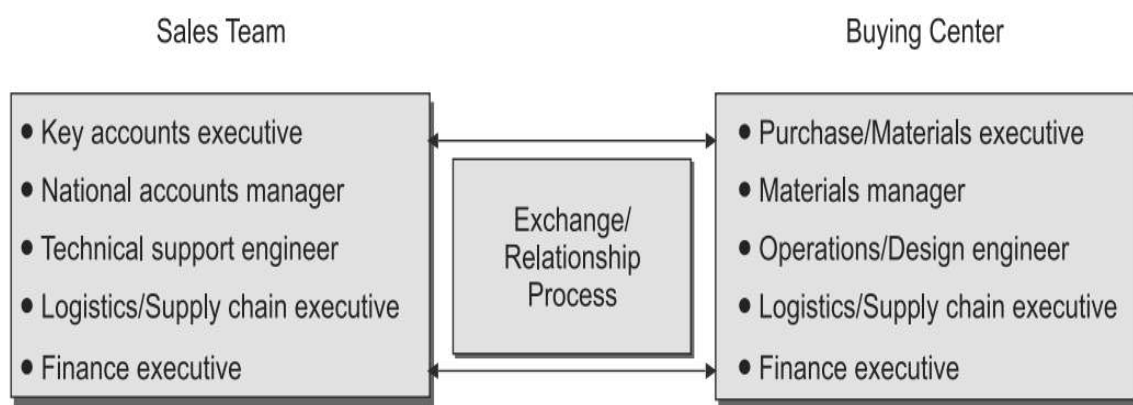
Table 2.1 gives some examples of products and services along with their FAB (Features, Advantages and Benefits).

Product/Service	Features	Advantages	Benefits
Domestic Pump sets	We have a special design for low voltage application.	Our pump sets can be used even when you have low voltage situations.	As mentioned by you, for your low voltage conditions, you can use our pump set.
Annual Maintenance Contract (AMC) for your computing system	We have 20 skilled technicians in your geographical area.	For this reason, you would get a fast response to a breakdown complaint.	We can give you a response within two hours, as desired by you.
Loading and unloading equipment	Our hydro-electric equipment is semi-automatic and customized.	Because of this, the time taken for loading and unloading your incoming and outgoing materials is minimum.	As required by you, our equipment takes less than 10 minutes to load or unload materials.

Most customers like this method and are willing to spend time to describe their needs. This method focuses on the customer, unlike stimulus response that focuses on the salesperson. The sales effectiveness of this method is much higher.

### Team Selling Method

As discussed in Chapter 1, team selling is one of the latest developments in personal selling. Increasing number of organizations are using multi-person sales teams to deal with multi-person buying centre (or buying committees) of their customers<sup>10</sup>. Figure 2.4 shows an example of relationship between a sales team of selling firm and a buying center of a buying company. A salesperson (or key accounts executive) from the selling firm typically co-ordinates the selling activities of the sales team and a purchase executive or a materials executive of the buying firm typically coordinates the purchasing activities of the buying center. Individual members of the sales team and the buying center are from different functional areas and play one or more roles in the exchange process as shown in Figure 2.4.



**Fig. 2.4 Relationship Process between Sales Team and Buying Center Members**

### Strategic Issues

Team selling approach is not the best alternative in all selling situations. Since team selling is expensive, it should be used for key accounts (or customers), who have high sales and profit potential. It can also be used for complex selling situations, customized products and services, long-term contracts or new customers. Team selling should not be used for low sales and profit potential

customers, who could be served by a salesperson with transactional selling approach. Similarly, routine (or repeat purchase) situations can be handled by a salesperson, without any need for a sales team. Generally, the decision to use sales teams depends on the needs of the buyer. If a customer uses a team of buying center members for purchasing products or services, then the marketing firm should use a sales team to match the functional areas and management levels of the buying firm. Companies like IBM, Xerox, HP, 3M, Wipro and Siemens use the team selling approach extensively. At IBM, for example, the sales team consists of client executive, systems engineer, consultant and product representative. The emphasis in team selling is on building a long-term relationship between selling and buying firms by focusing on the whole company and its capabilities, rather than just selling a product or a service.

### **Group Presentation**

When a sales team makes the sales presentation to a group of decision-makers from the buying organization, it is called a 'group presentation'. Some of the guidelines for an effective group presentation are as follows:

∑ **Need-Analysis:** Before the group presentation, the salesperson or the key account executive should talk with all or most members of buying center (or purchase committee) to understand their needs or problems completely and what benefits they are looking for. Also, he should use the opportunity to build a rapport or a good relationship.

∑ **Introduction:** First part of the group presentation should include the company name, members of selling firm and their designations and a brief statement of the purpose or objectives of the presentation.

∑ **Convincing:** Mention, during the presentation, the company's experience, names of renowned customers, third-party certification of satisfaction and quality assurances.

∑ **Specific Benefits:** If the need-analysis was not done before the presentation, ask each buying team member the benefits they look for in the product or service they intend to buy. Then go through the presentation and show how the product or the service offered meets with each member's specific benefits.

∑ **Well Prepared:** At the end of the presentation, the selling team should answer questions from the buying team. The selling team should be so well prepared that all the questions are answered well. The selling team should make each of its team members responsible to his area of specialization, such as technical, commercial, and so on.

### **Consultative Selling Method**

Consultative selling is increasingly used as a professional selling process in the 21st century. This is also sometimes referred to as problem-solving method. Buyers have problems and they know that they do not have expertise to solve the problems. Buyers want solutions within their budget to achieve their strategic goals. Consultative salespeople or sales teams help customers not only in solving their problems or meeting the needs, but also to achieve the strategic goals of the customer. The salesperson uses the resources of the selling organization by seeking help from design, production/operations or any other persons or functions within or outside the organization, in order to solve the customer's problem. Salespeople understand the customer's strategic goals and work in a collaborative or partnering relationship with the customer to achieve the strategic goals and to solve the customer's problems. Many software suppliers, like Wipro and SAP, use consultative selling approach to solve their customer's business problems, such as enhancing business performance, setting up quality framework or creating value for their clients.

For successful consultative selling, the requirements are as follows:

- Salespeople should have an in-depth knowledge of the customer's company, the customer's industry and carry out a detailed analysis of the customer's problems or needs.
- Salespeople should be aware of key members of the customer's buying center (or purchase committee) and get their acceptance of the needs/problems.

- Salespeople should prepare the proposal for solving the buyer's problems and thereafter, make the sales presentation, using team selling approach (described earlier in this chapter and in Chapter 1).

- Salespeople should use the selling firm's cross-functional expertise to provide solutions to the customer's business and technology related problems. If needed, external sources should be used by the sales team to become an expert on the customer's business and to solve the customer's problems.

- Salespeople should build long-term partnership with the customer, using relationship selling techniques.

**How to Make an Effective Presentation?** For making an effective presentation, the following guidelines would be helpful:

**Planning** As stated earlier in the section on pre-approach, it is important that the salesperson does planning, including setting objectives for each sales call and each presentation.

**Use Technology** Salespeople should use the latest technology like virtual or Web-based and multimedia presentations as well as Instant Messaging (IM) for secret coordination between sales team members during presentations.

**Adapt Presentation** The salesperson should customize his presentation tailored to the given situation and person(s).

- **Benefit Plan** Salespeople should use persuasive communication to create a visual picture in the prospect's mind of the benefits of the purchase.
- **Do Not Overload** The salesperson should avoid telling everything about the company, product and service. Only the information that is relevant should be presented, because the prospect can understand only limited information at a time.
- **Buyer's Language** The salesperson should use the language that is understood by the buyer. Salespeople should not use difficult words (or jargons), which are not understood by the customers.
- **Convincing** Salespeople must make the presentation convincing, by proving each point with the help of a third party proof. It is important that the prospect must believe in the statements made by the salesperson.

## DEMONSTRATING THE PRODUCT

Demonstration is one of the important selling tools of a salesperson. Sales presentation can be improved by demonstration. Demonstration proves the benefits of the product and reduces the risk of a wrong purchase to the buyer. That is the reason car salespeople allow prospective customers to test drive cars and many manufacturers' of industrial products arrange demonstration of their products in use.

Some of the benefits of using the demonstration as a tool for selling are as follows:

- Buyers' doubts or objections are cleared and their questions are answered. This improves a buyer's purchasing interest.

- It provides a good support in the selling process.

- It helps the salesperson to find out specific benefits for the prospective customer.

The salesperson can then show how his product or service can satisfy those benefits.

### Planning and Conducting Demonstration

The salesperson should do necessary planning by rehearsing the demonstration with colleagues, who act as buyers, to ask questions or raise objections. There should be a contingency plan in case of power failure or product break-down. The demonstration should be planned in two parts. In the first part, the salesperson should explain briefly the product features, advantages and benefits of the product (as described earlier in the use of FAB approach) and also how the product works. In the second part, the salesperson should show demonstration or actual working of the product.

The salesperson should use simple language and avoid technical words or jargons, if possible. If jargons are necessary, the same should be explained in simple and commonly understood words. The salesperson should also understand the purpose of demonstration—to obtain a sale or to lead for

further discussions or negotiations. For achieving this purpose, the demonstration should be made interesting and the buyer should find it satisfying. Understanding the buyer's specific needs or specific benefits and showing how the product, that is demonstrated, satisfy the specific needs or benefits of the buyer are important parts to be kept in mind when the demonstration is conducted. At the end, the salesperson should summarize the important points, including the buyer's specific benefits and how these are met fully by the product. The salesperson should then use closing techniques to get the order or any action, like final negotiation or meeting, which will take the sale forward. Booklets and brochures can be left behind for customer reference.

**Types of Demonstration**

There are various types of product demonstration as listed below:

- Manufacturers of machines and equipment demonstrate their new products at exhibitions and trade-shows, which are organized by industry or trade associations, such as India Engineering Trade Fair in New Delhi.
- The salesperson may take his prospective customer to see some of his equipment already in use at another customer's premises. The salesperson has to ensure that this other customer should be completely satisfied with his product. Also, he has to take a special permission of the other customer for the visit of the prospective customer.
- Sometimes, a product demonstration is done by a salesperson by taking the equipment to the prospective customer's premises.
- One of the most common ways of product demonstration is by inviting the prospective customer to the selling firm's factory.
- Technical seminar is another type of a new product demonstration where a group of prospective customers are invited at a hotel or some other venue. Refreshment or lunch is generally provided in seminars.

**MATCHING PRESENTATION METHODS WITH SALES SITUATIONS**

The salesperson should understand the sales situation and then use a suitable method of presentation. This would make the sales presentation more effective, resulting in improved sales performance.

Table 2.2 shows different methods of sales presentations and appropriate situations.

Sales Presentation Methods	Suitable Sales Situations
Stimulus-response method or canned presentation	Suitable when selling time is short and product is simple or non-technical. This method is used by salespeople with less experience, as it gives them more confidence. Used for door-to-door selling, telephone selling or sales training.
Formula method (AIDA model)	In straight re-buy or repeat purchase situation, when the customer is familiar with the product or service of the salesperson's company or when the salesperson is aware of the buyer's needs, this method is appropriate.
Need-satisfaction method (FAB approach)	Suitable for selling industrial products or consumer durable products, where the salesperson has to understand the prospect's needs first. It is a creative form of selling.
Consultative selling method	For selling high-cost technical products or value-added services like computer hardware and software solutions, and power transformers. Team selling approach and relationship selling techniques are used to create value for key customers. The sales team serves as consultants to their customers by identifying problems and finding effective solutions.

**HANDLING OBJECTIONS**

Objections, resistances or oppositions may typically take place during a sales presentation or when the salesperson asks for the order from the prospect. Objections should be welcomed because

they show that the prospect has some interest and that if the objections can be answered satisfactorily, it would result in sales.

Two types of objections or resistances happen: psychological or hidden and logical, practical or real. Psychological or hidden objections include predetermined ideas or beliefs, preference for established brands, dislike for making decisions, and the prospect may not be the decisionmaker but he does not want to let the salesperson know, anxiety or resistance to spend money. Logical or real objections are tangible such as quicker delivery schedule, high price, and product quality or product availability.

### **Handling Psychological/Hidden Objections**

The best method of finding out hidden objections is to ask questions to the prospective customer so that he would keep talking. The salesperson asking questions to the prospect would also help the prospect in clarifying his thinking.

Examples include:

- Would you mind sharing your objection?
- Why do you feel that way?
- What seems to be your concern?

However, the salesperson should never argue with or hurt the prospect, because this may lead to loss of the sale.

### **Handling Logical Objections**

Some of the common methods of handling or overcoming the buyer objections are as follows:

- Ask question
- Turn an objection into a benefit
- Deny objections tactfully
- Third-party certificate
- Compensation

### **Ask Questions**

First listen to the buyer's objection carefully. Never interrupt, because nothing annoys a buyer more! Thereafter, clarify the objection by rephrasing it into a question and get the buyer's acceptance of the question.

Let us take an example:

**Buyer:** "It seems price of your product is higher than your competitor."

**Salesperson:** "I accept your concern. Do you want to know why the price of my product is slightly higher than that of another supplier?"

**Buyer:** "Yes, that's what I want to know." The salesperson then explains the benefits of his product to make it worth the price.

### **Turn an Objection into a Benefit**

An experienced salesperson, with positive attitude and quick thinking can turn an objection into a benefit or a reason to buy. Consider the following:

Prospect: "The delivery period of four weeks for your equipment seems to be too long, as we need it in about two weeks, so that including installation and commissioning the project will have to be completed in five weeks from now."

Salesperson: "I appreciate your point, but this equipment is specially designed and manufactured to your specific needs. With four weeks delivery, we can do installation and commissioning in less than one week, so that overall it would be five weeks or earlier. Is that okay with you?"

### **Deny Objections Tactfully**

Sometimes, objections are incomplete or not correct and in such situations salespeople should tactfully deny the objections indirectly. Consider the following example of indirect denial:

**Buyer:** "I don't want to buy your car, because a friend of mine told me that he had a lot of problems when he purchased your newly launched vehicle two years ago."

**Salesperson:** "Yes, I agree, two years ago when we launched our new brand of car, we had a few problems, but we solved all those problems within six months at our factory and also at our customers' premises free of cost. In the last one-and-half years our sales are highest, as compared to other brands

and you can check with your friend now about the performance of the vehicle. If he gives you a good opinion, would you buy our car?"

The salesperson should not be arrogant or sarcastic when he denies incorrect objections.

### **Third Party Certificate**

When the prospect expresses doubts about the product quality or performance, the salesperson uses some other customers' experience of using the product as a proof or testimony. However, the salesperson should get the prior approval from such customers. Sometimes, the prospect takes the initiative and asks the salesperson to give the names and telephone numbers of customers who have been using the product or service of the salesperson's organization. Favorable responses from such customers result in getting the order for the salesperson.

For instance, before buying six numbers of the equipment used for loading and unloading materials from trucks, ITPL, Bengaluru, not only visited the manufacturer's plant, but also went to Ashok Leyland's plants (the manufacturer's customer) at Hosur to see the performance of the equipment as well as to know the quality of service, including the availability of spare parts.

### **Compensation**

Sometimes, the buyer has a valid objection, which makes the salesperson offer some kind of compensation or benefit to counterbalance the objection. For example, Reliance Industries were considering buying certain material handling equipment for the first time for their factories in Gujarat from a manufacturer, located in Karnataka. Reliance raised an objection to know how the manufacturer would ensure efficient warranty service and after-sales service. The manufacturer's senior marketing executive promised to station one service engineer at the customer's premises for one year and thereafter open a service center near Reliance Industries premises. This assurance satisfied the customer, who placed an order initially for a small value of material handling equipment with an assurance to place substantial value of orders subsequently if the concern for efficient after-sales service is taken care.

### **Handling Price Objections**

One typical objection that almost always arises is price. The buyer who says "It cost too much" is pointing out that the value of the offered product is not worth the cost. It may be necessary for the salesperson to go back to the "SPIN model" (described earlier in this chapter) and ask some additional implication and need-payoff questions to increase the buyer's perception of the seriousness of the problem and the importance of a solution. If the buyer still feels that he cannot afford the product, then the salesperson should offer lower priced model and compare the same with the higher priced one. Another method of handling the price objection is to compare the price and value of competing alternatives. One other way of dealing with price objection is to break the price into the smallest possible units. For instance, "As said earlier, this equipment will last for 10 years at the cost of `10,000. See what you are getting for `1000 per year."

### **Handling Product/Service Objections**

Sometimes the buyer doubts whether the product or service offered by the salesperson can solve the problem or meet the needs. In such a case, the salesperson should prove that the product will fulfill the need or solve the problem by using the following action plan: (i) demonstration of the product, (ii) testimonials, (iii) trial use, (iv) independent tests, (v) case histories, and (vi) expert opinion. In case the salesperson finds that his product cannot meet the specific need of the buyer, it is best to accept the same, but give special importance to the other needs the product can meet.

LO 5 Determine the techniques of trial close and closing the sale and follow-up tasks

### **TRIAL CLOSE AND CLOSING THE SALE**

If the salesperson has answered the objections of the prospect satisfactorily, then this is the right time to close the sale. Closing the sale means asking for the order. A good salesperson, before closing does the trial close.

#### **Trial Close**

A trial close gives an indication to the salesperson as to how near he is to the actual close. A trial close asks the opinion of the prospect. It does not ask the decision of the prospect. The reason for using the

trial close is that if the salesperson tries to close the sale by asking for the order after answering the objections, and if he gets the prospect's response as "no", it would be very difficult to change the prospect's mind. Trial closing is an effective way of getting feedback, whether the prospect liked the benefits offered by the product. It may also bring out the prospect's objections, if any. Trial close is an opinion of the buyer, whereas closing the sale is a buying decision of the buyer. Some examples of trial closes are:

- Which color do you prefer-yellow or green?
- Would you like to have this washing machine delivered tomorrow morning or evening?
- Out of the three models that are here, I think, you liked this model. Am I right?

If the prospect has responded favorably to the salesperson's trial close question, then the salesperson should know that it is time to close the sale. However, if the prospect's feedback or response to the trial question is negative, it means the feature, advantage or the benefit presented by the salesperson is not liked by the prospect. In such a case, the salesperson should go back to the presentation, instead of closing the sale, as shown in Figure 2.5.

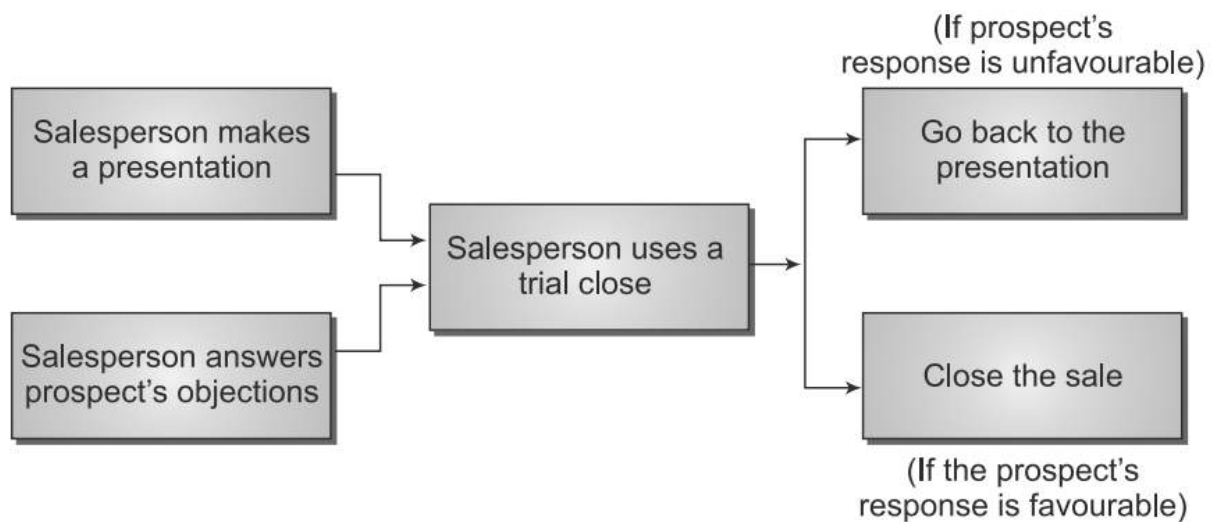


Fig. 2.5 Steps to be Followed by a Salesperson

Closing the sale means asking for the order. Closing is the process of helping the buyer to make a decision that will benefit him. When should a salesperson close the sale? The answer is when the buyer is ready in the mental buying process. Most of the time, prospective buyers give indications about their readiness to buy. Some of these buying signals are as follows:

**Examines the Product** When a prospect examines the product carefully, the salesperson should use a trial close question such as "What is your opinion about this product?" If the answer from the prospect is positive, the salesperson should move on to close the sale.

**Asks Another Person's Opinion** The prospect asks the opinion of another person—a colleague in office or a relative at home—"What do you think about this product?"

**Asks Questions** Some of the questions the prospect may ask are: "When can you deliver this product? What is the price? What are your payment terms?" Sometimes, the salesperson asks another question in response to the prospect's buying signal question in order to better understand the prospect's needs or thoughts, such as "When do you want the delivery?", "How much quantity is required?" Or "What payment terms you want?"

**Becomes Friendly** The prospect becomes friendly, once he mentally decides to buy. The anxiety or pressure of buying changes into relaxation. An ability to understand the prospect's buying signals correctly helps a salesperson decide when and how to close the sale. Although most of the time, the time to close the sale is after the presentation, it can also happen after trial close, during presentation or after answering the objections.

It is important for a salesperson to remember that when he asks for the order, he should remain quiet and not say anything. If the salesperson says something after asking for the order, the pressure on the prospect to make a decision goes off and may result in losing the sale.

## **CLOSING TECHNIQUES**

Some successful salespeople always summarize the major benefits after the presentation, but before the close. Coming to a close without summarizing makes the presentation abrupt. A summary should be very brief indicating the major benefits flowing to the buyer. There are many closing techniques. Some of the major closing techniques are discussed below:

### **Alternative-choice Close**

In this technique, the prospect is given a choice between two or more items or models and not between buying or not buying. For instance, "Which of the three models do you prefer?" By giving a choice, either the salesperson gets a "Yes, I prefer this model", or some kind of objections, which if satisfactorily handled, would enable to come closer to making the sale. This technique is effective, if used correctly.

### **Minor Points Close**

This technique is similar to the alternative-choice close. It is sometimes easier for a prospect to decide on many minor points than to make a bigger decision on whether to buy or not to buy. By having the prospect make decisions on a product's minor points, the salesperson can cleverly lead into the decision to buy. For example, the salesperson may ask questions in quick succession, "If you buy this solar heater, which model would you prefer?", "How soon would you like it to be delivered?", or "Would you like to pay on installment basis?" With these kinds of minor point questions, the prospect typically develops a positive inclination towards buying the product.

### **Assumptive Close**

In this method, the salesperson assumes that the sale is made. He then proceeds to ask questions to the prospect while preparing the bill or the order about the prospect's middle initials, spelling of names, home or office address, quantity desired and color. He then asks the prospect to sign the order, which is a sign of closing the sale.

### **Summary-of-benefits Close**

This technique is very popular, because it is simple and straightforward. The steps involved are: (i) find out the important benefits of your product or service that appeal to the prospect's specific needs, (ii) summarize these benefits by using FAB (features, advantages, and benefits) approach and SELL sequence (Show the feature, Explain the advantage, Lead into the benefit, Let customer talk), and (iii) make a proposal.

Consider the following illustration: The salesperson selling room air conditioning products could say, "Our air-conditioner has a high efficiency rating (feature), due to which it uses less electricity (advantage), which results in 15 percent saving in your electricity bill (benefit). That's good-isn't it?" (trial close). If the response is favorable, the salesman says, "When do you want the delivery-this week or next week?"

### **T-account or Balance Sheet Close**

This technique is used by the salesperson when he takes a piece of paper and draws a large T on it. He places benefits of buying on the left side and drawbacks of buying on the right side, as shown in Figure 2.6.

In the illustration shown in Figure 2.6, the salesperson reviews the presentation with the prospect, writes down all the positive points or benefits on the left side of the T and all the negative points or drawbacks on the right side. He then says the following:

**Salesperson:** “Madam, this vacuum cleaner’s high speed motor (feature) works very fast (advantage) and with less effort (advantage) and saves about 20 minutes in cleaning time (benefit). We will also give you immediate delivery (benefit) and easy installment payment scheme (benefit). Which of these benefits you like, you may kindly write on the left of T section, under “Benefits”.

**Prospect:** “Yes, I like the benefits of time saving and easy installment payment.”

**Salesperson:** “Ok, Now is there anything that you want us to improve?”

**Prospect:** “Yes, I want more choice to select from more models.”

**Salesperson:** “Ok, please write that down, on the right side. Is there anything else, you would like to add?”

**Prospect:** “No.”

The example shows that the product’s benefits are more than the drawback. The salesperson should then use trial close and close the sale. A note of caution is that one drawback may be heavier than many benefits. This technique can be used as a back-up, if the summary-of-benefits close did not make the sale.

### Special-offer Close

When a salesperson has done his best to close the sale, but the prospect is resisting, then the special-offer or special-deal may help close the sale. For instance, the salesperson might say, “If you buy this refrigerator today, I can give you a special discount of two percent.”

### Probability Close

This technique is used, when the prospect says, “I will think it over”, or “I will let you know”. The salesperson allows the real or hidden objections to come out by asking the prospect “please tell me the probability in percentage that next week when I call you back, you will take the decision of buying”. If the probability is more than 50 percent for buying, the salesperson can convert the real objection to closing the sale, by using the various techniques described earlier. However, if the probability is less than 50 percent for buying, the chance of closing the sale is low. In such a case, return to the original position and start the selling process again.

**Negotiation Close** Most salespeople close the sale after successful negotiations with buyers (or prospective customers). The attitude and style of negotiation of the salesperson determines the outcome of negotiation. The salesperson should have a positive and helpful attitude. Out of the various styles of negotiation, the salesperson should use ‘both of us win’ style. This style helps the salesperson and the selling organization to build a long-term mutually beneficial relationship with the buyer and the buying organization. It is, therefore, necessary that salespeople possess the skills of negotiation, which we will discuss later in this chapter.

### Closing Techniques and Sales Situations

In order to understand better the suitable closing techniques to be used for different sales situations, a matrix is prepared, as shown in Figure 2.7.

Closing Techniques \ Sales situations	Negotiation	Probability	Special-offer	T-Account	Summary of benefits	Assumptive	Minor points	Alternative choice
Buyer is hostile	✓	✓						
Buyer is a friend	✓	✓				✓		
Buyer is unable to make a decision	✓	✓	✓	✓	✓		✓	✓
Buyer is selfish or greedy	✓	✓						
Buyer has certain opinion in advance	✓	✓		✓				
Buyer is an expert with a large ego	✓	✓		✓				

Fig. 2.7 Matrix on Closing Techniques and Sales Situations

Salespeople can review their customer profile to understand the sales situation, and use the appropriate closing technique based on the matrix shown in Figure 2.7. They should be well prepared before each sales call. This would result in superior sales performance and customer satisfaction.

## **FOLLOW-UP**

Salespeople must understand that their job is not over after the receipt of the order. Successful sales people follow-up a number of related tasks, some of which are called customer service, as described in this section.

### **Check Customer Order**

After getting the customer order, the salesperson should go through the same carefully to check if all the details such as delivery period, address of delivery, advance payment (if any) and so on are mentioned. If this checking is not done now, later on there may be delay due to the remark 'awaiting the information from the customer.'

### **Plan Follow-up Visit at the Time of Delivery**

The salesperson should plan a follow-up call when the ordered equipment or the item is to be delivered. This visit includes checking if the product is received on time and without any damage in transit (if received in damaged condition, to arrange for insurance formalities), installation (if any), operating instructions and training the customer (if needed). This visit is very important because it will detect any problems or complaints, which the salesperson should solve to the customer's satisfaction. Consider the following example of handling customer's complaints promptly:

Crompton Greaves (old CGL company) launched its new table fan in Mumbai in 1973 with a lot of fanfare in a five-star hotel. On the next day of the launch, the company dealers complained about the improper oscillation of the new fan. The area sales manager and his salespeople, along with a team of technical people from the manufacturing unit of the company immediately swung into action, detected the minor fault and repaired all those fans with minor defect. This restored the confidence of the dealers to sell the new product, as the complaint was handled promptly. Some buyers suffer from post-purchase anxiety (cognitive dissonance) about the wisdom of their purchase decision, particularly if there are problems on high value products or services. The follow-up visit of the salesperson assures the buyer and reduces the dissonance. For instance, many buyers of the newly launched 'Indica' car suffered post-purchase anxiety due to certain technical problems. However, immediate corrective actions from Tata Motors (Telco then) in solving these problems reduced the dissonance substantially.

**Account Penetration** Successful salespeople know that there is still a lot of work to be done after making the sale. By contacting the customer after the sale, the salesperson lays the foundation of a positive business relationship. Account penetration means working and contacting people throughout the account (i.e. customer organization) and discussing about the selling firm's products and services. The successful account penetration depends on the knowledge of the customer organization's key buying center people, their buying situations and buying criteria.

**Relationship Marketing** Today's salespeople work to build and maintain long-term, mutually beneficial partnerships with their key customers. Companies understand that it is much more expensive to gain new customers than it is to keep existing customers. Effective follow-up and customer service will help build loyal customers.

## Opening Example

When T. S. Krishnamurthy, General Manager (Sales and Marketing) of a new company, Saragam Aluminium Ltd., was preparing the marketing plan, he thought of focusing the company's marketing efforts initially on the four southern states of India. This was a logical decision because the manufacturing unit was located in southern India at Anekal, near Bengaluru, and the marketing and company headquarters were also located at Bengaluru. He thought that the logistics as well as sales and serving expenses would be less in southern region as compared to the expenses in other regions. Also, initially, for a new company like Saragam Aluminium, the production would be less than 500 tons per month, against the installed capacity of 1000 tons of aluminium extrusions per month. Krishnamurthy was informed by the company's Managing Director that the installation of extrusion presses and other equipment would be completed by June 2015 and that the production would commence from July 2015. Initial production would be about 150–200 tons per month, which would go up to 300–350 tons in one year and about 500 tons by the end of second year.

The major market segments for aluminium extrusions are building and construction industry (60 percent) with the main application being door and window frames. The automotive industry (for engine mounts, radiator frames and other applications), telecom industry (for telecom equipment) and solar power sector (for solar panels and mounting systems) are the other major market segments. The industrial applications account for the balance 40 percent of the total market size of 300,000 tons of aluminium extrusions. The industry is fragmented with 60 manufacturers of aluminium extrusions.

In order to improve the market coverage and control the selling expenses, Krishnamurthy decided to set up sales territories. For this, cities were used as control units. Based on 2011 census, there were three tier-1 cities and 16 tier-2 cities in the five southern states of India. Cities were classified based on their population. The market potential of southern region was estimated at 25 percent of all India market potential (or market size) of 300,000 tons of aluminium extrusions. This worked out to 75,000 tons.

Saragam Aluminium's sales potential was estimated at 4 percent of 75,000 tons, i.e. 3,000 tons for one year. However, for the accounting year 2015–16, since the company's production commenced in July 2015, for 9 months period, the company's sales potential was estimated at 2,250 tons. Krishnamurthy then calculated sales potential of each control unit by using the concept of multi-factor index, which is based on factors like population and income that influence sales of aluminium extrusions. Each tier-1 and tier-2 city has different multi-factor index depending on its population and disposable personal income. Thus, the sales potential of each city was estimated by multiplying the sales potential of the company by each city's multiple-factor index. Thereafter, Krishnamurthy estimated how much volume of aluminium extrusion each salesperson should sell so as to ensure profitable operation. Since this was a new company, there was no data available for the past sales, cost and profit contribution. Krishnamurthy, therefore, used his judgment to come up with a figure of 50 tons per month or 450 tons for 9 months' period of 2015–16 of sales goal or quota per salesperson. The sales territories were then made by collectively considering adjoining or nearby cities until the sales potential of each territory were equal or greater than the expected sales volume from each salesperson.

The next decision to be made by Krishnamurthy was the number of salespeople needed to achieve the sales volume goal. The most appropriate method for the new company to calculate the sales force size, as per Krishnamurthy, was sales potential (or break-down).

The following formula was used:

$$N = S/P (1 + T)$$

where,

N = The number of salespeople needed or the sales force size

S = The annual sales forecast for the company = 3,000 tons

P = The estimated productivity of the average salesperson = 50 tons per month  $\times$  12 month = 600 tons

T = The estimated percentage of annual salespeople turnover = 20 percent

Therefore,  $N = 3000/600 (1 + 0.20) = 6$  salespeople

Thus, company hired and trained six salespeople. They were assigned to the sales territories determined earlier based on the ability index of the salespersons and their social background. The ability index included factors like product and market knowledge as well as communication and selling skills of the salespersons. The social background included the salespersons' fluency of the local languages and whether they lived in urban or rural environment.

Thereafter, the sales goals or sales quotas for each salesperson were discussed and finalized by the sales manager to whom all the six salespersons reported. The sales quotas or targets included a combination of three elements, viz. the sales volume in tons and rupees; the selling expenses like travelling, lodging, food, customer entertainment and development of new customers (this was an important task since business development of aluminium extrusions involved industrial applications in automotive, telecom, solar power, and other industries). Yearly sales quotas were broken down to monthly and quarterly targets for the purposes of reviewing the performance and taking corrective actions, wherever required.

## **DEFINING A SALES TERRITORY**

A sales territory consists of existing and potential customers assigned to a salesperson. The territory may or may not have geographical boundaries. However, generally, a salesperson is assigned to a geographical area consisting of present and potential customers. For instance, a salesperson is asked to look after the customers located in Mumbai territory.

The basic concept of a sales territory is that a territory or a market is made up of present and potential customers, rather than a geographical area. Hence, in defining a sales territory, the keyword is customers, instead of geographical area. For example, in selling life insurance policies, salespeople sell mainly to relatives, friends or known people, without thinking of their geographical locations. Similarly, small companies do not use geographical divisions. Such examples of not using geographical territories are very few.

In most companies, it is beneficial to assign salespeople to geographical territories, consisting of present and potential customers. In many companies, salespeople are assigned to sales territories that are not properly designed. Research has found that more than 50 percent sales territories are not designed correctly, resulting in lower sales. It is, therefore, an important task of a national sales manager, who is responsible for supervising regional or zonal sales managers, to design sales territories properly. The national sales manager or the head of a sales function is also responsible to increase or decrease the number of sales territories as well as to change the geographical boundaries of sales territories. Another research has shown that firms with correctly designed sales territories have higher sales volume, more productive salespeople and better market share.

## **REASONS OR BENEFITS FOR SETTING UP SALES TERRITORIES**

There are many reasons for setting up and subsequently reviewing or revising sales territories. Some of the major reasons or benefits for companies to establish sales territories are: **(i) increased market (or customer) coverage, (ii) reduced selling expenses, (iii) better sales force performance evaluation, (iv) improved customer relationship, (v) increased salespeople's effectiveness, (vi) improved coordination, and (vii) benefited salespeople and company.** All these benefits have been explained in detail in this section.

### **Increased Market or Customer Coverage**

A well-designed sales territory allows salespeople to spend sufficient time with present and potential customers. The salesperson can identify and classify customers based on their sales potential. Proper market or customer coverage is possible, if the company sets up the territories intelligently and assigns its salespeople carefully. Sales territories should be large enough to ensure reasonable workloads to salespeople, but small enough to see that all existing customers and prospects are visited adequately as needed by the customers. The field sales managers can control the activities of salespeople, if the sales territories are set up properly. Well-designed sales territories allow salespeople to cover existing and potential customers economically and adequately.

### **Reduced Selling Expenses**

By setting-up well-designed sales territories salespeople spend less time on the road, fewer nights away from home, resulting in less cost of travelling and less expenses on lodging and food. Not only the selling expenses are reduced, but the sales volume goes up as the salesperson spends more time with the customers. The result is reduction of selling expenses as a percentage of sales revenue. With no geographical sales territories, the salespeople would crisscross each other as they travel to and from their customers, spending more time and money in travelling. With proper sales territories, there is a reduction in the selling expenses of the salespeople.

### **Better Sales Force Performance Evaluation**

The sales manager can evaluate the performance of each salesperson in a better way, when the salesperson is assigned to a specific sales territory. Each sales territory's market potential can be estimated. Sales quotas (or sales goal) for each salesperson can be decided on the basis of the company's share of the market potential of the territory. With the use of computers, the actual sales performance can be measured on a weekly, monthly, quarterly and yearly basis, and the same can be compared with the respective sales goals of the salesperson. The performance evaluation of the salesperson assigned to a specific sales territory can be done not only with respect to sales, but also in terms of selling expenses, customer service, customer satisfaction levels, as the salesperson's responsibilities can be clearly defined.

### **Improved Customer Relationship**

When the salesperson spends adequate time with the present and the potential customers to understand their problems (or needs) thoroughly and to find solutions to their problems or satisfy their needs, their relationships improve. The customer relationship is developed over a long period of interactions between the salesperson and the buyer. These interactions and regular visits are possible because each salesperson is assigned to a group of customers. Some salespeople develop collaborative or partnering relationships with a few high sales and profit potential customers, for mutual benefits of the buying and the selling firms. The selling firm becomes a sole or preferred supplier, as a result of a long-term, mutually beneficial relationship between the buying and the selling firm. The salesperson is the basic building block of such a partnering or collaborative relationship.

### **Increased Salespeople's Effectiveness**

When the sales territory is properly designed, the salesperson's workload is reasonable and the conflicts are minimum as specific customers are assigned to them. A salesperson is responsible to maintain good relationship with specific customers. All these positive factors contribute to improve the salesperson's performance and effectiveness in terms of consistently achieving and exceeding the sales goals or quotas.

### **Improved Coordination**

The company's sales performance improves substantially, if the salesperson is involved in coordinating the various elements of marketing communications (or promotion). For instance,

distribution of sales promotion materials [like coupons, point-of-purchase (POP) displays, and samples] to retailers, ensuring adequate stocks of brands or products at retail stores before a major advertising campaign and training retailers' salespersons. Integrated Marketing Communications (IMC) concept can be effectively implemented by coordinating the promotional activities through the salespeople to the retailers and customers in various sales territories. Other activities like marketing research, telemarketing, and use of the Internet can also be carried out in the sales territories, which will help salespeople improve their performance.

### **Benefited Salespeople and Company**

Proper territory design and effective allocation of salespeople to territories will result in improved sales force performance, which in turn benefits the company. When the company's sales revenue increases and the selling expenses are controlled, there is a marked improvement in the profits. Thus, the company is benefited due to improvement in the top-line (sales revenue) and the bottom-line (net profits). When the performance of salespeople improves, they are rewarded through good increments, incentives and in some cases, promotions. Due to the benefits received by the sales force as well as the company, the overall working environment improves.

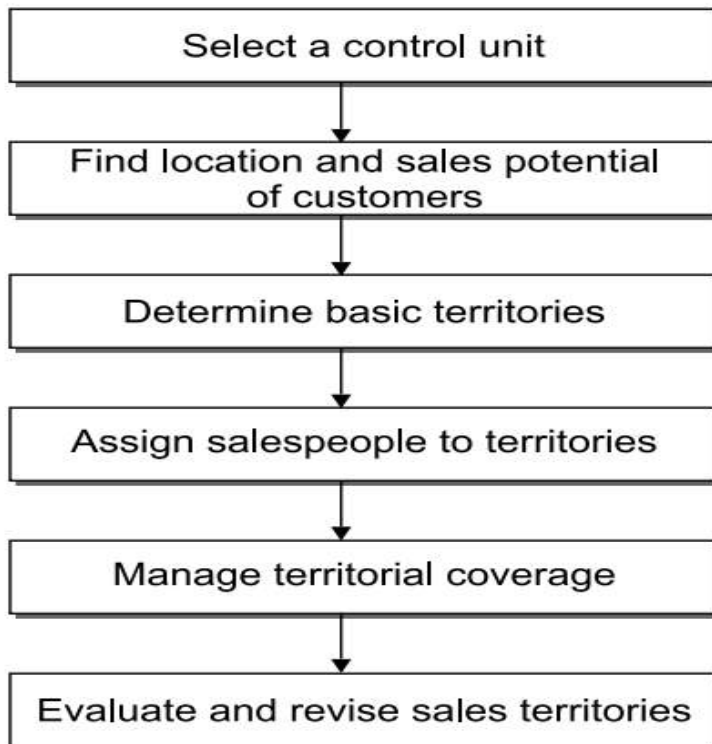
### **REASONS FOR NOT SETTING-UP SALES TERRITORIES**

In spite of earlier mentioned reasons or benefits of setting-up sales territories, there are certain situations when sales territories are not required. Some of the reasons for not setting up sales territories are: (i) a small company with one or few salesperson(s) selling in a local market may not need to set up sales territories, (ii) personal contacts or relationships is the basis for making the sales, such as life insurance policies and network marketing, (iii) the salespeople are not motivated due to restrictions of sales territories and (iv) the company management may not be aware of the advantages or benefits of developing sales territories or may not know how to set up sales territories. However, setting up sales territories and assigning salespeople effectively is the best way to manage a market.

### **LO 2 Describe the procedure for designing a sales territory**

#### **PROCEDURE FOR DESIGNING SALES TERRITORIES**

The design of sales territories is very important to salespeople and the company management, as the performance on sales and profits is linked to the well-designed sales territories. The ideal objectives in territory design are to have equal opportunity (or sales potential) and equal salespeople workload for all sales territories. Typically, these objectives are difficult to achieve in practice, although sales managers do make great efforts to achieve the same. Any differences in the sales potential and the workload of salespeople in different territories, which remain at the end, can be taken care of when sales quotas or sales goals are set up for salespeople and sales territories. This will be discussed later in this chapter. Figure 4.1 shows the steps involved in designing the sales territories.



### **Select a Control Unit**

The first step in territory design is to select a geographical territorial base, called ‘control unit’, that will be used in the territory analysis. Commonly used control units are states, metropolitan areas, cities, districts, towns and pin-code areas. In general, the sales manager should select the smallest control unit. There are two reasons for this: (i) the control units’ market potential and the company’s sales potential should be possible to calculate and (ii) adjustments (i.e. additions or deletions) of the control units should be possible when tentative territory boundaries are modified to make final territories. For example, if a company wants to delete one control unit (say, Hosur city) from Chennai territory and add it to Bengaluru territory, for minimizing the cost and time of contacting customers, it can be done if the control unit is small (such as city, town or district). Brief descriptions of the above-mentioned control units, as applicable to Indian situations, are as follows:

#### **States**

A few companies may consider building their sales territories around states, by selecting the same as a geographical control unit. This is done if a company has a few salespeople for covering the entire national market with a selective distribution strategy. The states differ in terms of population, area, purchasing power and industrial development. The largest state, namely, Uttar Pradesh, has a population (as per 2011 Census) of 199 million and the smallest state, i.e. Sikkim, has a population of 0.6 million. Most companies would not consider the states as a control unit, because many states have large areas and adjustments of territories will be very difficult, for any specific reasons like minimization of time and cost of travelling of salespeople.

## **Metropolitan Clusters**

These are also called 'metropolitan areas' with large populations in urban and suburban areas. They have a large number of households with high levels of buying incomes and retail sales. These are concentrated markets for many consumers and industrial products. The information on market forecast of metropolitan areas is also available<sup>4</sup>. According to McKinsey report of October 2014, 49 metropolitan clusters will account for about 77 percent of India's incremental GDP from 2012 to 2025. However, metropolitan clusters/areas are too large for consideration of control units.

## **Cities/Town/Districts**

The administrative set up varies from one country to another. In USA, cities and postal zip-code areas are used as control units. However, in India, the administrative set up consists of districts, tehsils/talukas, towns and villages. It is possible to get statistical market data for various products at town and district levels. But below the district level (tehsil/taluka and village), it is difficult to get statistical market data. Hence, in India, district, cities or towns can be used as a control unit. Socio-economic statistical data of 620 districts of India is available on the Internet based on Census of India, 2011.

## **Find Location and Sales Potential of Customers**

The next step is to find the location and the sales potential (or business potential) of the present and prospective customers within each control unit. Location information of present customers should be available from the company's sales database. However, the information on prospective customers can be obtained not only from the company's salespeople, but also from outside sources like telephone directories and industry associations. For industrial products and services, where often there are a few buyers, identification of business (or B2B) customers is desirable and possible. However, for consumer products and services, it is unnecessary and expensive to carry out identification of final consumers.

After the present and potential customers are identified in business (or B2B) marketing, the company should estimate the total sales potential of all customers in each geographical control unit. For this, services of either marketing research agency or the company's salespeople can be used. Each present and potential customer can be contacted with a questionnaire to obtain information about the requirements of the selling company's products and services at present and in future and also other information on competition, buying criteria, etc. Sales potential of each control unit is then estimated by summing up the sales potential of present and potential customers.

After the sales potential of control units are calculated, it is necessary to classify the customers based on their sales and/or profits potential. One of the commonly used methods is called ABC analysis. In this method, all the customers are entered in the reverse order of their sales potential, by first entering the name of the customer whose sales potential is the highest. Then the name of the customer with second highest sales potential is entered. This process is repeated till the names and sales potential figures of all the customers are entered. The total sales potential is calculated by adding the sales potential of all the customers. 'A' customers are those whose sales potential add up to 70 percent of the total sales potential. Next group of customers whose sales

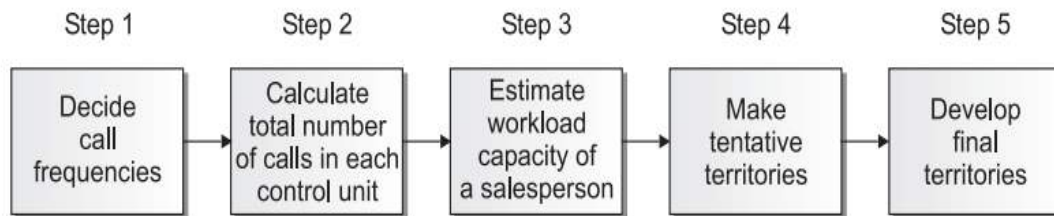
potential add up to 20 percent are classified as ‘B’ and the balance 10 percent sales potential is accounted as ‘C’ customers.

## **Determine Basic Territories**

The third step in designing sales territories is to decide the basic or fundamental territories. This can be done by using either the build-up method or the breakdown method. The build-up method equalizes the workload of salespeople and is commonly used by the manufacturers of industrial products and services or by the companies that want selective distribution strategy. Breakdown method equalizes the sales potential of territories and is popularly used by manufacturers of consumer products and services or by firms that want to adopt intensive distribution strategy. We shall first discuss the build-up method and then the breakdown method.

### ***Build-up Method***

In this method, the basic territories are set up by building-up from the control units. The objective to be achieved is to equalize the workload of salespeople. The procedure followed is shown in Figure 4.2 and is explained as follows:



#### **1. Decide Call Frequencies:**

It means how many times a customer should be visited by the company’s salesperson per year. The factors that influence call frequency are the customer’s sales and profits potential, cost of visiting the customer, buying behavior of the customer and the nature of the product or service offered. The optimum call frequencies, for different types of customers, can be decided by using computer software or by managerial judgment. Let us consider an example shown in Table 4.1. The call frequencies for type A customers, with high sales and profit potential, are four times a month and for B and C types of customers, with medium and low sales and profit potential respectively, the call frequencies are twice and once a month respectively.

#### **2. Calculate the total number of calls in each control unit:**

In the example shown in Table 4.1, the total number of sales calls needed in districts X and Y, which are the control units, are 552 and 720 respectively. This is done by multiplying call frequency per month by number of customers and 12 months. Table 4.1 An Example of Call Frequency and Customer Visits

Customer Type	Call Frequency per Month	District-X No. of Customers	District-Y No. of Customers	District-X No. of Calls per Year	District-Y No. of Calls per Year
A	4	3	144	4	192
B	2	7	168	8	192
C	1	20	240	28	336
Total		30	552	40	720

Customer Type	Call Frequency per Month	District-X		District-Y	
		No. of Customers	No. of Calls per Year	No. of Customers	No. of Calls per Year
A	4	3	144	4	192
B	2	7	168	8	192
C	1	20	240	28	336
	Total	30	552	40	720

### 3. Estimate workload capacity of a salesperson:

A salesperson's normal workload capacity is estimated by multiplying the average number of calls a salesperson can make in a working day by the number of working days in a year. For instance, the average number of calls a salesperson makes in a day works out to five, based on the average travel time of 30 minutes per call, the average length of one hour for each call and eight hours per day working. If the number of working days in a year (after accounting for leave and holidays) is 250, then the estimated workload capacity for the salesperson per year works out to be 1250 calls ( $250 \times 5$ ).

### 4. Make the tentative territories:

In this step, the company should group (or gather) adjoining control units (which share their borders) until yearly number of calls needed in those control units equals the total number of calls a salesperson can make (i.e. workload of a salesperson). In example shown in Table 4.1, districts X and Y together need ( $552 + 720$ ) 1272 visits (or calls) per year, which is almost equal to 1250 calls of normal workload of a Salesforce

### 5. Develop the final territories:

In cases where workloads of salespersons are not equalized, adjustments of tentative territories are made by adding or removing certain control units. The objective is to achieve equalized workload for each salesperson. Before a sales manager finalizes the sales territory design, he should discuss with the salespeople, who are familiar with the customers and the territories. This may bring out certain logical changes, which need to be carried out before making the final sales territories.

### ***Breakdown Method***

As mentioned earlier, this is another method of territory design that is used by companies who have decided to have intensive distribution strategy, mostly for selling consumer products. The objective is to equalize the sales potential of territories. The procedure (or the steps followed) for implementing this method is shown in Figure 4.3.

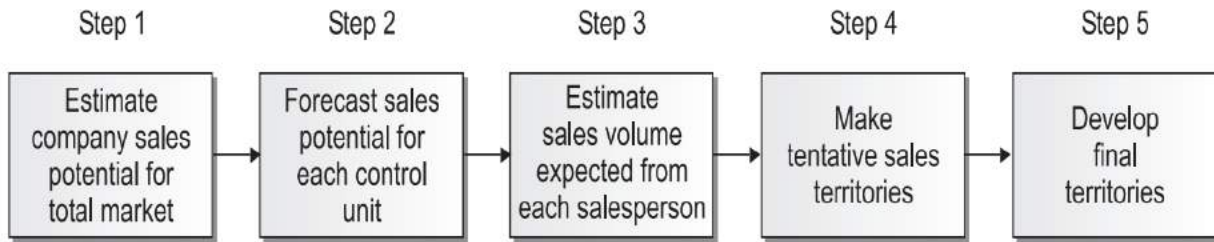


Fig. 4.3 Breakdown Method of Territorial Design

**1. Estimate the company sales potential for total market:**

The first step in the procedure is to estimate the company sales potential (or the company sales forecast) for its total market by using the sales forecasting methods, discussed in Chapter 3.

**2. Forecast sales potential of each control unit:**

In order to forecast or estimate the sales potential of each control unit, the sales manager multiplies the total sales potential of the company by a multiple factor index of each control unit. Thus, the total sales potential of the company is broken down to the individual control units.

**3. Estimate the sales volume expected from each salesperson:** Here the sales manager must estimate how much each salesperson must sell, in order to ensure profitable operation. For this, the sales manager studies the past sales as well as the cost and profitability analysis, as shown in the following example.

Example: The direct selling cost of each salesperson for next year is estimated as `600,000. The cost of goods sold is estimated at 60 percent of sales and the expected profit contribution at 15 percent of sales. Then, the minimum sales expected from each salesperson is calculated as follows:

$$\text{Profit contribution} = \text{Sales} - \text{Cost of sales} - \text{Direct selling cost of each salesperson}$$

$$0.15x = x - 0.6x - 600,000$$

where, x = minimum sales from each salesperson

$$\text{Solving the above equation, } x = `24,00,000$$

After accounting for the indirect costs and using his judgment, the sales manager decides the sales per salesperson to be little over twice the above sales figure, at `50,00,000 (or `5 million) per annum.

**4. Make tentative sales territories:**

In this step, the sales manager makes tentative territories by combining adjoining control units (which share a border) until the sales potential of each territory is equal to or greater than the expected sales volume from each salesperson. Continuing with the example discussed above, the sales potential of each territory should be equal to or greater than `50,00,000 (or `5 million). Care

should be taken to ensure that the boundaries of the each territory exist together with the borders of the control units.

### 5. Develop final territories:

The tentative territories need to be adjusted due to special considerations such as geographical locations of customers or unequal sales potential of some territories. The adjustments are done by moving specific customers or control units from one territory to another territory. The objective is to achieve equal sales potential of territories.

### Assign Salespeople to Territories

Once the sales territories are designed, the sales manager is ready to assign or allocate individual salespeople to each territory. In designing the sales territories, we assumed that the salespeople have equal selling abilities and that each salesperson would perform equally well in any territory. However, these assumptions are not realistic. The assumptions are used only for territorial design purpose, but cannot be accepted when salespeople are assigned to sales territories. In a sales force, salespersons are not the same in their selling abilities and effectiveness. They vary in experience, selling skills, initiative, age and physical conditions. Sales performance may also be influenced by factors like social and cultural characteristics of the customers. Therefore, in assigning salespeople to territories, the sales manager should consider two criteria: (i) relative ability of salespeople, and (ii) salesperson's effectiveness in a territory.

#### Relative Ability of Salespeople

A sales manager should evaluate the relative abilities of salespeople based on key factors, such as product and market knowledge, past performance in achieving sales quotas (or goals), ability in verbal and written communications and selling skills. By either giving different weights, depending on importance, the sales manager evaluates each salesperson on relative ability and decides an ability index with maximum score of 1 for weights and 10 for evaluation, as shown in Table 4.2. The relative abilities of salespeople are then linked to sales potentials of various territories.

Evaluation Factors	Weights (A)	Evaluation (B)	Salesperson's Ability Index Score: (A) × (B)
Product knowledge	0.15	9.0	1.35
Market knowledge	0.10	8.0	0.80
Past sales performance	0.40	10.0	4.00
Communication skills	0.15	8.0	1.20
Selling skills	0.20	9.0	1.80
	1.00		9.15

It should be understood that the weights (i.e. importance) of the evaluation factors may vary from company to company and the evaluation factors may also differ, depending upon the

product and customer characteristics. In the example shown in Table 4.2, the “ability index” of the salesperson is 9.15. Similarly, the ability index of other salespersons should be worked out, keeping in mind that the salespersons’ scores are based on relative evaluations and not absolute evaluations.

### **Salesperson’s Effectiveness in a Territory**

The sales manager should judge the effectiveness of a salesperson by comparing the salesperson’s social, cultural and physical characteristics with those of the territory. For instance, the salesperson who was born and brought up in urban environment of Mumbai or Delhi will find it very difficult to deal with customers from rural territory. It would also help if the salesperson is familiar with the local language and customs of the territory. The objective of the sales manager in matching salespeople to territories is to maximize the sales and profit potential of territories. This objective is achieved by making the salesperson comfortable with the customers in the territory and the customers comfortable with the salesperson. Thus, the decision on assigning salespeople to territories should also be based on salesperson’s considerations. The salesperson’s considerations include personal relationship between salespeople and customers. The existing excellent relationships between the salesperson and customers should not be disturbed by the sales manager while carrying out the task of assigning or deploying salespeople to territories.

### **Manage Territorial Coverage**

After designing sales territories and assigning salespeople to different sales territories, the next task of the sales manager is the management of territorial coverage or in other words, how each salesperson should cover the assigned sales territory. This task consists of three activities: (i) planning of efficient routes for salespeople, (ii) scheduling the salespeople’s time, and (iii) using time management tools.

#### **Planning of Efficient Routes for Salespeople**

Planning of efficient routes for salespeople is a managerial activity. Often sales managers initially train salespeople in route planning and subsequently ask them to prepare their own route plans. Routing is a travel plan or pattern used by a salesperson for making customer calls in a territory. Studies indicate that left to their own routing method, salespeople spend one-third of their daily working hours travelling. Thus, most salespeople are unable to plan efficient routes. The main advantages of routing are: (i) reduction in travel time and cost by excluding backtracking and criss-crossing by salespeople in their territory, (ii) improvement in territory coverage, as salespeople reduce their travel time and increase selling time. There are, however, certain objections to routing. Some sales managers are of the opinion that routing reduces salespeople’s flexibility and initiative, particularly when customers’ needs change and market conditions vary. This objection can be overcome by using computers for updating the route plans.

#### ***Procedure for Setting up a Routing Plan***

The first step in setting up a routing plan is to identify the present and prospective customers on a territory map. Next, each customer should be classified into high, medium or low sales potential and call frequency for each class of customer to be decided. For instance, high

potential customers are to be visited four times a month, medium potential customers twice a month, and low potential customers once a month. The route plan should be built around locations of high potential customers. Generally, medium and low potential customers will fall into place near high potential customers, with a few exceptions. Prospective customers should be allowed some time. Some of the commonly used routing patterns are shown in Figure 4.4.

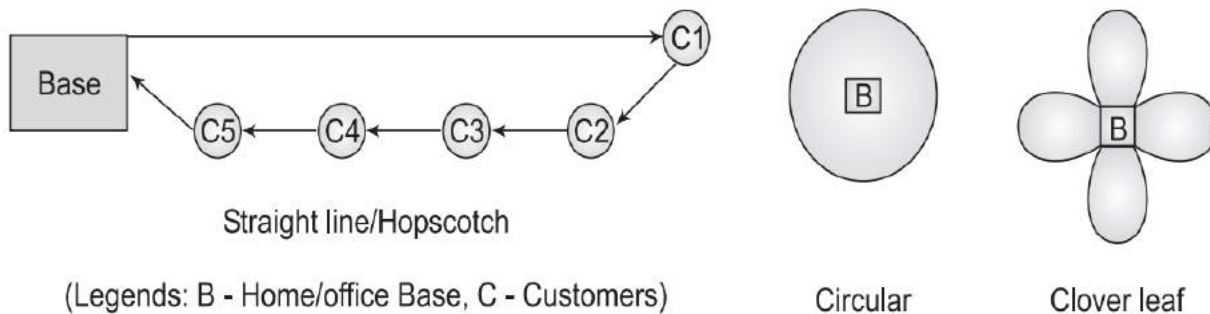


Fig. 4.4 Common Routing Patterns

In straight line route pattern, the salesperson starts from office or home base and makes sales calls in one direction. This can be combined with hopscotch pattern, in which the salesperson starts early and drives to the farthest point from home or office base before making the first call. Thereafter, he makes sales calls on customers on the way back to home/office. This process is repeated in different directions so that the salesperson starts from office/home in the morning and returns in the evening. The important factor to remember is the travel time, which should be minimized. In circular route pattern, the salesperson starts from his base and moves in a circle, making sales calls, ending back at the office/home. In clover leaf pattern, the first route covers a part of the territory, the next trip of the salesperson covers the adjoining circle and this is continued until the entire territory is covered. Computerized mathematical models have been developed to help the sales manager decide the route that will minimize the travel cost or maximize the selling time<sup>7</sup>.

#### ***Application and Importance of Routing***

The degree of importance to the application of routing depends on two factors: (i) the nature of the product and (ii) the type of the job of salespeople. For example, for Fast Moving Consumer Goods (FMCGs) like soft drinks, bread and grocery products, which are sold to retailers, there is a need for frequent servicing and therefore, a route plan is absolutely necessary. Similarly, driver-cum-salesperson type of jobs should have proper route plans, since if the calls are not made regularly, the company can lose important retailers. However, the sales jobs with creative selling to find solutions to difficult problems such as inventory control and superior customer service may need a flexible route plan. In general, application of routing is important for all companies, but for some companies one should be flexible in its implementation.

## Scheduling the Salespersons' Time

Scheduling is planning a salesperson's specific time of visits to customers. Scheduling the salesperson's time should be considered as the time allocation problem. Studies have shown that the best salespersons are those who manage their time effectively.

### Allocation of Time

The sales manager must first decide and communicate the major activities or duties of the salesperson and the amount of time that should be allocated to each activity. Although the activities or tasks vary from company to company, generally these are classified into the following areas, along with the time spent, as shown in Table 4.3.

**Table 4.3 How Salespeople Spend Their Time**

Salespeople's Tasks	Time Spent (percentage)
Administrative tasks	15
Service calls	13
Face-to-face selling	32
Waiting/Travelling	21
Telephone selling	19
Total	100

It is interesting to note that 19 percent time is spent by a salesperson on the telephone. Many companies are using telephone selling in order to reduce the cost of selling. The tool that is used widely to help the salesperson to understand how they spend their time is called "time and activity analysis". The salesperson records the time spent on various activities over a period of two weeks. The sales manager and the salesperson then discuss and decide how to increase the time spent on major activities like face-to-face and telephone selling.

### Customer Calls

Companies often communicate the norms of visits to existing customers and prospects to their salespeople. This is done because, if left to their own wish, many salespeople will spend most of the time with the present customers, who are known to them. However, the company wants business from new customers also. For instance, CG Power and Industrial Solutions Limited asked its sales engineers to spend 80 percent of their time with the present customers and 20 percent of their time with prospects, with a guideline that they should stop visiting the prospect after four unsuccessful calls.

A study has found that some salespeople spend too much time selling to small and less profitable present customers, when they should be putting more efforts on selling to large and more profitable customers. Companies, therefore, specify call norms for existing customers, depending upon their sales and profit potentials. A real-life example of a regional sales manager, who was transferred from western region to eastern region in India, is worth mentioning here. The sales were stagnant in eastern region and one of the decisions taken by the regional sales manager was to ask the salespeople to find sales potential of the existing business customers for the company's products and then to make four sales calls a month to high sales potential customers, two calls a

month to medium sales potential customers and only one call a month to low sales potential customers. He also guided the salespeople on route plans. The sales of eastern region jumped up substantially for four successive years, due to a number of decisions taken by the regional sales manager on territory coverage, motivational issues and training of salespeople.

### **Time Management Tools for Salespeople**

There are many supports available to help salespeople manage their time more efficiently and productively. These are: (i) use of computers, mobile communication equipment and other hightech equipment and (ii) inside salespeople.

#### **High-Tech Equipment**

Desktop and laptop PCs, CDs, automatic dialers, e-mails, fax machines, telephonic-conferences, videophones and smart phones are the time management tools that are available to salespersons and sales managers. In particular, in some companies salespeople have laptop computers that they carry as they travel around their territories. The main objective of having high-tech equipment is to help salespeople make more efficient use of their time. Salespeople use their laptop computers to enter and transmit their visit reports and customer orders, get information on inventory and delivery status, access a customer's file to get up-to-date information before making the sales call, exchange messages with customers and sales managers, and make sales presentations to customers.

#### **Inside Salespeople**

To reduce time demands on their outside salespeople, many companies are increasingly using inside salespeople, who remain within the organization<sup>12</sup>. There are three types of inside salespeople: (i) sales assistants to provide clerical support for the outside salespersons, such as delivery follow-up with production, confirmation of customer appointments, responding to customers' questions and so on; (ii) technical support people to give technical information and respond to customers' technical questions; and (iii) telemarketers to find new sales leads, qualify them and refer high and medium sales potential prospects to outside salespersons and low potential prospects to the company's intermediaries. Outside salespeople, who travel outside the company, are then free to spend more time selling to the existing key customers, getting orders from prospects and building long-term relationships with key customers.

### **Time Management Tools for Sales Managers**

The same high-tech equipment, such as laptop computers, smartphones and others (as stated above for salespeople) are available to sales managers to help make more efficient use of their time. Most sales managers use e-mails to communicate with their salespeople.

Computerized support systems like CRM (Customer Relationship Management) and ERP (Enterprise Resource Planning) are used by many companies for effective use of management resources including time and to improve the efficiency of an enterprise. The direct benefits of an ERP system are: (i) business integration, (ii) flexibility and (iii) better analysis and planning capabilities.

Although ERP software packages are designed for various areas of business performance improvements such as finance, manufacturing, inventory reduction and so on, we shall consider a few examples related to sales and marketing.

Coverking Company, a manufacturer and distributor of customized automotive accessories, wanted to achieve a growth rate of 30 percent. However, it had a problem that most of its over 500,000 orders for customized car covers, floor mats and other accessories were received by phone, due to which there was a delay in order entry. The company wanted to reduce the time it spent on order entry, without compromising on customer service. The solution to the problem was found in ERP package of Bann IV, along with other Microsoft software programs, operating systems and databases. Customers could enter orders from any computer equipped with web browser and check inventory via the Internet. The system provided customers a comprehensive menu of order options. Users could select a product, fabric, color, etc., to place a customized order in a fraction of time required for a phone order. Apart from a remote order entry solution, the ERP system reduced the turnaround time for manufacturing customized products by 25 percent. Overall the company had a saving of about \$200,000 annually.

Another example is about the problem of manual billing process and resulting delays and errors, faced by Alcone Company, which also wanted to provide greater information access to its staff. The company decided on ERP system from PeopleSoft Select, with operating system and database from Microsoft, to solve the problem. After implementation, the billing process was automated, resulting in increased billing, improved efficiency and tremendous savings in time and effort. The ERP system paid for itself within two years.

Increasing number of companies are using CRM (Customer Relationship Management) software to integrate sales, marketing and customer service functions and to give all customer interacting persons and departments access to share customer data in real time. Many banks were the first ones to use CRM systems.

In addition to using high-tech equipment and support systems, sales managers should also practice a few simple rules for effective time management which are as follows:

- Make plans—for each day and each week.
- Make or take phone calls twice—before lunch and at the end of the day. Learn to be brief.
- Read and reply e-mails/fax messages once or twice in a day.
- Interruptions from the boss and customers have to be responded. Unnecessary interruptions from others need to be minimized by politely saying “no”.
- Prioritize the activities/tasks in terms of importance and urgency, based on ABC analysis of activities.

- Concentrate efforts on major (or ‘A’ type of) activities/tasks during prime hours when we work most effectively.
- Learn to delegate routine and less important tasks or activities to others.

We all, including the sales force and sales managers, have one thing in common—a 24-hour day. It is how we use our time that makes the difference.

## **Evaluate and Revise Sales Territories**

Evaluation of sales territories is done by first setting up qualitative and quantitative goals, performance standards or quotas. For example, monthly, quarterly and yearly sales goals, number of calls to be made to ‘A’, ‘B’ and ‘C’ type of customers located in each sales territory and customer service or customer satisfaction index or rating are some of the goals for salespeople. The second step in the evaluation process is the measurement of the actual performance of the salesperson assigned to the sales territory. The information on the actual performance of each territory is furnished routinely to sales managers and salespersons through the computers by many companies. The third step is to compare the actual performance with the goals or the performance standards for each territory on monthly, quarterly and yearly basis. If the goals are met, the field sales manager appreciates the salesperson and recommends him for appropriate increments or rewards. However, if some or all the goals are not achieved, corrective actions, including new action plans, are discussed by the sales manager with the sales person. These action plans are developed for the sales territory and the same are implemented by the salesperson.

### **Revising Sales Territories**

Studies have found that more than half (55 percent) of all sales territories need to be revised or realigned because they are either very large or very small<sup>13</sup>. It is, therefore, necessary that sales managers review their sales territories periodically — at least once a year. However, care should be taken by sales managers to make sure that poor performance of sales territories is due to incorrect territory design or alignment and not due to other reasons, such as ineffective supervision, incorrect incentive scheme and compensation plan.

A question that is frequently asked is: “How to know that the existing territories need revision?” Some of the answers to this question are:

1. Sometimes, the selling time and activities change substantially. For instance, a material handling company found that their customers started demanding customized equipment, instead of standard equipment. The company’s sales engineers had to spend more time to understand clearly the needs of the customers and to give pre-sales service. These additional activities resulted in the company’s sales engineers requiring more time to get orders. Hence, the company made the territories smaller and recruited new sales engineers giving each salesperson more time to sell.

2. In many companies, the sales territories are overlapping, resulting in inefficiencies and higher costs. This situation should be corrected by revising the territories.

3. When the sales potential of a territory grows faster than expected, the salesperson assigned to this territory exceeds his sales goals substantially without covering the territory

adequately. The salesperson may get high incentives and appreciation from the company's management. However, the company is losing its market share to the competitors. In this situation, there is a need to measure the sales potential of different territories and revise the sales territories by equalizing the sales potential or the workload of salespersons.

Another question that comes to mind is: "Why in many companies the sales territories are not balanced?" There are two main reasons for this situation. First, the company's management asks the first level sales managers, viz. area/branch/district sales managers to design or revise the sales territories that are located within their respective branches. Generally, these sales managers are very busy with other tasks and hence, they do not spend adequate time and efforts in designing their sales territories. The second reason is that many sales managers are not aware of the basic concepts of equalizing sales potential of sales territories and equalizing workload of salespersons. They also do not know that their sales performance can go up substantially, if their sales territories are balanced with equalized sales potential or equalized workload of salespeople.

For revising the sales territories, sales managers can follow the same procedure as shown in Figure 4.1 for designing sales territories. Companies should periodically evaluate and revise their sales territories in order to respond effectively to the changing market conditions.

LO 3 Utilize the knowledge of Information Technology (IT) for designing sales territories

### **USE OF INFORMATION TECHNOLOGY FOR DESIGNING SALES TERRITORIES**

Instead of using the earlier described build-up or break-down methods, Information Technology (IT) is used to determine sales territories. IT firms have developed a software, called "geographic information system (GIS)".

GIS is not only quicker but also deals with all aspects of design of sales territories. The output of the software depends upon the data that is put into the computer. The data includes the satellite images or aerial photographs of the territories, customer locations, frequency of sales calls, sales potential of control units and so on. The GIS output is presented in an easy-to-understand graphic or map form.

The hardware required for the GIS system includes a standard laptop or desktop computer working on a Windows operating system and a color printer of good quality. A person operating GIS system must be properly trained. For example, a company which is in the business of renting cars, uses a GIS software to review and revise many of its sales territories. The performance of the company's salespersons improved substantially in terms of achievement of sales goals and productivity as a result of using the software, instead of the earlier method of manually plotting and analyzing sales territories.

## **Global Positioning System (GPS)**

This gadget communicates with satellites to find the exact position and give direction to clearly identified geographical locations. By only entering the address of a prospective customer, a sales person is supplied with directions on how to reach there. This direction also includes which highway to drive on and the fastest route around unexpected road construction. GPS devices are particularly useful for salespersons who travel on unfamiliar and large sales territories. Also, sales managers can use GPS gadgets to follow the movement of their salespersons. This can help to find if salespersons are covering their sales territories efficiently. The prices and features of GPS devices vary greatly. The complete navigation system with automated computer voice is available at the high price.

### **LO 4 Discuss sales quotas and their importance**

#### **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<sup>16</sup>.

### **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 unfavourable 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, counselling 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<sup>18</sup>. Quotas directly influence salespeople's motivational levels and amount of energy<sup>19</sup>. 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**

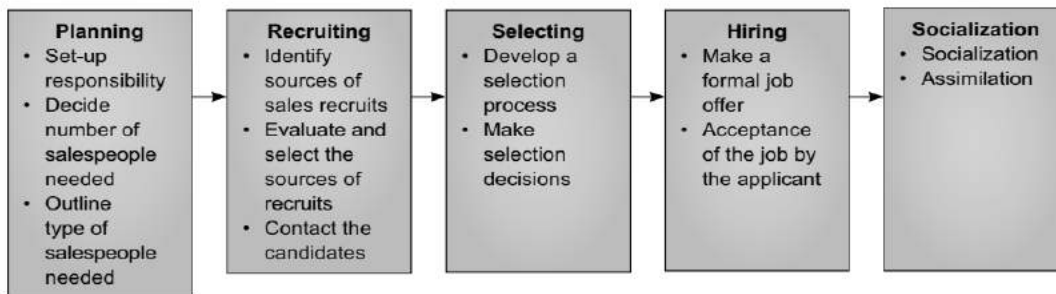
When the actual sales performance is compared with the respective quotas of different territories and salespersons, the sales manager can identify successful and unsuccessful performers. Further, analysis of causes of poor performance of some sales territories may reveal that the salespersons have not 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.

## STAFFING THE SALES FORCE

Proper staffing of the sales force is very important as it has a strong impact on a company's sales performance and profits<sup>10</sup>. The sales force is involved in carrying out the company's strategic marketing plan. One cannot over-emphasize how critical it is to choose the right salespeople. The full costs of unsuccessful recruitment, selection and training are probably very difficult to estimate. In one study, it is estimated that it costs anywhere from 50 to 150 percent of an employee's salary to replace that person<sup>11</sup>. It is clearly seen that sales force staffing, which includes planning, recruitment, selection, hiring, and socialization, is among the most challenging and important responsibilities of sales management.

### Sales Force Staffing Process

Sales force staffing process consists of five major stages: 1. Planning the recruitment and selection process. 2. Recruiting sufficient number of applicants. 3. Selecting the most suitable applicants. 4. Hiring those applicants who have been selected. 5. Socialization of the new recruits into the organization. Figure 5.9 shows the above mentioned major stages, which are further broken down into related tasks. We shall discuss each stage. Planning • Set-up responsibility • Decide number of salespeople needed • Outline type of salespeople needed Recruiting • Identify sources of sales recruits • Evaluate and select the sources of recruits • Contact the candidates Selecting • Develop a selection process • Make selection decisions Hiring • Make a formal job offer • Acceptance of the job by the applicant Socialization • Socialization • Assimilation



**Fig. 5.9 Five Stages of Sales Force Staffing Process**

### The Planning Stage

As shown in Figure 5.9, the first activity in the planning stage is to set up the responsibility for the various stages and activities of the staffing process. The second task is to decide the number of salespeople needed. The third activity of determining the type of salespeople needed includes three tasks: (i) conduct job analysis, (ii) prepare job description, and (iii) develop job qualifications (or specifications) that a sales recruit should have. We shall now discuss each of the three activities included in the planning stage.

**Setting-up Responsibility** The company management must decide who will be responsible for the various stages and activities of staffing process. The decisions may vary from company to company, depending on the size and culture of the organization. In a small

organization, most of the staffing decisions are made by the head of the organization. However, in a medium or large size company, the responsibility of identifying and selecting the sources, contacting the candidates, developing a selection process, socialization and assimilation are typically given to human resource department managers. The sales managers at middle and senior management levels are generally responsible for activities such as deciding the number and type of people needed, selecting, and making the job offers to the salespeople.

Proper coordination is required between sales, marketing, and human resource department executives. For instance, in a large engineering company, the responsibility of hiring sales

engineers was given to the regional general managers of four regions – North, East, West, and South. Regional general manager–East, asked human resource manager–East, to take the responsibility of all the activities of recruiting sales engineers, except for deciding the number and type of sales people needed, selection, and making the job offer. The last four activities were the responsibility of the regional marketing managers and the regional general manager. Regional marketing managers were asked to co-operate with the regional human resource manager in the various activities of staffing process.

**Deciding the Number of Salespeople Needed** The decision on how many salespeople are needed by the company is an important part of planning. It forces the various regional and branch sales managers to plan their manpower requirements well in advance, before the beginning of a new financial year. This helps the human resource (HR) department to program the various stages of staffing process. Senior management of the company should also review any changes in their marketing strategy and its impact on the number of salespeople. For instance, a company decided to close its branch at Sonapat in North India, since two major customers stopped buying its products due to backward integration (making those products internally instead of buying from outside sources). This resulted in two excess salespeople from Sonapat branch. The company decided to open two new branches at Faridabad (in North India) and Pune (in Western India), to exploit the increased market demand from automotive industry.

For calculating the number of salespeople needed, each territory sales manager should consider the following points:

- Decide the optimum sales force size by using one or (preferably) more of the three (workload, sales potential, and incremental) methods. These methods are discussed earlier in this chapter.
- Add number of promotions, retirements, transfers out, terminations, resignations expected from the existing salespeople.
- Subtract expected transfers into the branch and the existing salespeople.
- Make a total of new salespeople needed, as shown in Figure 5.10, and submit it to the senior sales manager.

Optimum Salesforce Size	Add Promotions	Add Retirements and Transfers out	Add Terminations, Resignations	Subtract Transfers in and existing Salespeople	Total new Salespersons needed
25	2	2	1	23	7

Fig. 5.10 Example of Number of Salesperson Needed

After receiving the information on the number of salespersons needed from each territory sales manager, the national sales manager calculates the total number of new salespersons to be hired. What is also important is that this planning of number of salespeople needed should be done

5 to 6 months in advance of new financial year, so as to allow adequate time for recruitment, selection, hiring, assimilation, and training of new sales persons.

### Outline the Type of Salespeople Needed

As a part of planning stage, a company should prepare a detailed job analysis, job description, and specifications of the salespeople needed. This will be useful for making decisions on selection, promotion, and training of salespersons. The steps involved in the process of developing a profile or outline of the type of salespeople, as shown in Figure 5.11, are: (i) job analysis, (ii) job description, and (iii) job qualifications or specifications.



Fig. 5.11 Process of Developing Sales Force Profile/Outline

New companies will have to go through the three steps represented in Figure 5.11. Even existing firms need to review these steps from time to time to ensure that the job specifications represent the current activities and responsibilities of salespeople.

### Conducting Job Analysis

A job analysis is systematic collection of information on a particular sales job. It includes deciding the job's objectives and how to achieve them. The procedure followed for conducting job analysis involves developing the duties (i.e., tasks required as a part of salesperson's job), such as understanding customer needs and making sales presentation. For this, salespersons, customers, and sales managers should be interviewed. A structured questionnaire should be used to collect relevant information on importance of various tasks; what kind of knowledge and skills are needed by the salesperson to perform the job well, type of customers, such as individuals, business, or institutional, and so on.

The person conducting the job analysis may be a person from the sales team, or human resource department, or an outside consultant. This person should also spend time making customer calls with some salespeople, interviewing them, observing, and recording the various tasks performed and time taken by the salesperson.

### **Preparing Job Description**

Companies use job analysis to develop job description. Job descriptions are formal, written statements describing detailed account of the job. Most well prepared job descriptions generally cover the following points:

- **Title of the Job:** A complete description so that there is no uncertainty. This is particularly important in an organization having many types of sales jobs. Some of the examples of sales titles are sales representative, marketing representative, and sales engineer.
- **Reporting Relationship:** To whom should the salesperson report. For instance, the reporting manager of a sales representative may be the branch manager, district manager, area sales manager, or sales/marketing manager.
- **Types of Products and Services to be Sold:** For example, office equipment like photocopiers, fax and multifunctional devices, courier services, and software services.
- **Types of Customers to be Visited:** For instance, commercial or purchase managers in business organizations.
- **Duties and Responsibilities:** For instance, visit planning, selling activities, customer service, market information collection and communication, call report preparation, payment collection from customers, and customer relationship.
- **Job Demands:** Mental and physical demands of the job, such as travelling, achievements of sales and other targets.
- **Key Result Areas (KRAs):** Achieving sales goals, maintaining good customer relationship, and submitting market information reports.
- **Location and Geographical Area to be Covered:** The present location of the place of work and the geographical area to be covered by the salesperson (which may change in future). For example, the location of the job is at Bengaluru and the area to be covered is Bengaluru city.

A job description is almost certainly the most important tool that is used in managing the sales force – for instance, in recruiting, selecting, training, compensating, and evaluating the salespeople. It is, therefore, important that the job description should be in writing and in great detail.

**Developing Job Qualifications/Specifications** Duties and responsibilities mentioned in the job description should be used to decide job qualifications, or job specifications (also called hiring specifications). A sales recruit should have certain traits (or characteristics) to perform well on the job. However, determining the job qualifications or specifications is probably the most difficult part of the entire staffing process. This is because there are no generally accepted traits and abilities of salespeople for success across various selling positions. Many studies have

attempted to determine which qualifications are most important for a sales position. A few studies are mentioned below:

Charles Garfield, in his study of super achievers concluded that super sales performers show the following traits: (i) risk taking, (ii) powerful sense of mission, (iii) problem-solving bent, (iv) care for the customer, and (v) careful call planning<sup>12</sup>. Mayer and Greenberg offered one of the shortest lists of traits. They concluded that the effective salesperson has two basic qualities: (i) empathy (the ability to feel as the customer does) and (ii) ego drive (a strong personal need to make the sale)<sup>13</sup>. Avlonitis and Karayanni concluded in their study that the salesperson of the future must be able to work with electronic communications and technology<sup>14</sup>. A study of 26 of the leading corporations, including General Electric and AT&T, found that the “ability to work in a team” was a job requirement.

For managing key accounts (i.e., major customers) many firms use team selling approach. Some of the important characteristics of the team salesperson are adaptability, and the ability to put the team’s objectives above their own. There is no single satisfactory method available for every company for deciding the qualifications (or specifications) needed for selecting its salespeople. This is because, there are many types of sales jobs and there is a corresponding variance in job qualifications for different sales jobs. However, some of the methods used for developing job specifications are as follows:

- **Study Job Description:** Some companies develop job specifications based on the carefully prepared job description statements. This is particularly a useful method for the new company, which does not have personnel histories of past salespeople.

- **Analyze Personnel Histories of Salespersons:** A large company, which is in business for a many years, can decide the job specifications of its salespeople by analyzing the personnel histories of its present and past salespeople. The procedure is to analyze various traits (or characteristics) of good and poor performing salespersons to find out if there are certain characteristics that are present in good (performing) salespersons and absent in poor (performing) salespeople. The traits of the good sales persons are then used to develop job specifications (or a job profile) of the type of salesperson the company is seeking. For instance, based on an analysis of its current sales consultants, Accenture company discovered that students with part-time jobs and extracurricular activities were more likely to succeed than those with higher grade-point averages.

- **Ask Customers:** One more method is to ask customers. Most customers say they want the salesperson to be knowledgeable, reliable, helpful, and honest. Based on these methods, each company should develop its own job specifications, including sales experience, education, skills, and personality traits for selecting salespeople. After deciding the number and type of salespeople needed by the company, the next stage is recruiting.

LO 4 Carry out recruitment and selection of the salespeople

## **RECRUITING THE SALES FORCE**

This stage includes: (i) finding or identifying the sources of sales recruits, (ii) evaluating and selecting the recruiting sources, and (iii) contacting candidates through the selected source(s). Recruiting includes activities to get individuals who will apply for the job. The general purpose of recruitment is to provide a pool of qualified job candidates from where a company selects the right persons. This means recruitment activities do not include the selection of people. If a company wants to recruit a large number of salespeople, recruiting and selection processes should be done continuously. To maximize the chances of finding the right person, some companies take two specific actions: (i) for selecting one right salesperson, they get 20 applicants, and (ii) they offer the benefits that sales recruits want<sup>17</sup>. Sales managers and human resource executives should update their information on government employment regulations on a continuous basis. Examples are: Equal Pay Act of 1963 and Equal Employment Opportunity Act of 1972 in USA, and Equal Remuneration Act of 1976 in India.

### **Identifying the Sources of Recruiting Salespeople**

For identifying or locating prospective candidates, companies use internal and external sources. Internal recruitment sources come from inside the company. They include: (i) employee referral programs, (ii) current employees, and (iii) promotions and transfers. The external sources of recruitment include: (i) advertisements, (ii) the Internet, (iii) educational institutions, (iv) employment agencies, (v) other companies (competitors, customers, non-competitors), and (vi) job fairs.

#### **Internal Sources**

##### **Employee Referral Programs**

Basically a referral is a recommendation (or the action of referring) by one individual that another person can be hired for a position. The employee referral program includes the company employees referring or recommending known persons for hiring for sales positions. This is now one of the most popular methods of locating sales recruits because it is very effective, relatively quick, and less expensive compared to other recruiting methods like advertising and employment agencies. In the employee referral scheme (or program), many companies like Microsoft and Southwest Airlines have incentive schemes to give monetary rewards to employees who provide successful referrals. The successful referral means the person referred is hired and meets initial performance goals. Talent crunch across the sector is prompting both MNCs (multi-national companies) and Indian companies to turn to their employees to fill in vacancies, for a price. Existing salespeople and purchase executives within the company are good sources for referral programs in identifying prospective sales candidates. The major disadvantage of using the employee referral scheme is that the company may not get enough of them and therefore, the company uses other sources as well.

##### **Current Employees**

This is a source of job recruitment in two ways: (i) current employees can recommend friends and relatives to the company, and (ii) they also can be candidates by applying for the sales job<sup>18</sup>. Many organizations like to recruit within their own companies because (i) the cost of recruitment is less, (ii) it improves employee morale, and (iii) the management is able to evaluate the applicant's potential as a salesperson. For example, General Motors normally recruits from within the organization.

## **Promotions and Transfers**

Internal promotions and transfers generally result after the company announces sales job openings through newsletters, in meetings, or on the bulletin board. One study found that employees of the company who were internally transferred to the sales positions gave more long-term profits than salespersons from any other source. This is possible because these employees are already familiar with the company's products and policies. Internal promotions to sales managers' positions can minimize the company's time and cost.

## **External Sources**

### **Advertisements**

By advertising in newspapers and trade journals for sales jobs, a company can produce a large pool of applicants in a short time. Advertising is generally less expensive on a cost-per-applicant basis. However, a large number of applicants who respond to newspaper advertisements, may not be qualified for the job, due to below average quality of many applicants. A company can be more selective by advertising in trade publications or through the Internet instead of a daily newspaper. However, in case of trade magazines, lead time to place an advertisement in the next issue is much longer (typically 6 to 8 weeks) than in newspapers. To ensure an advertisement's effectiveness, the following points are useful:

- Add restrictions (like bachelor's degree) to avoid receiving too many unqualified applicants.
- Advertise on a Sunday for a classified advertisement.
- More information in the advertisement about job specifications helps in screening applicants
- When speed of response is important, use classified newspaper advertising or online advertising.
- Use business publications like Economic Times for recruiting persons with business experience.
- Focus on prospective candidates' needs and interests, instead of too much of the company information.
- Use the advertisement as a unique sales proposal to motivate candidates to reply.
- A recruitment advertisement must attract attention and have credibility.
- Provide phone, e-mail id, website, fax numbers, and mailing address.
- Answer enquiries immediately before they cool off.

The information usually included in recruitment advertisements are: (i) company name, (ii) product or service, (iii) territory, (iv) hiring qualifications, and (v) how to contact.

### **The Internet**

Many companies use their own websites to approach the applicants for various positions including sales. The advantages of this web-based recruiting are very low cost and time of getting applicants resumes. However, the company has to bear the cost of screening a large number of resumes to find the applicants who qualify for the sales position. Many companies use the Internet recruiting websites, such as [www.monster.com](http://www.monster.com), [www.naukri.com](http://www.naukri.com), [www.salesheads.com](http://www.salesheads.com), and [www.jobsearch.com](http://www.jobsearch.com). As a large number of job seekers accessing the Internet are college students, advertising on bulletin boards or in job banks will help in reaching the college market. Potential applicants can post their CVs on these sites so that firms can call them for interviews.

### **Educational Institutions**

Large companies such as Hindustan Unilever, Wipro, and ICICI Bank use colleges and universities as a popular source for sales recruits. Small firms are less likely to recruit in college campuses because many graduates prefer large and well-known companies, who have extensive training programs and company benefits. Some companies offer internship programs to college

students during vacation periods and students with good performance are offered jobs upon graduation. Companies not only find educational institutions as a cost effective source, but also that college students usually can be hired in shorter time and at lower salaries than experienced salespersons. Often companies searching for future managers, look at educational institutions for position of sales recruits. Recruiters have an important role in attracting students for sales jobs. In order to do an effective recruiting job, recruiters should focus on job satisfaction, salary, opportunities for job advancement, and company's financial stability. Campuses of educational institutions have placement centers which contact companies for recruitment.

### **Employment Agencies**

A commonly used source is the private employment agencies. They usually work from a job description provided by the human resource managers or sales managers. They can be asked to do initial screening of candidates. Private employment agencies have become human resource (HR) consultants. These agencies charge fees, usually ranging from 10 to 20 percent of the first year earnings of the person hired through the agency. The employer's cost for the employment agency's fees is offset by the savings in the advertising and initial screening tasks done by the agency. Professionalism of private employment agencies varies to a great extent, but there are good agencies who give useful services to companies by referring qualified candidates.

In India, the government has established employment exchanges in many cities. Unemployed persons register their names and submit their CVs to these exchanges. Companies collect candidates' details from the employment exchanges and call them for interviews.

### **Other Companies (Competitors, Customers, Non-Competitors)**

A salesperson recruited from a competitor knows the products and markets well, has selling experience, and requires little training. However, such a salesperson may ask high salary and it may be difficult for such a salesperson to make adjustments in the new organization. Besides, some sales managers consider the practice of hiring competitors' salesperson as unethical, as the salesperson may use confidential information of the former employer. Also, such salespeople may not show loyalty to the recruiting organization. However, if the applicant has sound reasons for switching companies, it may be a good decision to get the competitor's salesperson.

Customers' purchase executives have some knowledge of the abilities of salespeople who call on them. Hiring a good employee of a customer has disadvantages and this should be done, if it is a must, tactfully without losing the customer. Some companies welcome back former employees who have left.

Salesperson working for non-competing firms is another source, if they are selling similar or related products or selling to the same markets. These salespersons have selling experience and need relatively less training. A firm that hires from other company must find out why the applicant is interested in changing the job and why they want to work for the hiring firm. Although it is difficult to determine the real reasons, good sales managers should be able to form some ideas to arrive at effective decisions.

### **Job Fairs**

Many employers are brought at one location for recruiting with the arrangements of job fairs. Candidates visit the booths of the employers they are interested in. The employer may also ask a particular candidate for a meeting, based on the candidate's resume received earlier. Generally job fairs are held in the evening hours or on Sundays, so that presently employed salespeople can attend them. This problem will not arise for virtual job fairs on the Internet.

## Evaluation and Selection of Recruiting Sources

After identifying the sources of recruiting salespeople, a company selects those sources that are effective based on the past database. This database is built over a number of years, as per the evaluation format shown in Table 5.3. However, for a new company, selection of the recruiting source depends on its cost.

Recruiting Sources	Number of Recruits	Number Hired	Number Retained (After 2 years)	Percentage Retained (After 2 years)	Cost of Recruiting	Performance Rating (After 2 years)	Special Remarks (if any)
Employee Referral							
Current Employees							
Promotions and Transfers							
Advertisements							
The Internet							
Educational Institutions							
Employment Agencies							
Other companies							
(a) competitors							
(b) customers							
(c) non-competing firms							
Job Fairs							

The focus in the evaluation of recruiting sources is on three factors: (i) performance rating of the sales force (excellent, very good, average, and poor) at the end of the two years of working, (ii) percentage retained (after 2 years working with the organization), and (iii) the cost of recruiting, which should include the total cost of recruiting, including travel, hotel, proportionate salary, and so on. Once the data is built over a period of one year, it can be used for the subsequent years for selecting the most effective source of recruiting at the least cost. However, this data needs to be updated every year to ensure continuous improvement in the recruiting stage.

**Contacting Candidates** Once a company selects the sources of recruiting salespeople, contacting the candidates is done by human resource department.

## SELECTING THE SALES FORCE

Earlier in sales force staffing process in Figure 5.9, after the recruiting stage the selection stage was shown, consisting of the following two activities: First, the company should develop a procedure or process and tools for measuring applicants against the job specifications or qualifications that were developed in the planning stage. The second activity is to make the decision on selection. We shall first identify the major selection tools, which are used by companies for selecting salespeople.

### The Selection Process

The selection process consists of a number of steps through which applicants pass. These steps are like filters. At any of these steps, an applicant may be dropped from further consideration.

The major steps in the selection process are shown in Figure 5.12. The selection tools used by companies for selecting the salespeople are: (i) screening resumes, (ii) application blank, (iii) initial interview, (iv) intensive interview, (v) testing, (vi) reference check, and (vii) physical examination. These tools are placed on the steps in the selection process as shown in Figure 5.12.

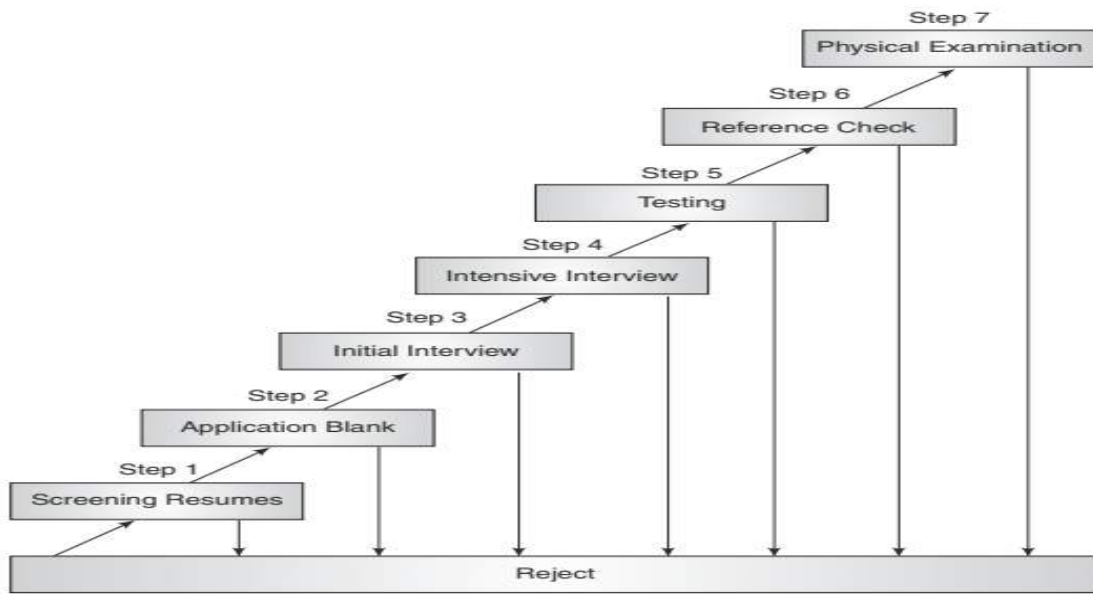


Fig. 5.12 Major Steps or Tools in Selection Process of Salespeople

Companies using multiple-step selection process differ in terms of the number of tools used and their order of inclusion. No matter which tool is used first—screening resumes, application blank, or initial interview—generally the least costly tool should be used first. Research on selection of tools/methods have shown that psychological tests have the highest predictive validity for evaluating an applicant’s future job performance. However, personal interviews, the most widely used selection tool, have the least predictive validity of job performance. The selection process and tools are only to help in sound executive judgment and are not substitute for it. Let us discuss the various selection tools.

### Screening Resumes

This tool is used when a company receives a large number of resumes, based on the recruitment sources like newspaper advertisements or campuses of educational institutions. To eliminate unqualified applicants, initial screening of resumes is done by the human resource or sales managers, based on comparison of the applicant’s curriculum vitae (CV) with job specifications (or qualifications) that was developed earlier in the planning stage. This tool need not be used, if initial screening of resumes was done earlier by human resource (HR) consultants or somebody else.

### Application Blank

It is one of the widely used selection tools. Application blank, which is also called formal application form, or personnel history record, is a convenient and methodical method of collecting relevant information from the applicant. The applicant may be asked to fill the application form/application blank. The relevant information in the application blank may include education, work experience (or employment history), physical and personal characteristics, membership of social and business organizations, positions held in organizations, records of earnings, reasons for leaving each previous job, hobbies and other interests. However, questions such as age, religion, or marital status should be asked only if such questions are in accordance with local laws and regulations.

The format of the application blank or application form differs from company to company. There are some advantages of using the application form as a selection tool. These are: (i) comparison of many applicants is made easy because the information of each candidate is presented in the same order, (ii) the interviewer asks questions to investigate closely the information such as job experiences and education given in the application blank during the interview sessions, (iii) the application blank can be designed to comply with the legal and regulatory requirements of the local government, and (iv) it gives relevant information required by the company, but not mentioned in the applicant's resume or curriculum vitae (CV).

### **Personal Interviews**

The purpose of a personal interview is to decide a person's fitness for a job. The interview takes place between a recruiter and an applicant to see if a match exists between what the company is offering the applicant and what the applicant is offering the company. Another purpose of interviewing is to get more information about the facts stated in the application blank. For instance, if an applicant has changed many jobs at short intervals and has stated the reasons for changing jobs as "better prospects", the recruiter may ask the applicant to explain what is meant by better prospects. Interviews are the most widely used selection tool. Studies have found that interviews can be good predictors of success in sales job because sales job requires skills similar to those on show in the interview<sup>21</sup>. However, in many cases, interviews are not as effective as they could be. This is because the interviewing process depends primarily on the behavior of the interviewer and many interviewers do not know how to interview an applicant effectively, and also how to interpret an applicant's responses. Many interviewers talk too much, listen too little, and ask wrong questions. Companies should, therefore, conduct workshops to improve interviewing skills at various levels of management. A properly conducted interview is a good predictor of the candidate's performance and should be used in the selection process. Some companies conduct interviews not only of the applicant, but also of the applicant's spouse. This is done to ensure that the spouse supports the away-from home life style of the salesperson.

### **Interview Structure**

Although sales managers agree that interviews have a great effect on the selection process, there is not much agreement on how structured the interview should be. The interview structure (or types of interviews) varies from the totally structured (patterned or guided) interviews at one end to the unstructured (non-directed or informal) interviews at the other end. The third type of interview is called semi-structured.

#### **Structured Interview**

Managers may use the structured interview for initial screening, but it is not suitable for getting an in-depth look at the candidate. In structured or guided interviews, all the applicants are asked the same questions and their responses are noted. This type of interviews are useful when one or several interviewers see different candidates and based on evaluation rank the candidates and also when many junior sales executives are involved in the selection process, but do not know what questions to ask. The structured interviews are criticized as being rigid. This is not always true, since some trained interviewers do make some changes without reducing the merit of the structured form.

#### **Unstructured (or Non-directed)**

Interview In this type of interview, generally the interviewer begins by asking a few open-ended questions like "tell me about yourself" or "tell me about your family". The interviewer gets

the applicant talking on subjects such as school and college activities, achievements in life, work experience, and so on. The interviewer does a very little talking (about 10 to 20 percent), adequate to keep the conversation moving forward. The basic concept is that the applicant's traits or characteristics are discovered if the applicant is encouraged to speak freely. It takes a highly skilled interviewer to use non-directed (or unstructured) type of interview effectively. Even applicants in many cases are not comfortable with this method of interviewing. Research has clearly shown that unstructured interview type is not accurate in predicting the job performance of salespeople. However, some human resource experts say that this interview technique produces insight into an applicant's attitudes, personality, and interests. The main disadvantage is that the company may face difficulty in getting a skilled interviewer.

### **Semi-structured Interview**

Many companies today use semi-structured interview type, which is somewhere between the structured and the unstructured type interview. This type of interview allows a two-way flow of information between the applicant and the interviewer. In most cases, only a few main questions are pre-planned and for the balance period of time, there is an adequate flexibility for the interviewer to move from general questions like economic environment to specific questions on product and selling process. Many companies use semi-structured interview type to pay particular attention to the applicant's behavior and the performance.

### **Behavior and Performance based Interviews**

Studies have found that these techniques of interviews are better predictors of subsequent success of applicants than other types of interviews. Behavior-based interviews are based on the theory that what a person has done in the past is indicative of what that person will do in future. The interviewer asks behavior-based questions to the applicant, such as "Give me an example of how did you overcome a customer objection" or "Tell me what closing techniques did you use in your previous selling job?" However, if the candidate did not have any previous selling experience, the questions are asked about intended behavior like how the applicant would behave in a job-related situation? The examples of these types of questions are: "How would you deal with a customer who is not sure about the benefits of your product, as compared with the other products in the market?" or "How would you convince a customer to buy your product, when the price of your product is higher than that of your competitor?" The basic concept is that salespeople's behavioral intentions are related to their subsequent behavior.

### **A Performance-based interview**

asks applicants to perform exercises simulating selling situations. For instance, the company gives applicants one of the products in advance for making presentation during the interview. These simulations of selling activities are useful in evaluating candidates based on their selling skills.

### **Initial Interviews**

These are used to clarify questions about applicants' job qualifications, such as graduation level grades or marks and type of products and services sold in previous jobs. The interviewer makes preliminary judgment whether a similarity exists between the job specifications and the applicant's characteristics. The purpose of initial interviewing is eliminating unqualified candidates. The candidate's questions about the company and the job are also answered. Some companies conduct initial interviewing by asking questions over the phone or using computer assisted interviewing. In the computer-assisted interview, for example, applicants are shown a video with three alternative scenarios for helping a customer and then applicants are asked to select the best one. The computer indicates applicants' strengths, weaknesses, and other areas that need

further investigation. The initial or preliminary small interview is short about 15–20 minutes. It can be handled by a junior human resource or district sales manager.

### **Intensive Interviews**

To get an in-depth view of the candidate, one or more intensive interviews are conducted. In many cases, intensive interviews include many managers conducting interviews in a particular order. To achieve depth and usefulness, when several managers conduct interviews in sequence, proper planning and co-ordination is required. In intensive interviews, many interviewers use semi-structured interview format that is based on the applicant's behavior and performance, as discussed earlier. However, a few interviewers use stress interview technique as a part of intensive interview.

### **Stress interview**

In this technique, the interviewer deliberately places the applicant under stress, to find how the applicant might cope with the stress when selling. For instance, the applicant may be handed an object such as a pen or mobile phone and asked to sell it to the interviewer. In some stress interviews, the interviewer may ask a number of rapid questions, even before the applicant could reply. This puts the applicant under stress. In another method of stress interview, the interviewer intentionally becomes aggressive, or rude in questioning to see the reaction of the applicant. This method of interviewing has been used in the past, but is not often used these days because the candidates get irritated and less interested in the job. Besides, there is a little correlation between how a person handles stress in an interview and stress on the job, as found in some studies.

### **Testing**

Many firms use tests as an additional means of improving their selection decisions. The purpose of testing is to decide whether applicants have certain traits or characteristics that lead to success in sales job. This results in improved performance and lower sales force turnover. Selected tests are designed to measure aptitude, intelligence, knowledge, personality and interest of salespeople.

Aptitude Tests measure a person's aptitude for selling, learning ability and social aptitude. Examples of aptitude tests are: (i) general sales aptitude test, (ii) sales aptitude checklist. Intelligence tests measure mental intelligence or intelligence quotient (IQ) which includes memory, inductive learning and word fluency. Examples are: (i) Wonderlic Personnel test, (ii) Otis test of mental ability. Knowledge Tests measure knowledge of applicants on subjects like marketing terms, product, and information technology (IT). Personality Tests measure traits or characteristics, such as extrovert, self-confidence, and empathy that are needed for a particular sales job. Some examples of these tests are: (i) Edwards Personal Preference Schedule (EPPS), (ii) Gorden Personal Profile. Interest tests measure the level of interest in a sales career. Examples are: (i) Kuder Occupational Interest Survey, (ii) Strong-Campbell Interest Inventory.

Those companies who have had success with tests suggest that tests are useful for identifying a candidate's strengths and weaknesses. In addition, tests reveal candidates who have key traits that are connected with successful salespersons<sup>24</sup>. The main problem with testing is that tests are sometimes misused because managers do not understand that all applicants who fall within a range of scores are equally qualified for the job. Many sales managers use tests due to the requirement of their headquarter office.

Another problem to look out for in testing is that few applicants can fake their responses, particularly for personality tests. Tests must have reliability (i.e. consistency of test results) and validity (i.e. the test measures what it claims to measure) otherwise they cannot be used successfully. One more issue is that tests are sometimes used as the sole deciding factor. If an

applicant has done well in interviews and reference checks, but his test scores are low, management may not hire this person.

Tests can be useful selection tools, if the following suggestions are followed:

- Sales managers should not attempt to design tests. This responsibility should be given to human resource department and experts in testing.
- Use tests as a part of selection process, but do not make hiring decision based only on test results.
- If psychological tests (including personality and intelligence tests) are used, be sure to meet legal aspects of testing.
- Select a test that minimizes the applicants' ability to anticipate desired responses.
- Tests can identify areas for further close investigation, if they are administered and interpreted before final intensive interview.

Companies like Gillette, Proctor & Gamble, and IBM give high weights (importance) to test scores in their overall selection process.

### **Reference Check**

The applicants who have successfully come out of screening resumes, application blank, interviews, and testing, may then become the subjects of a reference check, or background investigation. Referees are the names of persons from whom information can be obtained on an applicant's ability and character. In conducting reference checks or background investigation, it is advisable to request job-related information only.

A company may check an applicant's references by e-mail, letter, telephone, or personal visit. Each method has some limitations. A personal visit may take too much time when a reference is located at a distance. Some references do not give any information to a stranger on telephone. A letter or e-mail is, therefore, used, but it has a problem. The problem is that most firms are very cautious about giving out meaningful information in writing about former employees. This is because of fear of being sued for defamation or a company policy of limiting the information of past employees. In spite of these limitations, a reference check makes sure the true identity of an applicant and may confirm his employment history.

Most candidates list as references only those persons who are certain to give them a positive reference. In order to get a more unbiased information of the candidate, a company can ask reference names of other people (not listed by the applicant) who would be familiar with the applicant's work, such as the candidate's former employers, former customers, and past teachers. Questions that could be asked to a previous customer are: "Was the person efficient and dependable?" or "How would you rank this person compared to other salespeople who call on you?" When talking with an applicant's previous employer, questions that could be asked are: "Would you rehire this person, if there is a possibility?" or "Why did the applicant leave?"

**Background investigations** are also carried out by some investigating agencies, which specialize in pre-employment investigative interviews with former employers, and co-workers of applicants. Reference checks or background investigations are very important because some applicants tell lies about their past job responsibilities, past salaries, and educational records.

### **Physical Examination**

Most companies want their prospective employees to undergo physical examinations because good health is important to a sales person's success. The objective is to find any physical problem that may prevent the job performance of an applicant. A company should have a policy

about drug testing and drug use for its sales people and its sales managers. If a drug testing program is in place in an organization, all applicants are required to be tested. Sometimes, the costs of physical examinations and medical tests are high and therefore, they are given towards the end of the selection process. However, increasing number of companies is asking applicants to complete the forms dealing with their health without seeing a medical doctor.

### **Assessment Centers**

These are centralized units established within companies to evaluate qualified applicants in all aspects. Some companies use assessment centers as a tool of selection process. These centers are setup to conduct simulated exercises, such as role-playing, business games, case analysis, and individual presentation for the purposes of not only selection, but also promotion or development. Participants' performance is evaluated by trained executives within the company or outside experts.

Although the costs of assessment centers are somewhat high, the quality of people selected through assessment centers go up substantially<sup>25</sup>. Increasing number of companies, such as Wipro, Infosys, Ford Motor Company, and Indian Oil Corporation have set up assessment centers.

### **Selection Decision**

When all the steps of the selection process have been completed, one thing is yet to be completed and that is selection decision—which applicants are to be selected? For making a selection decision, the sales manager should decide the important job specifications which are necessary for performing the duties of the sales job. When selecting the salespersons for rural markets in India, the company should decide the selection criteria, such as willingness to work in rural areas, knowledge of local language, and cultural congruence to adapt to rural environment and ethos. These criteria are different for urban markets<sup>26</sup>. The sales manager should then evaluate each applicant's qualifications and potential in relation to the selection criteria. Sometimes the sales manager has to decide about whether an applicant's strength in one selection criterion can compensate for a weakness in another criterion, whether the applicant should meet certain minimum levels against each criterion, so as to be successful. After evaluating the available candidates, the company makes a list of the candidates according to the preference.

## 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	<ul style="list-style-type: none"> <li>• Enter export markets</li> </ul>	<ul style="list-style-type: none"> <li>• Identify the countries and the distributors</li> <li>• Sign sales agreements with the distributors</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing or sales head to get relevant market information to decide selection of countries and the distributors</li> <li>• Negotiate and sign agreements in 3–5 months</li> </ul>
	<ul style="list-style-type: none"> <li>• Penetrate the existing domestic markets</li> </ul>	<ul style="list-style-type: none"> <li>• Review and improve sales force training, motivation and sales incentives</li> <li>• Ensure all market segments are covered</li> </ul>	<ul style="list-style-type: none"> <li>• Train each salesperson in his deficient or weak areas</li> <li>• Effective supervision by field sales managers</li> <li>• Link sales force incentives to segment-wise sales targets</li> </ul>
Reduce selling expenses by 5 percent	<ul style="list-style-type: none"> <li>• Utilize existing sales force resource optimally</li> <li>• Use effective and efficient channels</li> </ul>	<ul style="list-style-type: none"> <li>• Use 'ABC Analysis' technique for customer visit plans and tele-marketing for prospective customers</li> <li>• Use Internet (online) selling and telemarketing, in addition to company sales force and intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>• Focus company sales force selling to A class, (high potential) customers to increase its business share</li> <li>• B and C class customers to be served by agents, dealers, telemarketing, and online selling</li> </ul>

**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.<sup>10</sup> 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

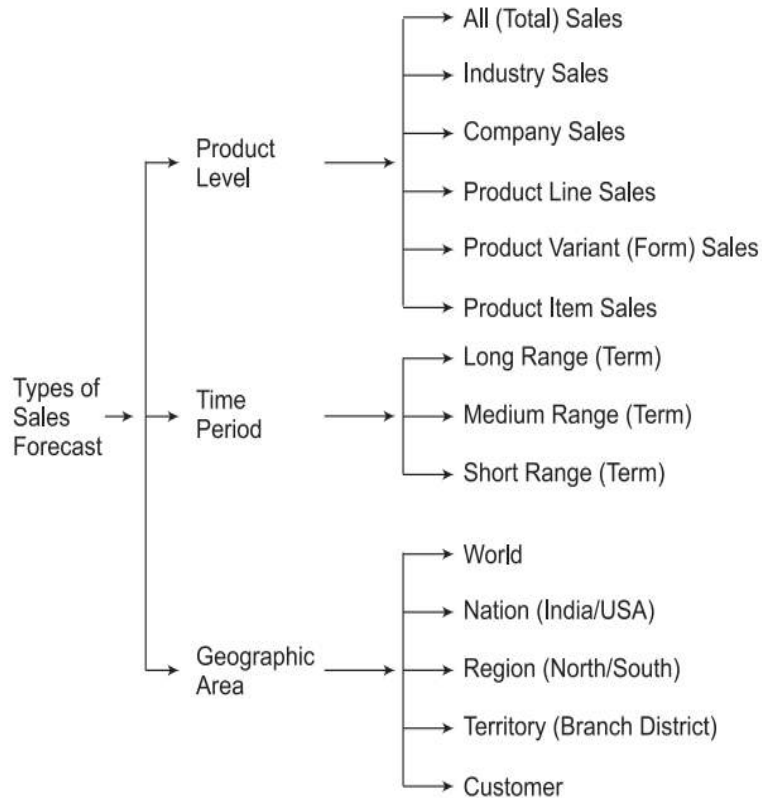


Figure 3.4 shows 90 different types (i.e.  $6 \times 3 \times 5$ ) of sales (or demand) forecast that can be made based on six different product levels, three separate time periods and five different geographical areas. It is, therefore, important that sales managers should specify the product level, 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).

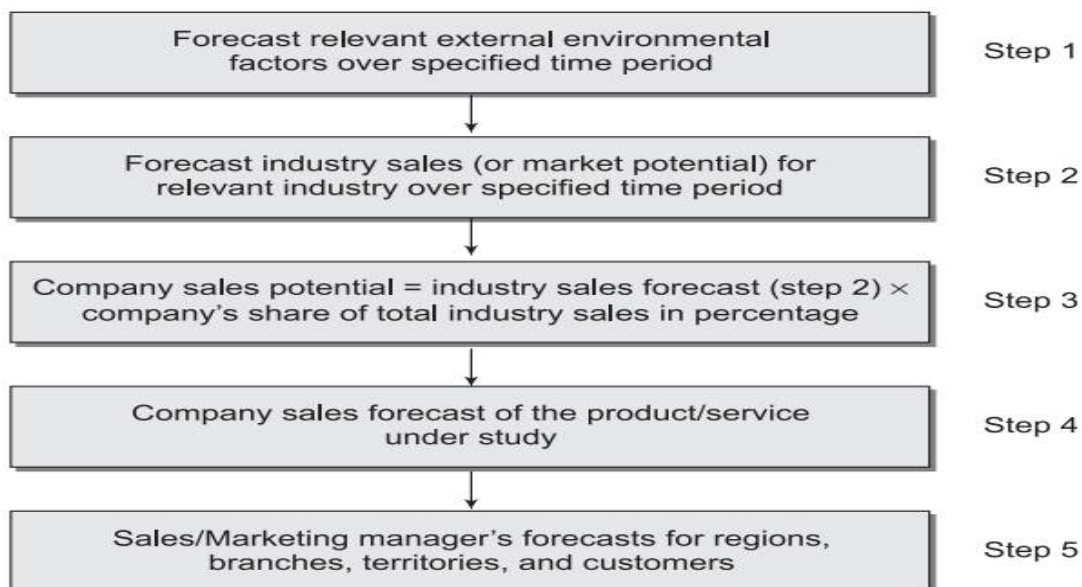
Sales potential and sales forecast are usually not the same. Sales potential is what a company would achieve under ideal conditions. Typically, the sales forecast is less than the sales potential, for different reasons, such as limited production facilities and/or inadequate financial resources.

**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.

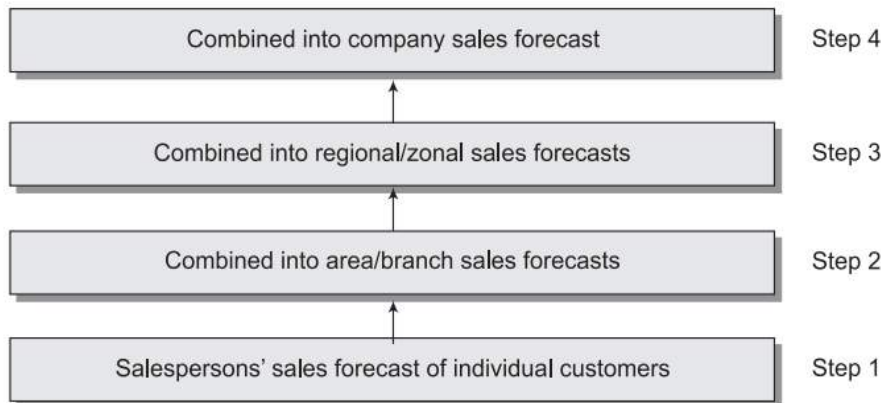
### **Multiple-Factor Index Method**

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**

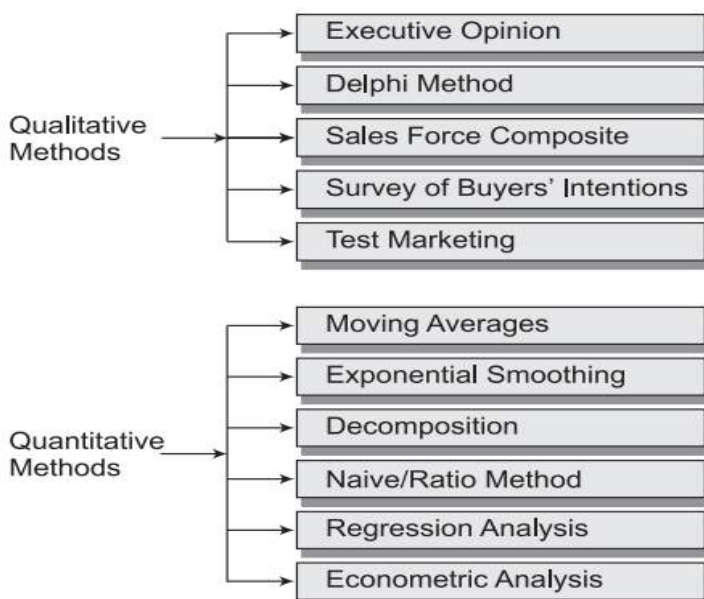
Bottom-up or build-up approach starts with the company's area or branch managers asking their salespersons to estimate or forecast the sales for individual customers in their respective territories, as shown in Figure 3.6. Salespersons are given guidance by their respective

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:  $\text{Sales}_{t+1} = 1/n (\text{sales}_t + \text{sales}_{t-1} + \dots + \text{sales}_{t-n})$  where,  $\text{sales}_{t+1}$  is the sales forecast for the next period,  $\text{sales}_t$  is the sales in the present period,  $\text{sales}_{t-1}$  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 [lookup](#) we can combine the two sheets by transferring the columns that we deem meaningful.

**Sales Data Breakdown per Invoice**  
Magnimetrics

in EUR

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	Alibox	Foreign	CN	China
9,009	C000-01253	Truck	1	So0000-A9445371	G0005578	6/18/2014	2014	6	Alibox	Foreign	CN	China
-	C000-01253	TNT	20	So0010-A3375046	G0005711	7/31/2014	2014	7	Alibox	Foreign	CN	China
133,039	C000-01253	Truck	332	So0010-A8481054	G0005930	12/1/2014	2014	12	Alibox	Foreign	CN	China
8,820	C000-01253	Truck	1	So0010-A8481054	G0005931	12/1/2014	2014	12	Alibox	Foreign	CN	China
163,485	C000-01253	Truck	350	So0010-A8481054	G0007226	11/6/2015	2015	11	Alibox	Foreign	CN	China
7,980	C000-01253	Truck	1	So0030-A8248408	G0007227	11/6/2015	2015	11	Alibox	Foreign	CN	China
6,867	C000-01253	Truck	31	So0030-A8248408	G0007270	11/24/2015	2015	11	Alibox	Foreign	CN	China
1,302	C000-01253	Truck	1	So0030-A8248408	G0007271	11/24/2015	2015	11	Alibox	Foreign	CN	China
45,087	C000-01253	Truck	51	So0040-A5826116	G0007783	3/18/2016	2016	3	Alibox	Foreign	CN	China
(45,087)	C000-01253	Truck	(51)	So0040-A7391711	G0007783	3/18/2016	2016	3	Alibox	Foreign	CN	China
52,353	C000-01253	Truck	51	So0040-A7404269	G0007783	3/18/2016	2016	3	Alibox	Foreign	CN	China
3,465	C000-01253	Truck	1	So0040-A5826116	G0007784	3/18/2016	2016	3	Alibox	Foreign	CN	China
97	C000-01253	TNT	1	So0060-A7479918	G0009287	11/28/2016	2016	11	Alibox	Foreign	CN	China
105	C000-01253	TNT	1	So0060-A7479918	G0009288	11/28/2016	2016	11	Alibox	Foreign	CN	China
97,549	C000-01253	Truck	217	So0060-A9052157	G0009556	2/14/2017	2017	2	Alibox	Foreign	CN	China
3,780	C000-01253	Truck	1	So0060-A9449274	G0009557	2/14/2017	2017	2	Alibox	Foreign	CN	China
140,665	C000-01253	Truck	332	So0090-A3752656	G0011580	12/11/2017	2017	12	Alibox	Foreign	CN	China
8,736	C000-01253	Truck	1	So0090-A3752656	G0011581	12/11/2017	2017	12	Alibox	Foreign	CN	China
-	C000-01253	UPS	8	So0100-A2244307	G0012256	4/10/2018	2018	4	Alibox	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
164,116	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-A3689021	G0005137	3/6/2014	2014	3	Ainyx	Foreign	ID	Indonesia
136,080	C000-05890	Truck	540	So0000-A3689021	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	662	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	2014	2015	2016	2017	2018
Foreign		79,507,281	119,668,988	138,051,000	136,094,722	157,228,476
Related Parties		13,180,480	10,714,025	4,181,610	4,732,280	2,840,741
Grand Total		92,687,761	130,383,013	142,232,610	140,827,002	160,069,217

Sum of Amount	Column Labels	2014	2015	2016	2017	2018
Row Labels		2014	2015	2016	2017	2018
Client pick-up		22,033,206	30,069,074	9,987,819	6,840,466	8,829,183
Container		1,240,096	10,532,116	10,309,059	535,980	3,576,300
DHL		10,740	12,051	32,747	3,891	
Railroad			20,566	98,728	75,365	
TNT		26,850	123,282	87,541	0,950	26,410
Truck		69,389,172	88,827,575	121,835,080	113,399,869	147,229,312
UPS		7,199	6,862	(2,385)	111,713	126,559
Grand Total		92,687,761	130,383,013	142,232,610	140,827,002	160,069,217

Sum of Amount	Column Labels	2014	2015	2016	2017	2018
Row Labels		2014	2015	2016	2017	2018
Aland Islands			16,005	-	798	85
Albania		2,700		147	3,004	30,021
American Samoa						
Angola		59,400				
Argentina		3,363,540	6,927,719	3,359,495	4,486,675	1,544,939
Armenia			2,894			
Australia		676		281,946	69,958	147
Azerbaijan				242,260		
Belarus		664,017	514,044	5,040	12,835	12,096
Bhutan						
Bolivia		1,113				
Bosnia and Herzegovina			3,730	161,570		40,177

China	2014	2015	2016	2017	2018	Total
China	17,090,009	26,800,304	20,602,239	13,615,433	16,253,130	96,231,076
Taiwan	10,000,377	20,992,517	16,154,541	20,301,281	13,417,240	80,741,000
Mexico	16,171,467	20,572,343	13,696,882	10,671,936	14,344,023	74,766,460
Brazil	145,271	2,536,201	10,024,277	20,790,005	21,901,979	60,411,414
INDONESIA	9,703,227	9,603,656	10,633,830	5,290,008	6,941,189	41,387,340
Indonesia	7,063,267	8,522,717	7,274,854	1,083,449	15,838,404	39,762,692
Japan	678,729	1,540,279	8,254,606	9,646,383	7,673,667	28,210,563
United States	3,206,486	2,142,232	13,122,243	3,118,331	2,957,336	25,056,632
Malaysia	435,844	1,623,553	2,685,642	4,288,531	13,623,870	22,667,346
Portugal	3,515,729	2,523,680	3,107,710	32,006	11,402,119	20,752,650
Argentina	3,363,540	6,927,719	3,359,495	4,486,675	1,544,939	19,662,337
Cambodia	1,656,801	2,543,976	3,910,006	3,700,306	4,265,330	16,176,460

**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
<b>For Salesperson: Srinivas</b>					
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
	<b>Total Point Score = <math>\frac{615}{6} = 102.5</math></b>				
<b>For Salesperson: Pradeep</b>					
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
	<b>Total Point Score = <math>\frac{570}{6} = 95</math></b>				

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 ( $13.50b \times 0.015$ ). Further considering the company's estimated market share of 20 percent, the sales volume quota for Mumbai's salespersons would be `40.50 million ( $202.5 \times 0.20$ ).

### **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 high<sup>20</sup>. 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	<ul style="list-style-type: none"> <li>• Enter export markets</li> </ul>	<ul style="list-style-type: none"> <li>• Identify the countries and the distributors</li> <li>• Sign sales agreements with the distributors</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing or sales head to get relevant market information to decide selection of countries and the distributors</li> <li>• Negotiate and sign agreements in 3–5 months</li> </ul>
	<ul style="list-style-type: none"> <li>• Penetrate the existing domestic markets</li> </ul>	<ul style="list-style-type: none"> <li>• Review and improve sales force training, motivation and sales incentives</li> <li>• Ensure all market segments are covered</li> </ul>	<ul style="list-style-type: none"> <li>• Train each salesperson in his deficient or weak areas</li> <li>• Effective supervision by field sales managers</li> <li>• Link sales force incentives to segment-wise sales targets</li> </ul>
Reduce selling expenses by 5 percent	<ul style="list-style-type: none"> <li>• Utilize existing sales force resource optimally</li> <li>• Use effective and efficient channels</li> </ul>	<ul style="list-style-type: none"> <li>• Use 'ABC Analysis' technique for customer visit plans and tele-marketing for prospective customers</li> <li>• Use Internet (online) selling and telemarketing, in addition to company sales force and intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>• Focus company sales force selling to A class, (high potential) customers to increase its business share</li> <li>• B and C class customers to be served by agents, dealers, telemarketing, and online selling</li> </ul>

### 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.

## EVALUATING AND CONTROLLING THE PERFORMANCE OF SALESPEOPLE

One of the most important responsibilities of sales managers is to evaluate the performance of their salespeople. However, performance evaluation process is time consuming. It is also a difficult process, particularly for the sales manager who has to tell poor-performing salespersons how and why their performance is not up to the expectations. We shall first look at the purposes or objectives of evaluating the sales force performance, and thereafter, discuss the procedure and different methods of sales force evaluation.

### Purposes of Sales Force Performance Evaluation and Control

The basic objective of the performance evaluation of salespersons is to determine how these salespersons have performed. The outcome of sales force performance review can be used for other sales force management purposes such as to:

- Improve the salesperson's performance.
- Decide the appropriate increment in pay and incentive payment based on the actual performance of the salesperson.
- Identify the salespeople who may be promoted.
- Determine the training needs of the individual salesperson and the entire sales force.
- Identify the salespersons whose services may be terminated, after giving adequate chances for improvement.
- Motivate salespeople through adequate recognition and reward for good performance.
- Find out their strengths and weaknesses.

The salesperson's performance appraisal should be carefully developed and implemented in order to make available information needed for several purposes mentioned above. For example, if the purpose of performance evaluation is to identify salespersons for promotion to the first level of sales management positions (such as district or branch sales managers), then the performance evaluation should focus on those criteria that are relevant to the effectiveness as a sales manager. This should be done in addition to the current performance as a salesperson. The same points that are mentioned above are also applicable when we talk about the importance and the objectives of performance evaluation of salespeople.

### Procedure for Evaluating and Controlling Sales force Performance

The steps involved in the procedure or system of sales force evaluation and control are presented in Figure.



## **Step 1 Set policies on performance evaluation and control**

Before evaluating the performance, the company management should establish the basic policies. Several studies have generated information on general policies followed by most sales organizations.

Some of these policies are as follows:

### **Frequency of Evaluation**

Some sales organizations evaluate salespeople's performance once a year, although most firms conduct evaluations six-monthly or quarterly. Quarterly performance reviews help in frequent communications and performance improvement. For instance, IBM India has abolished the company's previous yearly appraisal assessment methodology. In the new checkpoint appraisal system, employees will be subjected to four yearly reviews, replacing the previous system of one annual review.

### **Who Conducts Evaluation?**

Most salespersons' performance evaluations are conducted by the field sales manager (that is, a district or branch manager) who supervises the salespersons. In some firms, in addition, the manager above the field sales manager is also involved in the salesperson's performance evaluation.

### **Assessment Techniques**

Increasing number of companies are using a popular assessment technique, known as 360-degree feedback, involving multiple raters, including first level sales managers, internal and external customers, team members (in team selling situations), and salespeople themselves. In other words, it involves getting evaluative feedback from an employee, his or her peers, subordinates, superiors, and customers. It is particularly effective in team selling situations. Advantages of this method are that it helps to understand customers' needs, improve performance and discover obstacles to success.

### **Management by Objectives (MBO)**

In some companies, the sales manager and the salesperson discuss and agree on the salesperson's specific objectives or goals. They also develop an action plan, based on the sales strategy, for the achievement of the objectives or performance standards. Involvement of salespeople in setting their performance standards or quotas increases their commitment and responsibility. The sales manager and the salesperson review actual performance against objectives periodically and take corrective actions, if needed. This method is very common and comprehensive for setting goals or performance standards for salespeople. Setting the right objectives or performance standards is important for the success of the MBO method.

### **Sources of Information**

Most firms use several sources of information for evaluating the salespersons' performance. The most important source is sales report, which includes work plans (or call plans), call reports, expense reports, new business reports, lost business reports, local business, and economic condition reports. In addition, field sales managers' calls, prospect and customer files, customer letters and complaints, customer surveys, and company records are some of the common sources of information. Today many companies use computers for collecting, analyzing, and reporting information that is useful for evaluation. Some other policies, such as bases of evaluation and review of sales force performance will be covered when we discuss step 2 and step 5 respectively of Figure

## **Step 2 – Decide Bases of Salespeople's Performance Evaluation**

Before deciding on bases or criteria for performance evaluation of salespeople, a sales organization should decide whether it will give importance to: (i) outcome (or results) based viewpoint, (ii) behavior (or activity/effort) based viewpoint, or (iii) both outcome and behavior-based measures, when evaluating salespeople's performance. Once this general category, out of the three alternatives, is selected, the company can then select the specific criteria or bases for evaluating salespeople.

### **Outcome/Result-Based Viewpoint**

This perspective concentrates on the salesperson's results with little direction or supervision by the sales manager. Outcome or output bases use quantitative criteria, and therefore, they minimize biases and subjectivity of evaluators. They are also relatively easy to measure. Examples are: sales volume achieved and number of orders received.

However, since this viewpoint considers "results only", it may not give an equal base to compare the performance of one salesperson with that of another salesperson. This is because the salesperson who is assigned a high sales potential territory can achieve the sales goals or quotas easily, compared to another salesperson whose territory sales potential is average or low and therefore, finds it difficult to achieve the sales quotas. Another reason may be the difference in competitors' efforts in different territories. Due to such uncontrollable factors, salespersons' results-based performance may get affected.

### **Behavior/Activity/Effort-Based Viewpoint**

This perspective focuses on the salesperson's behavior and characteristics, with substantial direction and supervision of the first level sales manager. It uses both quantitative criteria (like number of calls made per day) and qualitative criteria (like product knowledge and customer relations) for evaluating the salesperson's performance. The likely consequences of giving more importance to behavior-based (as compared to outcome-based) viewpoint are mentioned below with reference to the findings of a study:

- The salespeople will be more customer-oriented, team-oriented, and professionally competent.
- The salespeople will be more committed to the company.
- The salespeople are more likely to accept authority, participate in decision-making, and welcome management performance reviews.
- The more innovative and supportive the culture is likely to be.
- The salespeople will perform better on both selling and non-selling activities.
- The salespeople will perform better on outcome performance criteria (like achieving sales volume quotas).
- The sales organization will perform better on sales organization effectiveness criteria (such as, sales volume, profitability, and customer satisfaction).
- The salespeople's job satisfaction will be greater.

The above-mentioned findings give strong support for inclusion of some behavior-based criteria. If these are not included and only outcome or result-based criteria are considered, as done by some sales organizations, then salespeople may focus on short-term results (like sales volume) and long-term objectives (like customer relationships) may suffer.

### **Both Outcome-Based and Behavior-Based Viewpoints**

One logical conclusion from this discussion is that sales organizations should use both outcome-based and behavior-based criteria when evaluating performance of salespeople. The research mentioned earlier, points out that some companies use a hybrid approach (of using both outcome-based and behavior based viewpoints) for controlling the sales force. The hybrid approach has given importance to quantitative results, attitudes, efforts (or activities), and supervision. Another research by the same researchers has shown that an evaluation system that gives importance to the behavior criteria more than the outcome or results criteria, has many positive effects on the salesperson's overall performance.

### **Criteria/Bases for Salespeople's Performance Evaluation**

For a comprehensive evaluation of salespeople's performance, companies should use as many bases as possible. In other words, companies should use multiple criteria, as the typical salesperson's job is multidimensional. Salespeople usually sell various products or services to several customers and carry out many selling and non-selling activities.

Although specific bases or criteria for salespeople's performance evaluation for a company depend upon the company's viewpoint on performance evaluation and the selling situation, the

selection is made from a list of: (i) quantitative result bases, (ii) quantitative behavioral bases, and (iii) qualitative behavioral/activity bases, shown in Table 7.10. Whichever bases a company may choose from this list, it is important that the company communicates the same to salespeople in the beginning of the financial year, so that they know and understand the bases or criteria for achieving the expected performance.

**Table: Criteria/Bases for Salespeople’s Performance Evaluation**

Quantitative Result/Output Criteria/Bases	Quantitative Behavioural/Activity Criteria/Bases	Qualitative Behavioural/Effort/Activity Criteria/Bases
<ul style="list-style-type: none"> <li>• <b>Sales volume</b> <ul style="list-style-type: none"> <li>(a) In value (Rupees/Dollars)</li> <li>(b) In units (numbers, tonnes)</li> <li>(c) To previous year’s sales</li> <li>(d) As a percentage of quota and market potential (market share)</li> <li>(e) By products and customer groups</li> </ul> </li> <li>• <b>Accounts (Customers)</b> <ul style="list-style-type: none"> <li>(a) Number of new accounts</li> <li>(b) Number of lost accounts</li> </ul> </li> <li>• <b>Orders</b> <ul style="list-style-type: none"> <li>(a) Orders are divided by calls</li> <li>(b) Sales are divided by orders</li> </ul> </li> <li>• <b>Profit margin by products, Customer groups</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer calls</b> <ul style="list-style-type: none"> <li>(a) Number of customer calls</li> <li>(b) Number of calls per day</li> <li>(c) Number of calls per customer</li> </ul> </li> <li>• <b>Nonselling Activities</b> <ul style="list-style-type: none"> <li>(a) Number of reports sent</li> <li>(b) Number of days worked</li> <li>(c) Selling and nonselling time</li> <li>(d) Number of customer complaints</li> <li>(e) E-mails/letters to prospects</li> <li>(f) Dealer meetings held</li> <li>(g) Service calls made</li> <li>(h) Overdue payments collected</li> </ul> </li> <li>• <b>Direct selling expense</b> <ul style="list-style-type: none"> <li>(a) as a percentage of sales</li> <li>(b) as a percentage of quota</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Personal efforts/skills</b> <ul style="list-style-type: none"> <li>(a) Communication skills</li> <li>(b) Selling skills</li> <li>(c) Team player</li> <li>(d) Time management</li> <li>(e) Planning ability</li> </ul> </li> <li>• <b>Knowledge</b> <ul style="list-style-type: none"> <li>(a) Product</li> <li>(b) Competition and customers</li> <li>(c) Pricing</li> <li>(d) Company policies</li> </ul> </li> <li>• <b>Customer relation/goodwill generation</b></li> <li>• <b>Personality and attitudes</b> <ul style="list-style-type: none"> <li>(a) Cooperation</li> <li>(b) Enthusiasm, Resourcefulness</li> <li>(c) Initiative and aggressiveness</li> <li>(d) Punctuality</li> </ul> </li> <li>• <b>Appearance and health</b></li> </ul>

**Step 3 – Establish Performance Standards**

Performance standards are generally called sales quotas, which we discussed earlier in Chapter 4. Some companies call them as sales objectives, sales goals or sales targets. Setting performance standards is a difficult, but an important task. Salespeople’s actual performance is measured against the performance standards.

Performance standards for quantitative output or results have a close relationship with the company’s sales forecast or sales budget and quotas for territories, regions, branches, products, and salespeople. This is because the sales quotas are derived from the company’s sales budget, which depends on the company’s sales forecast. As said earlier, performance standards are same as sales quotas. However, performance standards for qualitative and quantitative behavioral or activity criteria are difficult to set. For this, companies either carry out “time and duty analysis” of sales jobs or use executive judgment.

Sales managers must ensure that performance standards are fair and reasonable. They should not be too high or too low. If these guidelines are not followed then salespeople will not be motivated and it will have harmful effect on the sales performance. After the standards of performance are established, it is equally important to communicate the same to the salespeople. This will remove misunderstandings about the performance standards against which the actual performance of salespersons is compared.

**Step 4 – Compare Actual Performance with Standards**

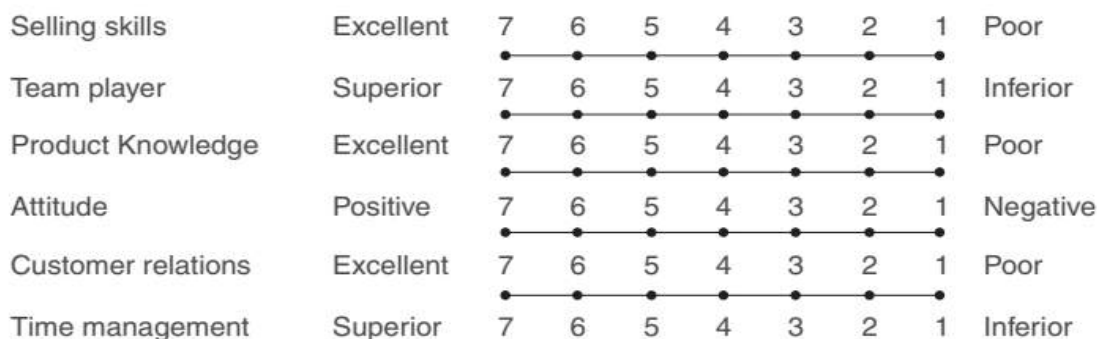
In this step, the individual salesperson’s actual performance is measured and then compared with the predetermined performance standards. Sales managers can use different methods for measuring the performance of salespeople. Periodically, sales managers are required to evaluate the performance of each salesperson in a permanent record for the benefit of the salesperson in tracking his progress and also for review by other sales and marketing managers. For this, various types of rating forms or evaluation methods are used.

**Performance Evaluation Methods** Companies use different forms or methods for evaluating salespeople. Some of the commonly used forms are:

(i) graphic rating, (ii) ranking, (iii) behaviorally anchored rating scale (BARS), (iv) management by objectives (MBO), and (v) descriptive statements. Sales managers are supplied with these evaluation or appraisal forms for evaluating each salesperson. No one method or form provides a perfect evaluation. Therefore, it is necessary to understand the strengths and weaknesses of each method so that some of these methods can be combined to produce an effective evaluation system for a sales organization.

(i) **Graphic Rating** This method is most commonly used in sales organizations. It is particularly useful in evaluating salespeople’s qualitative behavioral or efforts related criteria. A semantic differential type of graphic rating scale uses opposite adjectives on a five or seven point scale. Numerical values are assigned to each level and the manager can check any one of them. The example in Figure 7.6 presents several qualitative behavioral criteria used for evaluating the salespeople. After the sales manager checks level of all performance criteria, individual scores are totalled to arrive at an overall performance evaluation score for each salesperson. Graphic rating scale has many positive characteristics, such as comparability (that is, it is possible to compare results of individual salespeople), job relatedness (that is, it can be designed to meet the needs of each sales organization), practicality (that is, it is easy to understand and implement in a short time), and standardization (that is, measurement instrument and evaluation process are similar throughout the sales organization).

The reliability and the validity of this scale should be checked or assessed continually. The main disadvantage of this method is that it is not capable of detecting differences adequately in performance of individual salespeople or among the performances on different criteria for the same salesperson. For instance, some sales managers are lenient in their evaluation, and may give all salespeople ratings around the average or around the higher level. Also, some managers are subject to a “halo effect”, which means their evaluation on one criterion affect their ratings on other criteria. The advantages of graphic rating scale clearly exceed the disadvantages. However, care should be taken to reduce the biases of sales managers.



**Fig. 7.6 Example of Graphic Rating Scales**

(ii) **Ranking** This method ranks all salespeople according to the relative performance on a performance criterion. The advantages of ranking method are that it forces discrimination in performance of salespeople on each criterion, and provides a standardized approach to evaluation. However, it has many disadvantages. It is not useful for decision-making. It has less practicality and it is difficult to assess differences between ranks. Besides, information obtained from graphic rating scale can be transformed into rankings, but ranking data cannot be translated into graphic rating scale. Ranking method is therefore suggested only as an addition to other evaluation methods. For example, in G.E, sales managers are required to state the top 20 percent and bottom 10 percent of salespeople. The top salespersons get bonuses but the bottom salespeople are dismissed.

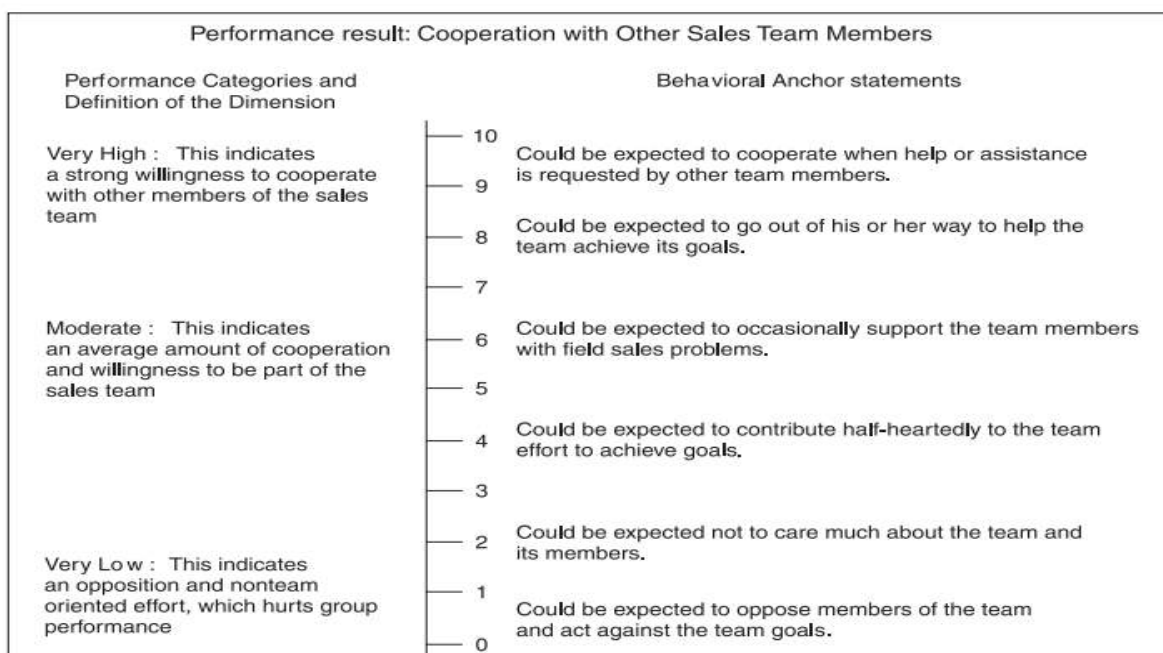
(iii) **Behaviorally Anchored Rating Scales (BARS)** Also referred as behavioral expectation scales, this method links salesperson’s behavior with specific results, as shown in the Figure 7.7. This method is a repetitive process and allows different sales managers to arrive at more consistent

and objective evaluations, since the rating scales have similar interpretations. Constructing a sales-oriented BARS include four steps:

- **Identify Decisive Events:** Some sales managers, salespeople, and customers are asked to describe specific events of effective and ineffective sales performance behavior. When any of the above persons identify decisive events, the person is asked to give an actual example. These decisive events are then condensed into a smaller number of performance categories

- **Improve Decisive Events into Behavioral Anchor Statements:** The sales managers and salespeople who are developing this system improve the decisive events into a still smaller set of behavioral statements of seven to twelve, which are described in general terms. The behavioral statements are then given to another well-informed group of salespeople, who are asked to assign an appropriate performance dimension to the behavioral anchor statements. A behavioral statement is usually retained for the final BARS if 60 percent or more of the second sales group assigns it to the same performance dimension as the first group did.

- **Rate the Effectiveness of the Behavioral Statements:** The second group of salespeople is asked to rate the behavior statements as to how accurately they describe the performance dimension.



**Fig. 7.7 Example of Behaviourally Anchored Rating Scales (BARS)**

- **Select the Behavioral Anchor Statements for the Performance Dimension:** Finally, five to seven behavioral anchor statements are selected for performance dimensions with vertical scales. Generally, a proper BARS takes time to develop over a period of time.

In the example in Figure 7.7, six behavioral anchor statements have been assigned numbers on a 10-point rating scale to show the linkages between behavior and the results. BARS can be used to evaluate individual salespersons. The main advantage of this method is on job relatedness, as a given selling situation relates directly to the job of salespeople. It gives the salesperson specific direction for improvement, such as what is expected from him to achieve a high rating. It also makes the sales manager free from performance evaluation worry. BARS method is more logical and reliable. It also reduces rating mistakes.

**(iv) Management by objectives (MBO)**

The most common and comprehensive goal setting and results-based evaluation method is the MBO method, which is discussed briefly earlier in this chapter. Steps followed in a typical MBO method are as follows: (i) the sales manager and the salesperson discuss and set specific objectives or sales quotas for the salesperson for a specific time period, (ii) they also prepare an action plan for the achievement of the objectives, (iii) they review actual performance periodically against the stated objectives, sales quotas, or performance standards and take corrective actions.

MBO should include a procedure for setting objectives or quotas, particularly keeping in view the various criteria or bases presented in Table 7.11. This ensures that objectives include quantitative result-based and quantitative behavioral-based criteria. The individual sales quotas (or performance standards) can be assigned weights to show their relative importance. These can be combined to produce an overall index, as shown in an example in Table 7.11. The example illustrates the evaluation of performance for one salesperson on four performance criteria or bases, which combine quantitative results and efforts. The unequal weights show the difference in importance given by the company to various bases. The overall performance of the salesperson is arrived at by dividing total of weighted performance index by total of weights, which is equal to 102.5. Before this, weighted performance index for each performance criteria is calculated by multiplying the performance index with the respective weight. Use of quotas in MBO gives a very useful method for evaluating salesperson's performance. It also indicates the areas where the performance is good or poor.

**Table 7.11 Example of MBO Performance Evaluation**

Performance Criteria/Bases	Objective/ Quota	Weight	Actual Performance	Performance Index	Weighted Performance Index
• Sales volume	₹72,00,000	4	₹80,00,000	111	444
• Number of new accounts	24	3	20	83	249
• Number of calls per day	6	2	7	116	232
• Number of reports sent	24	1	24	100	100
	Total	10			1025
• Overall performance					102.5

(v) **Descriptive Statements** In this method of performance evaluation, sales managers are required to write either a short or detailed description of each salesperson's performance on specific criteria. These criteria or bases vary from company to company, but some of the commonly used criterias are: goal attainment, selling ability, territorial management, job/product knowledge, and customer relations. Another method, used by some organizations, includes writing a profile about the individual salesperson's specific performance, abilities, and potential.

Problems or disadvantages of descriptive statements method are many. First, there is a subjectivity of evaluation both in writing and interpreting descriptive statements. Second, some evaluators may not be good or capable writers, resulting in misinterpretations of performance evaluations. Third problem is that many managers are too severe, lenient or neutral in their descriptions of performance, resulting in biased evaluation. Another problem sales managers may face in accurately evaluating salespeople if the number of salespeople to be assessed is large. This method should be used either with some form of graphic rating scale or when the number of salespeople to be evaluated is less and that evaluators are well-trained.

In summary, as said earlier, combining different methods is a good approach to maximize the strengths and minimize the weaknesses that are present in these methods.

**Step 5 – Review Performance Evaluation with Salespeople**

Once the salesperson's performance has been evaluated, the sales manager should conduct performance review or appraisal session with the salesperson. This is a very challenging part of the sales manager's job, because it can be a very sensitive occasion. It is difficult to point out the salesperson's weaknesses or failures to meet the standards. The sales manager should contact the salesperson and set a time and place for the performance review meeting. Before the meeting, the salesperson should be asked to review his or her job description and the past performance, by using the company's evaluation form. It is important that both the salesperson and the sales manager should consider performance review as a positive method, which helps the salesperson to solve existing problems and perform better in future. Thus, both should have a positive attitude towards

the review. Research has indicated that usually salespeople evaluate themselves better than their manager does.

The following guidelines are useful when reviewing performance:

- First, performance criteria or bases should be discussed.
- The salesperson should be asked to review his own performance.
- The sales manager should present his view on the salesperson's performance, by first highlighting good qualities of the salesperson. Corrective actions on weak areas should also be discussed.
- Mutual agreement on the performance must be established.
- If disagreements or serious differences of opinion occur, the sales manager should carefully explain the reasons to the salesperson.

The sales manager should review the evaluation of each criterion, by first reviewing the high ratings of the salesperson and then going down to other ratings. The sales manager and the salesperson should together find out the reasons for the performance variations as compared with performance standards. The manager should then summarize the total performance evaluation. Thereafter, the sales manager and the salesperson should develop mutually agreed objectives and action plan for the future period.

Immediately after the review session is over, the sales manager should write a letter to the salesperson re-stating the performance evaluation results and the objectives for the future period. A copy of this letter should be sent to the sales manager's immediate boss. In today's litigious society, it is important to document such reviews.

### **Step 6 – Decide Sales Management Actions and Control**

The performance evaluation procedure followed so far gives a very important information about performance of salespeople. It is the responsibility of the sales management to use this information for improving the performance of individual salespeople, sales teams, and the operations of the sales organization. Another use of the performance information is to identify problem areas, find the causes of the problem, and decide sales management actions to solve the problems. These steps are discussed in this section.

**Identify the Problem Areas** A sales manager should review the performance of each salesperson against each performance criterion. The manager should then summarize the results across all salespeople who are supervised by him. This shows whether there are common areas of low performance. For instance, if most salespeople are not meeting their sales quotas, the situation is different than when only one or two salespeople are not achieving their sales quotas.

**Find Causes** Next to identifying the problems, such as poor performance areas, the sales managers should work backward to find the causes of the unsatisfactory performance. For example, if the problem is that some salespeople have not achieved their sales quotas, then the sales manager should review with salespeople all factors that contribute to the achievement of sales quotas. Some of these factors that may cause poor sales performance could be less sales calls made, poor coverage of market/customers, and superior performance of competitors on important areas of product quality, service, or pricing. Talking to customers often helps to find causes of the unsatisfactory performance.

**Decide Sales Management Actions** Next to finding the causes of poor performance, the sales manager should decide a suitable action to minimize or remove the cause of the problem, so that in future the salesperson's performance will improve. The sales manager's action, for example, may be to train salespersons on selling and negotiating skills, redesign sales territories, suggest for review of the compensation plan, or recommend for review of the company's sales and marketing strategies. The problems may affect many salespeople or one individual salesperson. The basic approach in deciding the actions of sales management remain the same. In fact, in many companies step 5 of the performance review is combined with step 6 of sales management actions. The sales manager, during the performance review meeting, should also highlight good performance areas, appreciate the salesperson for the good performance, and reward him suitably.

## MOTIVATING THE SALESPEOPLE

Some salespeople are ambitious and self-starters. They put forth their efforts without any special training or incentives from the management. However, the majority of salespeople need encouragement, training, and motivation. The first level branch/district sales manager's performance depends upon the composite performance of the salespeople. That is why they are interested to know the factors influencing salespeople to achieve desired performance. "How do I motivate my salespeople?" is one of the most common questions asked by sales managers. To answer this question satisfactorily, a sales manager should understand what is motivation and its importance, learn the relevance of theories of motivation to motivate the sales force, and select an effective combination of motivational tools.

### What is Motivation?

Motivation is originally derived from the Latin word "movere", which means "to move". The desire to spend effort to fulfil a need is motivation. In a sales job, motivation is the number of efforts the salesperson makes to complete various activities of the sales job. Examples of these activities are: **meeting prospective customers, identifying their needs, making sales presentations, overcoming their objections and closing the sales.** Further studies on motivation conclude that the most commonly used definition of motivation includes three dimensions: intensity, persistence, and direction, as shown in Figure

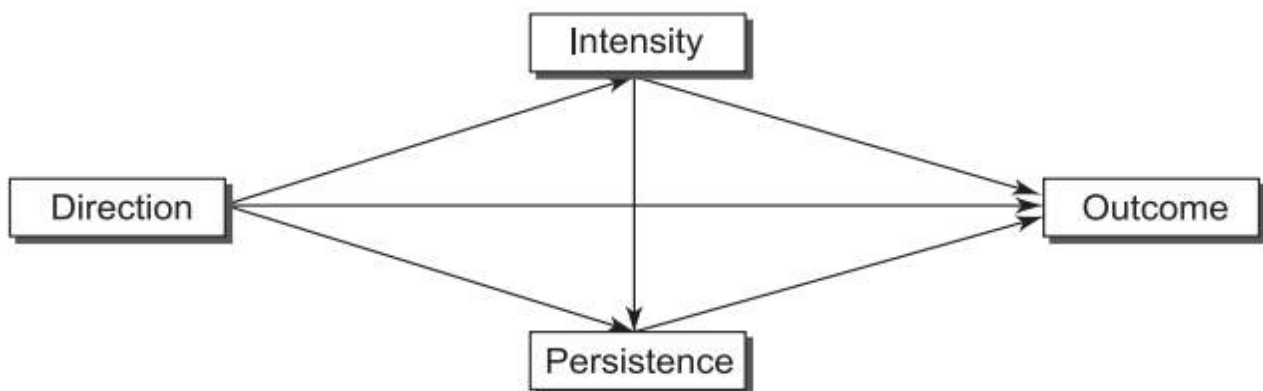


Figure 6.4 the dimensions of sales motivation

**Intensity** refers to the amount of physical and mental efforts the salesperson spends on a given task. **Persistence** describes how long the salesperson continues to put forth effort. **Direction** suggests the salesperson's choice of actions among various job activities. For instance, a salesperson decides to concentrate on a key high sales and profit potential customer (which is the direction). The salesperson increases the number of sales calls on this customer from 2 to 4 per month (which is intensity), until the salesperson gets the first order (persistence). Figure 6.4 shows the dimensions of sales motivation, in which the direction (or choice of action) of the salesperson has an effect on the intensity and persistence. Similarly, intensity makes a difference to persistence, that is, how long a salesperson continues to do a particular task. Salespeople are often required to perform many selling and non-selling activities. It is therefore, important that salespeople focus their efforts in the direction which is in line with the company's strategic plan. The direction of the salesperson's effort is, therefore, as important as the intensity and persistence of that effort. These concepts are supported by studies, which indicate that larger levels of effort or intensity are not necessarily connected with greater levels of outcome or performance. That is why in Figure 6.4 the **outcome or performance of a salesperson** is influenced by all the three dimensions: direction, intensity, and persistence.

Motivation can also be looked at as intrinsic or extrinsic. If salespeople consider their job as essentially rewarding (or providing satisfaction), they are **intrinsically** motivated. However, if salespeople are motivated by the rewards given by their organization, such as financial incentives and recognition, they are **extrinsically** motivated. Although a salesperson's overall motivation can include both intrinsic and extrinsic motivation, some salesperson will seek intrinsic rewards (such as challenging work, feelings of personal worth and a sense of accomplishment), other salespeople will

prefer extrinsic rewards (such as salary, fringe benefits, and promotion). We shall discuss these motivational tools or methods later in this chapter.

## **IMPORTANCE OF MOTIVATION**

It has been estimated that about 10 to 15 percent of salespeople are self-motivated, requiring little external incentives. They are ambitious and self-starters. However, the majority of salespeople are not adequately motivated, requiring encouragement and incentives from the management. The company management recognizes the importance of sales management and salespeople because the financial performance of the company depends upon the achievement of sales volume objective, which is the primary responsibility of the sales management. Sales managers find the task of motivating salespeople difficult and important due to the following factors: (i) changes in marketing environment, (ii) conflicting company objectives, (iii) unusual nature of the sales job, and (iv) separate motivational package.

### **Changes in Marketing Environment**

Marketing environmental factors, such as demographic, economic, technological, politic-legal, and socio-cultural, change continuously. Sales managers find it difficult to develop an effective mix of motivational methods for salespeople in the changing marketing environment. The incentive scheme may become ineffective due to the recession in the economy, or a change in technology. For example, a technology change from jelly-filled telecom cables to fiber-optic cables will make selling jelly-filled cables very difficult as business customers recognize the huge benefits of fiber-optic cables.

### **Conflicting Company Objectives**

Salespeople are required to achieve the company objectives and goals, such as sales volume, profit contribution and customer satisfaction. Sometimes these objectives conflict with each other. For instance, a customer is satisfied if the salesperson confirms matching the competitors' price with the company's price. However, the company management is unable to do so, because by bringing down the company's price to the level of the competitor's price, the company can not achieve the profit objective (in fact, it will make a huge loss). The salesperson is frustrated that after putting a great amount of efforts, the order from the customer is lost to a competitor and he is unable to achieve the sales quota and the incentive. With widely varying objectives, developing an effective motivational mix is difficult.

### **Unusual Nature of the Sales Job**

This is an important factor. Salespeople usually work alone and their working hours are long and irregular. They are often away from home causing them to miss many special parts of family life. They have an inferior status in relation to the purchase officers. While many customers are polite and considerate in their business dealings with salespeople, some buyers are bad mannered and difficult to deal with. Salespeople often face hostile competing salespersons who compete for the same business. In many cases, salespeople do not have the authority to do what is needed to get a business, and therefore, they sometimes lose large orders for which they had worked very hard to get. These conditions cause salespeople to become dissatisfied. As a result, salespeople usually need more motivation than other employees do to reach the expected performance levels.

### **Separate Motivational Package**

Salespeople have individual characteristics like strengths, weaknesses, goals, and problems that influence their motivations. Most desirably, the firm should evolve a different motivational package for each salesperson. However, this approach will have practical problems in a company. A solution to this problem is to develop a motivational mix that is relevant for all salespeople, and it should also appeal to the different individual needs. For instance, newer salespeople are sensitive to the achievement of sales quotas and financial incentives. More established and go getter salespeople look for promotions and recognition.

## RELEVANCE OF MOTIVATIONAL THEORIES TO SALESPEOPLE

Motivation has been researched for many years. We shall discuss those motivational theories that are relevant to the motivation of salespeople. Some of these theories or behavioral concepts in motivation are: (i) Maslow's hierarchy of needs theory, (ii) Herzberg's dual-factor theory, (iii) Vroom's expectancy theory, and (iv) Churchill, Ford and Walker model of sales force motivation.

Also, if a sales manager understands some of the behavioral concepts that have an effect on salespeople's motivation, it will be easier to develop an effective motivational mix.

### Maslow's Hierarchy of Needs Theory

Abraham H. Maslow proposed five levels of needs that every individual seeks to satisfy. These basic needs are shown in Figure 6.5. Maslow argued that the needs form a hierarchy. When no needs are fulfilled (or realized), a person focuses on his or her physiological needs, such as food, shelter, clothing, and health care. When physiological needs are achieved, safety needs become important factors such as job security, safety, income security of human behavior. When these are satisfied, social needs (like friendship, belongingness, acceptance) become important and so on up the hierarchy. Until the more basic needs of physiological and safety needs are well satisfied, the higher order needs will not be aroused. However, sometimes it may happen that a lower level need, like job security, which was previously satisfied, may become unfulfilled (due to the loss of job). In such cases, lower level needs happen before the higher-level needs.



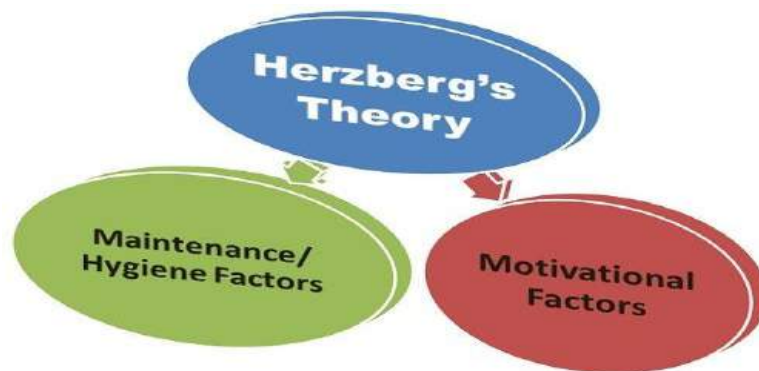
**Fig. 6.5 Maslow's Hierarchy of Needs**

This theory has a relevance to sales force motivation. Different salespersons will have different needs, and therefore, what may act as a motivator for one salesperson may not be effective with another. A sales manager can take suitable managerial actions only after an accurate assessment of the needs of individual salespersons. For example, if the salesperson's physiological needs are not satisfied, the sales manager should offer an acceptable income and benefits package because money and financial rewards can buy the products and services to satisfy these needs. Another salesperson may look for job security and for satisfying that need, the sales manager should remove the fear of failure by guiding the salesperson to perform well to achieve the sales goals. For fulfilling social needs, a sales manager arranges sales meetings and social functions, sets up selling teams for key customers and mentoring programs. For satisfying esteem needs, some of the actions the sales manager takes are promotions, public recognition of achievements, and appreciation letters. Self-actualization needs are rarely identified at the level of salespeople, but if it is found, a sales manager may consider special assignments with higher authority and responsibility like mentoring new salespersons.

## Hertzberg's Two-Factor Theory

A theory of motivation developed by Frederick Hertzberg is called dual-factor theory, in which sources of dissatisfaction and satisfaction are grouped into two groups: hygiene factors and motivation factors. Examples of hygiene factors are working environment, security, type of supervision, interpersonal relationships, salary, fringe benefits, and company policies. They are called hygiene factors because they deal with the condition of the work environment, and not the work itself. Absence of hygiene factors can cause job dissatisfaction, but presence of these factors does not lead to job satisfaction. Fulfilling the hygiene factors would bring up motivation to a theoretical zero level, or a neutral point, but would not result in a positive motivation.

If positive motivations were to be achieved, attention would have to be given to motivation factors. These include recognition, responsibility, achievement, challenge, opportunities for growth, and the interest value of the work. These factors are part of the job (or work). For the person to feel motivated these motivational factors must be present. When motivation factors are fulfilled, it leads to job satisfaction.



Dual-factor theory has two important conclusions that can be drawn: (i) The sales management should provide good enough working environment, sensible supervision, job security, and reasonable compensation to salespeople to prevent job dissatisfaction. (ii) The management should also provide opportunities for growth, recognition, and responsibility to motivate salespersons.

Pay can be both hygiene and a motivation factor. Salary is included as hygiene factor, whereas commissions or incentives that are related to performance are considered as the automatic recognition to sales achievement and therefore, a motivation factor. A salesperson's achievement is directly observable as higher sales (except in missionary selling) is a motivational factor. Similarly, a sales manager can give higher degree of responsibility (and therefore motivation) to salespeople by giving authority to offer discounts, preparation of route plans, and scheduling sales calls to customers. A study with a group of salespeople showed that greater responsibility given to salespeople by such changes resulted in higher sales success.

## Vroom's Expectancy Theory

This theory assumes that a person's motivation to make efforts depends upon his expectations for success. Vroom based his theory on three concepts: expectancy, instrumentality, and valence.



### Expectancy

This concept refers to the person's perception of the relationship between effort and performance. It points out to what extent a person expects (or hopes) that increased efforts will lead to superior performance. The relevance of the concept to sales situations is presented in Figure 6.6.

Examples of efforts of a salesperson include more sales calls on customers and longer working hours. Superior performance in sales situations means increase in sales, higher level of customer satisfaction, and increase in number of new customers.

**Instrumentality**

This concept refers to the person’s perception of the relationship between performance and reward. It shows the degree to which a salesperson believes that higher performance will lead to some kind of reward. For instance, the reward may be increase in salary, recognition, or promotion.

**Valence**

This concept describes the value placed on a particular reward by a salesperson. For instance, if the reward is the recognition given to the salesperson by the sales manager, it may not carry much value to the salesperson. For some other salesperson recognition may be a great value.

To understand the theory better, let us consider an example. If a salesperson believes that by working harder, he will achieve higher sales (meaning high expectancy) and that higher sales will lead to increased incentive (or commission) payment (meaning high instrumentality) and increased incentive payment is very important (high valence), then a high level of motivation should happen. Of course, different salespersons have different valences (values) for the same reward. Some salespeople who have a large family to support may value increased salary or commission, while for younger and more educated salespersons promotion may be more valuable.

Sales managers should, therefore, communicate clearly to the salespeople the performance standards (or sales quotas) which are derived from the company objectives and goals. Another important point that comes out of this theory is that the sales quotas (or sales targets) should be such that salespeople should perceive these targets as achievable (high expectancy), otherwise the first link shown in Figure 6.6 will be cut off. The expectancy theory, as presented in Figure 6.6, is a diagnostic framework or tool that can be used for analyzing problems related to salesperson’s motivation. For example, does the company’s reward structure provide what salespeople want?

**Churchill, Ford and Walker Model of Sales Force Motivation**

The problem of motivating salespeople is studied by Churchill, Ford, and Walker. They have developed a model, as shown in Figure 6.7.

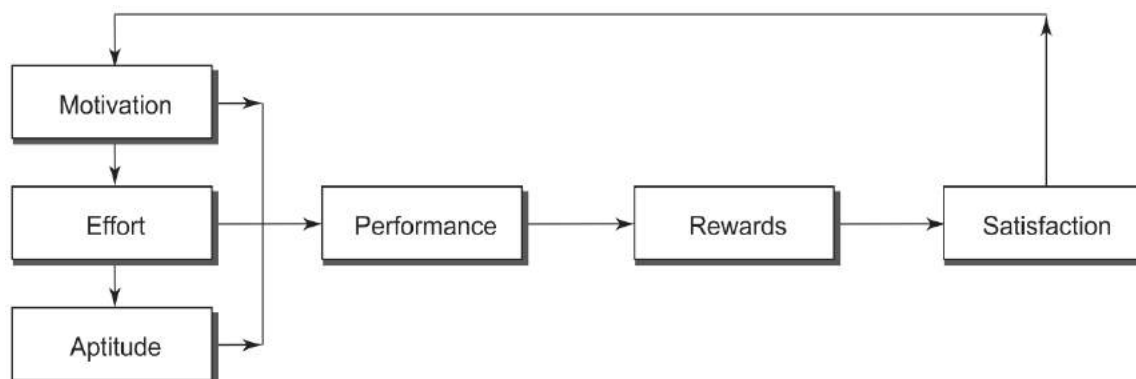


Fig. 6.7 Model of Sales Force Motivation and Performance

The model in Figure 6.7 points out that a salesperson’s performance depends on three factors: degree of motivation, efforts, and aptitude. A higher degree of motivation, efforts, and aptitude will lead to a greater performance. Greater performance will lead to greater rewards (like higher pay, financial incentive, and recognition). Greater rewards will lead to higher satisfaction level. Higher satisfaction will reinforce motivation. This model is derived from Vroom’s expectancy theory.

Sales managers should convince salespeople that they can sell more by putting more efforts. They should arrange training programs to improve the abilities of salespeople. The salespersons’ job satisfaction declines if: (i) expectations of their superiors are not clear, and (ii) conflicting demands

from the company and its customers are not resolved. Sales managers have an important role to play in all these areas.

Sales managers should convince salespeople that rewards for superior performance are worth the extra efforts. This point suggests that the sales manager should give rewards that are valued by the salespeople and should try to sell the reward's worth to the salespeople. However, if the rewards are set arbitrarily or are too small or of wrong type, then the linkage between performance and rewards are weakened.

The researchers went on to measure the importance of different rewards. The reward with highest value (No. 1) was pay (money or finance), No. 2 was promotion, No. 3 was personal growth, and No. 4 was sense of accomplishment (or achievement). The least valued rewards were liking, respect, security, and recognition. However, the importance of motivators (or value of rewards) varied with demographic characteristics of salespeople. Financial rewards were mostly valued by older salespeople with large families. Younger, unmarried, better educated salespeople with small families prefer higher order rewards, such as personal growth, promotion, respect, and sense of accomplishment.

### SELECTING AN EFFECTIVE MIX OF MOTIVATIONAL TOOLS

For designing an effective motivational mix (or an optimal reward system) the sales manager should first know each salesperson and understand his specific needs. In addition, it is important to establish the performance goals of each salesperson, against which the actual performance can be measured. The motivational package (or mix), which consists of various motivational tools or methods, should have some components that can be made to fit to the individual salesperson's needs. As most successful salespeople have the best opportunities to leave the company for more attractive jobs, views of the salespersons regarding the reward system or motivational tools as well as their personal goals and needs must be understood. The sales manager must also understand the company management's point of view. In recent years, the customer needs have become more important than salespeople's needs in deciding the sales force reward system (or motivational mix). Meeting the needs of customers, salespeople, and the company management is a challenging task for a sales manager. A compromise between differing interests becomes necessary for designing or selecting a mix of motivational tools.

Motivational tools or methods are usually divided into two broad categories: financial rewards, and non-financial rewards, which are summarized in Table 6.5.

Financial Rewards/Tools	Non-Financial Rewards/Tools
<ul style="list-style-type: none"> <li>• Financial compensation plan</li> </ul>	<ul style="list-style-type: none"> <li>• Promotional opportunity</li> </ul>
<ul style="list-style-type: none"> <li>–Salary</li> </ul>	<ul style="list-style-type: none"> <li>• Sense of accomplishment</li> </ul>
<ul style="list-style-type: none"> <li>–Commission</li> </ul>	<ul style="list-style-type: none"> <li>• Personal growth opportunities</li> </ul>
<ul style="list-style-type: none"> <li>–Performance bonus</li> </ul>	<ul style="list-style-type: none"> <li>• Recognition</li> </ul>
<ul style="list-style-type: none"> <li>–Fringe benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Job security</li> </ul>
<ul style="list-style-type: none"> <li>–Combination</li> </ul>	<ul style="list-style-type: none"> <li>• Sales meetings</li> </ul>
<ul style="list-style-type: none"> <li>• Sales contests</li> </ul>	<ul style="list-style-type: none"> <li>• Sales training programs</li> </ul>
<ul style="list-style-type: none"> <li>• Team compensation</li> </ul>	<ul style="list-style-type: none"> <li>• Job enrichment</li> </ul>
<ul style="list-style-type: none"> <li>• Global compensation issues</li> </ul>	<ul style="list-style-type: none"> <li>• Effective supervision</li> </ul>
	<ul style="list-style-type: none"> <li>• Praise and encouragement</li> </ul>

The financial rewards include: (i) financial compensation plan, (ii) sales contests, (iii) team compensation, and (iv) global compensation issues. Compensation is defined as financial and non-financial methods of rewards for the salespeople. Financial Compensation Plan Most companies use financial compensation plan to motivate salespeople. Financial compensation includes: (i) current spendable income (such as salary, commission, and bonus), (ii) deferred income (like retirement pension pay, provident fund, or gratuity payment), and (iii) various insurance plans, which provide income when needed, and fringe benefits. We shall focus on current spendable income, because it is relevant to sales force reward or motivation system. The other two components of financial compensation are a part of the overall company policy that is applicable to all employees. A study found that salespeople prefer salary raises and commission or incentives over any other type of motivational reward. The financial compensation plan for salespeople will be discussed subsequently in this chapter.

### **Sales Contest**

Sales contests are short-term selling campaigns offering incentives like prizes or awards which can be an effective motivational tool if they are carefully and properly designed. A sales contest should have a specific purpose, such as increase short-term sales volume; sell more profitable product mix; or getting new customers. The design of the sales contest should consider the following points: (i) each salesperson has an equal opportunity to win, (ii) the basis of awards be for improvement over current performance, and (iii) select “open-ended contest”, in which unlimited number of salespersons can win, by offering awards or prizes to all salespersons showing improvement. Prizes should be attractive, each consisting of cash prizes, merchandise, or travel. Studies have found that noncash prizes like merchandise and travel are more effective than cash prizes for motivating salespeople<sup>39</sup>. At least 10 percent of the contest budget should be spent on promotion, so that there is an excitement in the company. Care should be taken to ensure that salespersons do not use undesirable methods, such as storing orders, overselling, and using pressure tactics. One of the ways to overcome the problem of salespeople using undesirable methods is not to announce the contest period in advance. Differences in cultural aspects and expectations of overseas salespeople should be understood, before designing sales contest program for them. Although, there are no set guidelines on contest duration, most sales contests run from one to four months.

### **Team Compensation**

Team selling strategy is becoming important, particularly in B2B selling. For example, M.M. Material Handling company’s selling teams include members from sales, design, finance, and customer service functions. Many companies are, therefore, adjusting their compensation plans to recognize the importance of team performance. Designing a compensation plan for a selling team can be a challenging task; salespeople who are used to get commissions on their individual efforts may not like team-based compensation. In addition, it is difficult to determine an individual member’s contribution to overall team performance. Given these challenges, several guidelines should be followed in designing a team-based compensation plan. These are: (i) Companies should be ready to try out new ideas to find the right compensation plan for sales terms. (ii) There should be discussion among team members. (iii) Inputs from the team members are important to ensure teams’ succeed. (iv) Reward both individual and team performance by having a balance between individually based and team-based compensations. This means, the majority of compensations of a salesperson is in salary form, and performance bonus and commission are a part of team compensation. (v) Team members of a selling team should evaluate their fellow members’ contributions to the overall performance of the team. This will highlight how each team member contributes to the performance of the team. Team compensation can build motivation and can lead selling teams to higher performance levels.

### **Global Compensation Issues**

It is difficult to standardize compensation packages for salespeople living outside their native country. Cultural factors have strong influence on compensation of salespeople. For example, in Southeast Asia straight salaries are considered as more necessary and proper than compensation

packages involving variable commission. In Japan, bonuses or commissions are paid based on the performance of the entire sales force, whereas in the United States, the compensation of salespeople is influenced more by the variable element of commission that is linked to the individual salesperson's performance. These practices are connected to cultural norms. For instance, individualism is rewarded in the United States, whereas in many other countries collectivism or group orientation is valued. Sales managers and human resource executives involved in finalization of compensation packages for salespeople living around the globe need to know the living costs, taxes, government regulations and cultural aspects prevailing in those countries.

In many other situations, sales representation in other countries is obtained through a network of distributors, dealers, or manufacturer's agents. These situations are not difficult to deal with. Normal decisions such as discounts on the company's price list or commissions on net sales can resolve the issues after due negotiations. The difficulty arises, as discussed earlier, when compensation packages are to be decided for expatriate salespeople.

### **Non-Financial Rewards**

It is easily seen that salespeople are motivated by both financial and non-financial incentives. Examples of non-financial incentives are shown in Table 6.5. These incentives or rewards are discussed in this section.

#### ***Promotion***

Changes in titles or promotions are ranked high among younger and better educated salespersons. If promotion is tied to sales performance, the company should have two routes for promotion. One route follows promotion to a managerial position, where managerial skills are required. The second route of promotion is created to reward the outstanding sales performance. An example of such a promotional path is:

Salesperson Æ Senior Salesperson Æ Key Account Executive

Promotion provides a salesperson a higher responsibility and authority. The feeling of higher responsibility has a motivating effect on the salesperson as it makes him feel that he is a key person in the company.

#### ***Sense of Accomplishment***

A sense of accomplishment cannot be handed over to the salesperson from the company. A sense of accomplishment comes out from the salesperson's mind, and therefore, a company can only facilitate the process by which it develops. A sense of accomplishment is an intrinsic motivation and it is considered as one of the important rewards by salespeople. The question is: "How can a firm facilitate a sense of accomplishment in the sales force?" The answer is to take the following steps: (i) to communicate to the salespeople the important role they play in achieving the organizational objectives and goals by generating the sales revenue (nobody else in the company does this), ensuring customer satisfaction, and contributing to the growth and profitability of the organization; (ii) to identify individual salespersons who have achieved superior performance through high level of efforts and to establish the link: efforts Æ performance Æ reward; (iii) to make the management by objectives (MBO) as a standard management practice; and (iv) to strengthen the sense of accomplishment by communicating to salespeople how some salespersons have been achieving their sales goals (or quotas) consistently year after year.

#### ***Personal Growth Opportunities***

Many salespeople rank opportunities for personal growth high in the list of sales force rewards. Many well-known companies have policies to encourage salespeople's participation in seminars, workshops, and distance learning programs. For example, companies like Dell, Symphony Services, Sasken Technologies have policies by which employees can attend seminars and workshops on topics of their choice. Some companies display their training programs, during the process of staffing the salespeople, as an opportunity for personal growth. Recognition Most sales managers realize that they must pay more attention to the individual salesperson's higher-order needs, such as recognition,

appreciation, and admiration. Most salespersons take pleasure in getting public recognition of their successful achievement. Both informal and formal recognition are a part of sales force motivational mix. Informal recognition is usually delivered in private conversation or correspondence between a sales manager and a salesperson. However, it is a good managerial behavior to appreciate the salesperson in a public ceremony, involving senior managers. Formal recognition programs are generally based on individual or group accomplishments, indicating superior performance. These programs suggest public recognition for accomplishment in the presence of peers and seniors in the company and include a symbolic award of lasting psychological value, such as certificates and plaques. Formal recognition programs have been popular in sales organizations. Examples are: Life Insurance Corporation of India has a formal reward program, called “crorepati” agent. All top salespeople make great efforts to be named a member of the President’s Club at Xerox Corporation<sup>41</sup>, and GTE Company introduces its top performers into the “Winner’s Circle”. Another outstanding way to recognize top performing salespeople is to nominate them for awards by industry associations.

### ***Job Security***

It is generally valued by older salespeople who are nearing retirement age, but is the least-valued reward among younger salespeople. In today’s business situations, with high degree of mergers, acquisitions, and downsizing of organizations, it is becoming very difficult for companies to offer job security as a motivating factor. It is widely perceived that government organizations offer job security, which is difficult for private sector companies to offer.

### ***Sales Meetings***

Most companies use sales meetings for motivational and communication purposes. Regularly held sales meetings provide salespeople a break from routine, a chance to meet with senior managers of the company and also other salespeople, and to identify with a larger group. Sales meetings are not only an important tool for motivation, but also an important tool for communication and education.

It is important to carefully plan and conduct a sales meeting. A sales manager can use the ACMEE (aims, content, method execution, and evaluation) approach to ensure that the sales meeting is well-planned and effectively conducted. Aims or objectives of the sales meeting should be clear. Although the general purposes are to communicate and motivate salespeople, specific aim is needed. Examples are: (i) improving time management, (ii) introducing a new product or service, (iii) communicating changes in marketing or sales strategies. Content of a sales meeting is derived from the specific aims. For instance, if the aim is to introduce a new product, content may include product demonstration, specifications, applications, and benefits compared to the existing products in the market. Methods used depend upon the aim, the content, the time available, and the place of the meeting. For local meetings at district or branch offices, typically group discussion is used. Regional and national meetings may use a mix of several methods, as discussed earlier in sales training. Execution decisions include meeting place and time, speakers, room arrangement, audiovisual equipment, provision of materials like pads and pens, refreshments, timing of breaks, and so on. Evaluation is often neglected, but it is important. Participants’ feedback is essential in a sales meeting evaluation form.

Sales meetings are held at national, regional, and local levels. National conventions are usually held once a year and may include a select group of top performers to meet with and hear top executives of the company as well as to receive awards for their superior performance. Regional conventions have a work-oriented agenda, such as finalization of territory sales quotas, review of territory performance and discussion on regional problems. Local meetings are held weekly or monthly at the district or branch offices, when salespeople discuss their sales problems, top performers are given due recognition, and training programs are held on specific topics. Many companies are realizing the benefits of video conferences and are using them to inform and motivate the entire sales force of the company at one time, instead of conducting national sales meeting which have substantial costs.

### ***Sales Training Programs***

As discussed earlier in this chapter, a good sales training program increases the performance of salespeople and therefore improves their sense of self-esteem. It reduces their survival fear. Salespeople, who are in the same training program, have increased social linkage with each other. A feeling of belongingness is developed among the salespersons.

### ***Job Enrichment***

It is an outcome of Herzberg's two-factor theory on motivation. Job enrichment gives a salesperson more responsibility, autonomy, variety of tasks, and growth opportunities. It gives the salesperson more decision-making, planning, and controlling powers. For example, if the sales manager decides to pass on his discretionary powers of discounts to some of the experienced and capable salespeople, that would motivate the salespersons. In addition, the sales manager authorizes these salespersons to make their call plans and routing plans. Such actions on job enrichment would show improvement in job performance, as seen in a study of AT&T's sales representatives<sup>43</sup>. Another example of job enrichment is when a company asks a senior salesperson to do on-the-job training to a new sales trainee.

***Effective Supervision*** It is the day-to-day control of the salespersons under normal working conditions. The objective of supervision is to improve the performance of salespersons. One of the tasks of the first level sales manager, to achieve the above mentioned objective, is to motivate the salesperson. For motivating salespersons through effective supervision, it is important for sales managers to understand the personal needs and aspirations of each salesperson reporting to them. Companies having decentralized sales organizations assign the supervision of sales force responsibility to branch or district managers, who are first level sales managers. For effective supervision, these managers are expected to spend adequate time with their salespersons.

Branch, district or area sales managers, who have the responsibilities of supervising salespeople, bring about working relations with salespersons for purposes of providing motivation, correcting shortcomings, making salespersons understand their responsibilities, communicating the company policies, helping to solve sales-related as well as personal problems, evaluating performance, and continuing sales training. These first level sales managers not only manage salespeople, with above mentioned activities, but also manage the company's branch warehouse, provide customer service, communicate with the sales and marketing regional and head offices, and carry out any other branch/district related work. Hence, it is difficult for them to give adequate time to supervision of salespeople. However, it is important that they spend adequate time with salespeople, because effective supervision improves the job performances of salespersons.

### ***Praise and Encouragement***

An area or branch sales manager can motivate his or her salespersons without great effort and cost by praising and encouragement. A word of appreciation like "well done," or "good efforts" in written or verbal communications from a sales manager to a salesperson is a very effective way of motivation that is least expensive. Salespeople get some orders from customers and also don't get a few orders. In situations when salespersons don't get orders, despite trying very hard, a word from the sales manager acknowledging the hard work would go a long way.

## **GUIDELINES FOR MOTIVATING SALESPEOPLE**

Sales managers should understand that almost everything they do will influence sales force motivation. Some guidelines for motivating salespeople, described as follows in brief, would help sales managers:

***Difference Between Can't Do and Won't Do*** What appears as a motivational problem (i.e., won't do) of a salesperson may be a competency or ability problem (i.e., can't do). Most salespersons won't do activities that they can't do. In other words, sales performance depends on both ability and motivation (i.e., efforts). It is important to know that motivation—the desire to exert effort—is not the only requirement for successful sales performance. Salespeople must have the ability to perform as well as the motivation to do the sales job.

### ***Include Individual Needs into Motivational Programs***

Motivation is a complex process. At the heart of the complexity of motivation is the concept of individual needs. Using one motivational program to motivate all salespeople may not be effective. It is also not practical to design different motivational programs for each salesperson. What are the alternatives available to sales managers to resolve this problem? One alternative is to provide something for everyone. That is, to include individual needs of salespersons into the motivational program. The second alternative is called sales force segmentation in which the sales force is segmented, or divided, into several groups based on their designations or selling experience. Thereafter, a suitable motivational mix can be designed for each group of salespeople to meet the needs of each group<sup>44</sup>. Another method is to offer several motivational packages and let each salesperson choose any one of those packages. The basic idea is that individual consideration should be kept in mind when motivating and rewarding the salespeople.

### ***Plateaus Salespeople***

An important problem faced by most first level sales managers is how to motivate a plateau salesperson, who has almost stopped improving and developing, following a period of progress. Plateaus salespeople are usually around 40–50 years of age, performed well in the past, but not performing up to the expectations at present. They have developed a good relationship with a few major customers and therefore, it is difficult to terminate them. The main reasons of this situation are less chances of promotion, perceptions of unfair treatment, and lack interest or enthusiasm.

The symptoms of this state are the sickness, absenteeism, less working hours, lack of energy and enthusiasm, sloppy work, resistance to changes, and not keeping up-to-date with new products and technologies. The sales manager should recognize the symptoms and work on a number of alternative solutions. First, the sales manager should discuss the situation with the plateau salesperson and set some performance standards. If the performance does not improve, the sales manager should consider the following imaginative solutions: training or coaching new salespersons, developing a new territory, market surveys for new products, collecting competitive information, or change in the territory and customers.

### ***Proactive Approach and Good Communications***

Sales managers should control potential problems in motivation by identifying and removing them. This can be done by regularly communicating with salespeople, praising good performance, including suitable recognition programs, and discussing less than expected performance with salespersons in a constructive manner. Sales managers should listen carefully to salespeople, respond to them promptly, and set a good example. Above all, good communication should exist between the sales manager and each salesperson. For the salesperson, existence of good communications means freedom to talk business and personal problems with the sales manager. Similarly for the sales manager, it means ease in talking with the salesperson and providing assistance in resolving any problems faced by the salesperson

# SALES REPORT

A sales report is an analytical tool that provides insights into the performance of various sales activities within a company. Armed with powerful visualizations, sales teams use these reports to find trends and patterns to improve their service and ensure sales growth.

They give a snapshot of the company's exercise at a specific moment in time to assess the situation and determine the best decision to make and the type of action to undertake. These reports help in finding potential new market opportunities where they could improve the results by using modern sales reporting software.

They can be of various forms: a daily sales report format will track sales KPIs that are relevant on a daily basis: the number of phone calls or meetings set up by a rep, or the number of leads created. Typically, weekly sales reports templates can monitor the number of deals closed by the team or the revenue generated. A monthly sales report format will provide a bigger picture of the activity of each sales rep or the team as a whole. Putting it all together on sales dashboards will enable you to automate your data and focus on human-centric tasks, without the need for time-consuming manual calculations and repetitive exports.

There are also different variations of reports that will focus on different aspects: the sales performance in general, detailing the revenue generated, the sales volume evolution, measuring it against the sales target pre-set, the customer lifetime value, etc. There are also reports focusing on the sales representative themselves and their sales cycle performance, from lead generation to closing a deal. To know what are the various types of sales reports, we will focus on fundamental ones, starting with monthly.

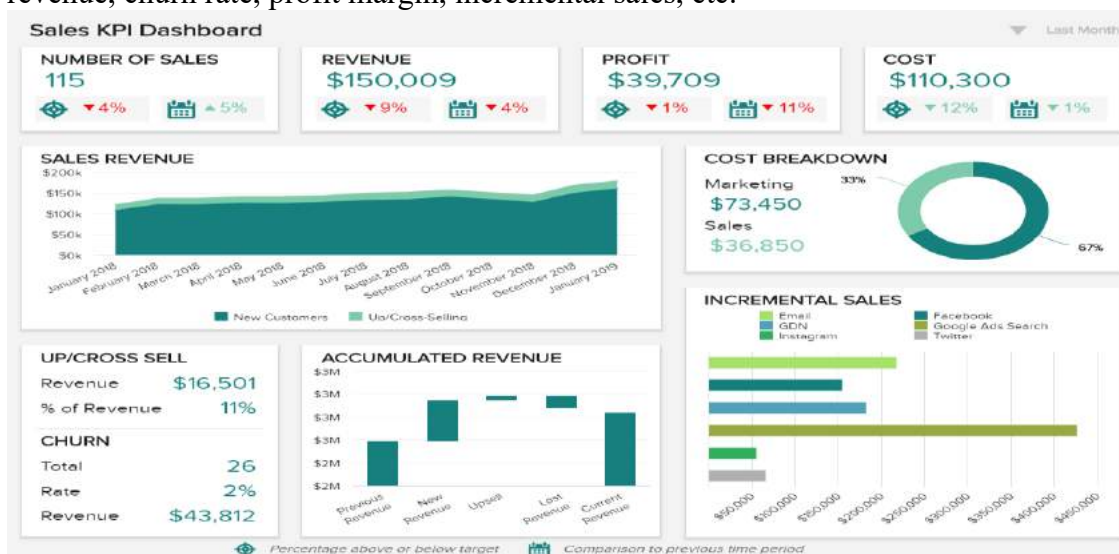
## 1. Monthly Sales Reports

A monthly sales report is used to monitor, evaluate, analyse, and determine sales trends on a monthly basis. It includes more long-term measurement of KPIs such as sales cycle length, conversion report, monthly performance report, among many others.

To dig a bit deeper, we will also briefly introduce some monthly sales reports examples that can be of help. A month will provide a broader feeling of how your sales reps are performing in the long run, even though, as we mentioned earlier, it can be too long for you to implement correction to avoid missing out on opportunities before it is too late.

### 1) Sales KPI report

We will start with a sales report example focused on high-level metrics intended to make c-level executives' lives much easier. Reporting on these levels should include main metrics such as revenue, churn rate, profit margin, incremental sales, etc.



These metrics (as we can see also in the example above) are of utmost importance to track on a monthly basis since they can change the course of a company's sales strategy. Sales VPs, managers,

and executives can monitor the most important operational and strategic data to increase the quality and performance of designated sales targets. By utilizing professional KPI software, this monthly sales report template can be generated within minutes.

In the example above, we can see how to maintain revenue reporting and management under control with the help of interactive charts that consolidate data from your connected database and bring you powerful visualizations that tell an immediate data story. You can break down your costs, monitor your incremental sales, and compare your results with the last month while keeping your data up-to-date.

## 2) Sales opportunity report

A sales report template for sales executives should incorporate management, development, monitoring, and analysis of opportunities. Those are the most prominent leads within the funnel that need special attention and care. With the help of professional BI reporting tools, opportunities are available in a single, central location, and automatic data updates will enable you to look at the data in real-time, without manual optimization of numerous spreadsheets and static reports. Let's see this through a visual example below:



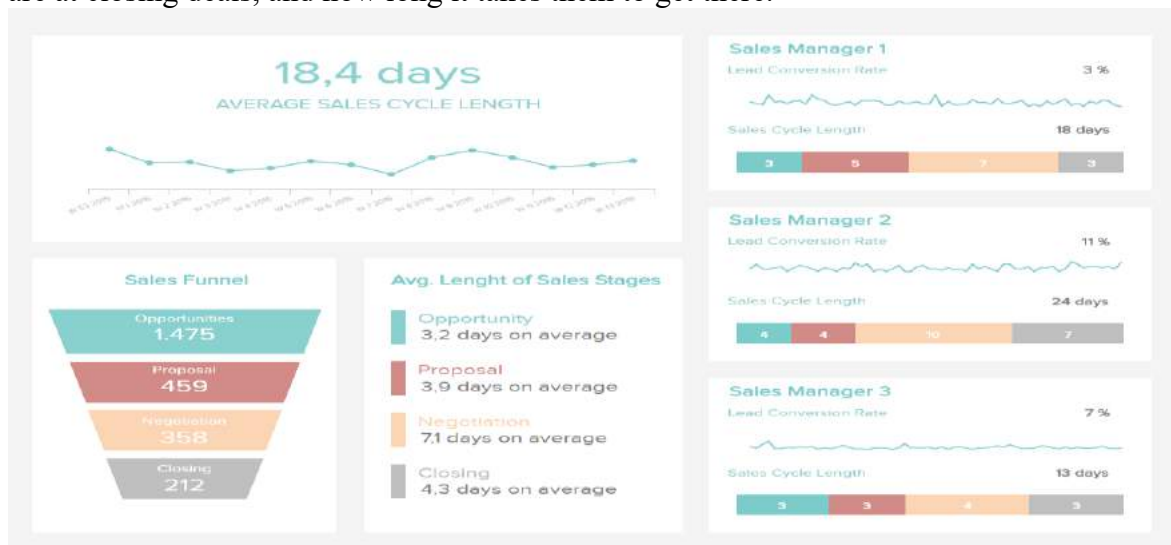
A sales performance report sample above is focused on opportunities and details on various metrics. It starts with a glance overview of current opportunities, current purchase value, average purchase value, and the win ratio compared to last month. This will immediately tell you if your developments are positive or need additional adjustments to improve results. Below you can find details on the churn reasons, and we can see that the highest number of lost opportunities state they've chosen a competitor. You can use these findings to examine what competitors offer and if you can adjust your sales strategies accordingly and try to offer something more valuable for your most promising leads.

The right part expounds on the purchase value alongside the opportunities so you can track your development through the month and see what happened during certain spikes to recreate positive scenarios and learn from negative ones.

At the bottom, the details will let you know when the first contact was made, by which sales rep, what kind of package is listed, comments, and other specifics of each opportunity. That way, you will clearly see additional information without the need to manually search through e-mails, spreadsheets, or perform any manual and time-consuming task. By adopting business intelligence software, key reports for sales managers will be centralized and accessible from any time, and anywhere. Moreover, you will be able to share and interact with each part of this dashboard that will save you countless hours and, ultimately, increase your productivity levels.

### 3) Sales cycle length report

This monthly sales report sample is covering the totality of your reps' sales funnel, from the opportunity to a closed deal. It will outline the performance of each rep and point out how good they are at closing deals, and how long it takes them to get there.



Visualizing these metrics will help you in determining the strengths and weaknesses of each individual, providing you with the information you need to respond accordingly.

In our sales data analysis example, you can see that the average cycle length is 18 days while the details are shown below and on the right in this dashboard. A data report such as this one will ensure you gain a complete overview of your cycle while monitoring the conversion rate and cycle length of each sales manager on your team. The goal is to shorten the sales cycle as much as possible but it also depends on the industry. In B2B, the cycle length is usually much longer than B2C, as mentioned. The less time it takes you from identifying an opportunity to closing a deal, the more effective and profitable your processes will be.

### 4) Sales conversion report

Here's a monthly sales report template that is complementary to the previous one: you are able to see how effective your reps are at converting the leads into sealed deals, after hitting every step of the funnel to get there.



By analyzing each stage of this funnel, you have the opportunity to identify where an issue may occur and address it, so as to increase your sales conversions.

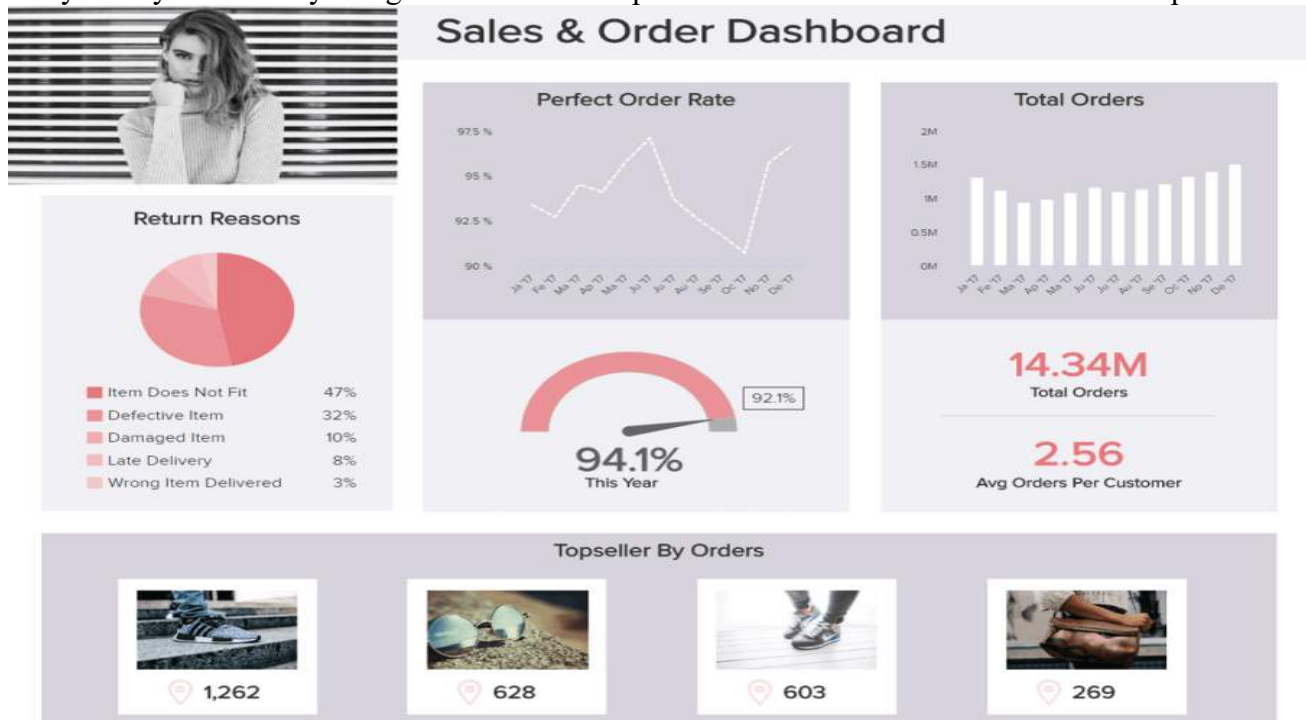
In our sales summary report sample created with a powerful [dashboard maker](#), you can see the number of leads, opportunities, negotiations, proposals, and wins in a simple, yet straightforward way. The monthly development is depicted on top where you can see how many converted leads you gained in the last 30 days. When you see certain spikes, you can examine what happened on that day to see if you can apply the same tactics for your next sessions.

You can also see 2 gauge charts that visualize the lead-to-opportunity and opportunity-to-win ratio. If you notice a significant increase in your wins, you can safely assume your sales reps bring profits to your company. On the other hand, if you see that the opportunity-to-win ratio is stagnating or decreasing, you can examine what kind of problems your reps have at the later stages of sales.

### 5) Sales & order report

Another monthly report template that can be helpful for online retailers. With so many orders to handle, it can be sometimes difficult to keep track of everything that is sent out – but mostly returned. Increasing sales volumes is what every retailer aims at, but managing to keep the return process in the loop will help you greatly on many levels.

In this [retail dashboard](#) below, first, you can see in which quantity your items are returned and secondly analyze why. This is key to figure out where the problem lies and troubleshoot it as fast as possible.



If the item doesn't fit, as we see in our example as the main return reason, it would make sense to communicate the sizes more effectively. Maybe they're not visible enough within your online store or they don't correspond to the standard US or EU sizes.

That way, you can easily increase your customers' satisfaction, and we all know that a satisfied customer is coming back: s/he can also recommend your products and services to their friends and family. And that's pretty much what you want to achieve.

### 6) Outbound calls report

Telephone [cold calling](#) is still one of the most important techniques used in sales. That's why we have chosen to present this report which displays a number of key areas in your outbound processes and potential results.



In this comprehensive sales analysis example, you can generate invaluable insights referred to outbound calls' trends, the sales team performance based on the contact rate, contracts closed, and average order value, among others. This visual enables you to compare your findings with the previous period, learn which is the most effective time to perform calls to be able to maximize results and profits.

In our example, you can see that the contact rate is highest mid-week while the details on the agents' performance are depicted on the right. The trends are indicated in comparison to the previous period and are, unfortunately, negative. The point is to examine further what happened in order to avoid such scenarios in the future. Do agents need more education or something unexpected happened that you can't really influence or change - it's time to start asking additional questions.

### 7) Sales performance report

As our final monthly report format, we chose one that displays a broad overview of your performance, combining a lot of different KPIs – which is useful if you decide to create a *monthly* report. The one displayed here, however, goes further, as it shows data over one year; but you can take data for just over one month.



From the number of customers you have acquired during that time span to the costs, it takes to get them, from the average revenue each of them brings you to the lifetime value they have, this sales

analysis report sample provides you with at-a-glance information to quickly see if your teams are meeting their goals.

In a practical sense, this performance dashboard will enable you to track the customer acquisition costs, the average revenue per unit, the customers' lifetime value, and the development over time. It's important to track and regularly evaluate your performance since it will create an informed sales environment, where you have the opportunity to make decisions based on data, and not "hunches" or assumptions that can cost you a significant amount of money and time.

## 2. Weekly Sales Reports

A weekly sales report is a measurement tool used by companies and individuals to track sales performance and essential KPIs, such as lead-to-opportunity ratio, lead conversion ratio, sales volume by channel, total sales per region, among many others, on a weekly basis.

A week is arguably the perfect unit of time to measure individual sales rep performance. A month is often too long of a time frame, leading you to miss out on course correction opportunities until after the fact. And a single day is often too short to see any real, meaningful outcome-dependent information. Of course, the perfect time to measure sales rep performance depends on your business model, too. You can also check our resources for using a business report template to expand your knowledge.

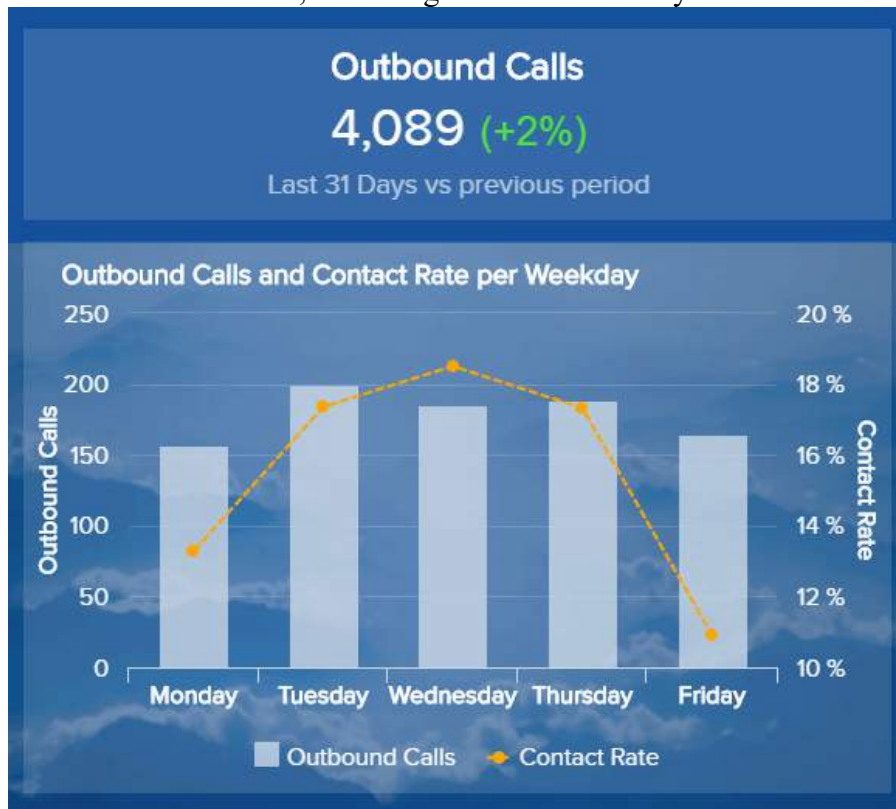
Here we will take a look at specific reports and KPIs you can track on a weekly basis based on a B2B and retail perspective.

### a) Track Your Weekly B2B Sales With These Reports

As mentioned, the week is a perfect time unit to track your team's performance and get a more detailed overview of your sales numbers. Let's go through the top reports you can utilize for your weekly meetings.

#### 1) Number of outbound calls

Telephone cold calling is another invaluable B2B KPI that can tell you which weekdays are the most promising for outbound calls. Usually, Tuesdays, Wednesdays, and Thursdays are particularly valuable for B2B sales, but it might be useful to set your own benchmarks.



You can set daily targets and track the performance during each day of the week, but do consider factors such as mentioned days of the week or local time.

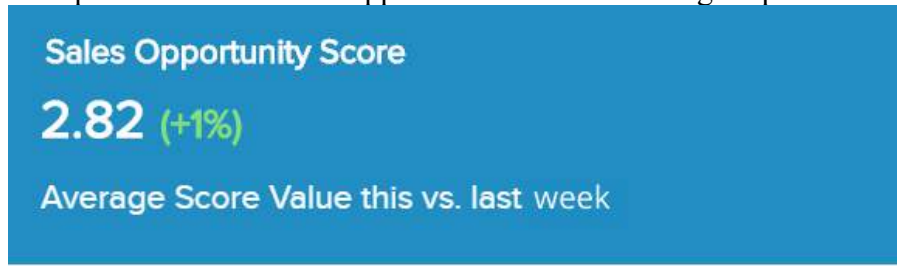
## 2) Sales volume by channel

This is a bit of a more “strategic” KPI that can also be used effectively on longer time scales. Essentially, this report shows you what physical areas and methods of customer acquisition are pulling in the most revenue.

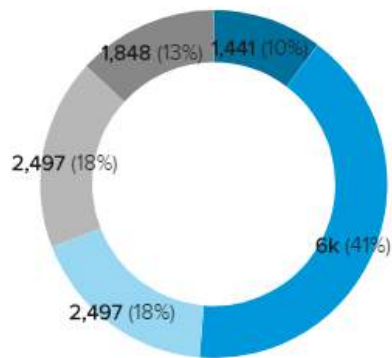
The total sales volume can make it easy to see where you should be prioritizing your sales efforts so that you can adjust accordingly.

## 3) Sales opportunity score

Scoring models will help you to set a standardized value to your opportunities since there are different classifications depending on the potential. That way, you can allocate your resources more effectively and spend more time with opportunities that have a higher potential.



### Number of Opportunities



■ 1 - low potential ■ 2 ■ 3 ■ 4 ■ 5 - high potential

As we can see in our sales summary report above, the number of high-potential opportunities corresponds with the dark grey area and 13% of all opportunities. This metric, created with modern dashboard software, will help you create an effective weekly strategy and action plan on where your sales reps should focus their time and energy.

## 4) Revenue closed by rep

While a week may be slightly too short to get a meaningful revenue metric (depending on the length of your sales cycle), this is still a useful report to run. For shorter sales cycles, you’ll certainly be able to see trends by rep over 2-3 weeks.

For longer sales cycles, this report may provide some insight into what times of the month your reps tend to close sales, increasing the accuracy of your future projections.

## 5) Upsell and cross-sell rates

As it is well known in the sales industry, it is much easier to sell additionally to your existing customers than acquiring new ones.

### UP SELL/CROSS-SELL RATES

UP/CROSS-SELL REVENUE	UP/CROSS-SELL SALES	UP/CROSS-SELL % OF SALES
Anna Krüger	5	15%
Tobi Schmidt	5	16%
Lisa Fischer	3	15%
Jakob Wolf	3	15%
Jonas Becks	2	14%

This daily sales report sample is useful to track on a weekly basis since tracking it daily is just too short of a time span to evaluate your strongest and weakest points. When you compare the results of each rep, you can see each rate and educate others to implement the same tactics. That way your sales numbers will grow, but there is a high chance that you will also improve customer loyalty and satisfaction.

### 6) Customer lifetime value

This is one of the most important KPIs you can track in a B2B sales setting, first on a weekly basis, and then expand over the months.



It basically shows how much is expected to earn per customer, and you can monitor it on a weekly basis to see whether the average is rising or decreasing. The goal is, of course, to keep the lifetime value as long as possible.

### 7) Average purchase value

Comprehensive sales analytics reports should include the average purchase value. It makes sense to compare this metric with the number of opportunities on a weekly basis since you can immediately spot direct correlations between the two.



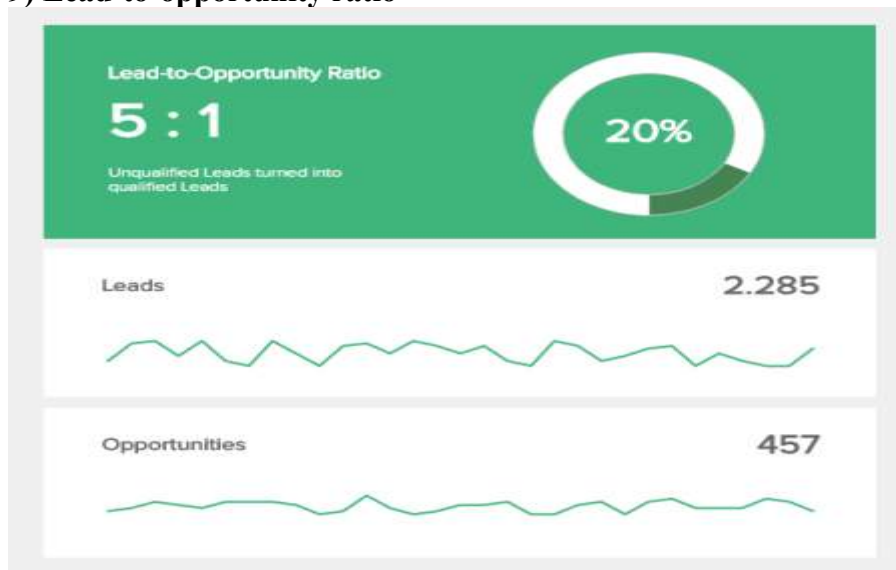
In our example of a sales report, we can see the number of opportunities and average purchase value is divided into 3 categories: basic, premium, and professional. The numbers can help you to identify if you need to offer additional incentives to your clients or customers in order to increase your chances to sell higher-end products or services. If you compare it with the previous week, you can see the growth of 4% which tells you you're on the right track.

### 8) Client meetings attended by rep

This is very good for a weekly sales report format. While in a day, it's hard to get meaningful conclusions from how many meetings are being attended by each rep, a week timeline shows a different story.

These meetings can either be virtual or in person, but either way, successful sales reps are going to be having them consistently, and this report will show you how they're doing.

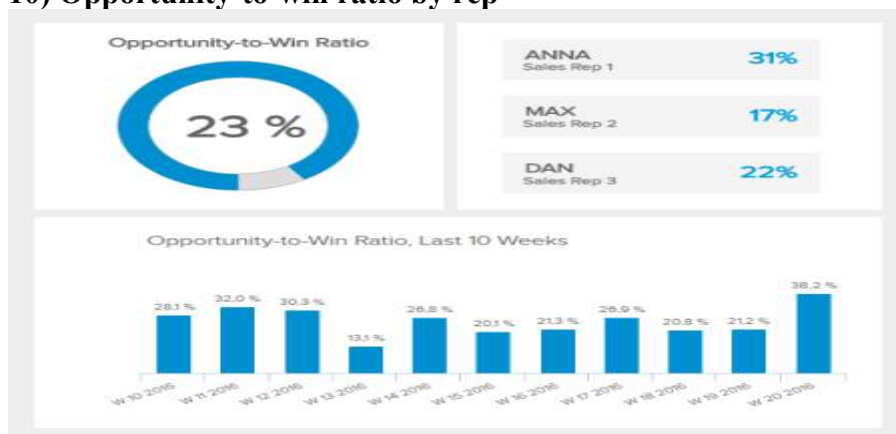
### 9) Lead-to-opportunity ratio



Tracking this metric weekly will let you evaluate the number of unqualified versus qualified leads. A qualified lead usually is an opportunity, i.e. positive interaction that leads to a face-to-face meeting or a phone call, opening favorable circumstances for closing a sale. The lead-to-opportunity ratio tells you the number of leads you need to stay on track with your objectives in terms of revenue. Once you have a baseline ratio, you know how many leads you need to create to reach your target growth – and at the same time, you have revenue that is predictable.

This reporting example can be assessed with the MQL (marketing qualified lead) and SQL (sales qualified lead), as it interconnects the departments since you need to define which are the most promising prospects that can turn into customers. Over the weeks you can determine which of your potential customers convert the most, and adjust your sales and marketing strategies accordingly.

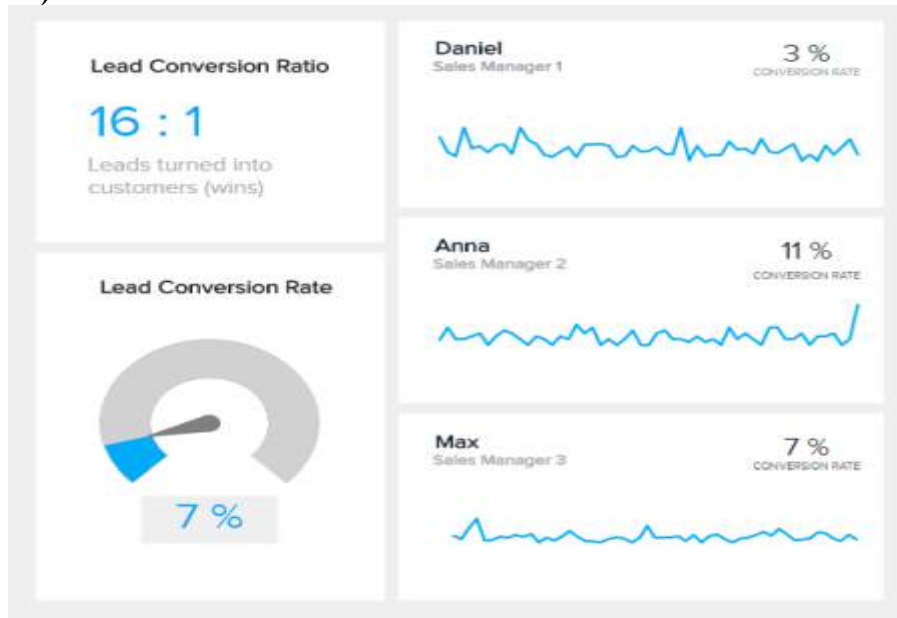
### 10) Opportunity-to-win ratio by rep



This report displays a straightforward sales KPI that shows how effective each of your reps is at closing their opportunities. While some variance is to be expected, if one rep is dramatically better than the others, it's possible they're getting the best leads. Or, it's possible that this rep has some skills they could teach the rest of your reps.

If a rep isn't closing at the same rate as his or her colleagues, this could just be a fluke – at least on a weekly basis. But if these weekly reports continue to indicate the same trend, it could be time to help this rep out.

### 11) Lead conversion ratio



As the name states, this report will track the number of leads that end up in a “win”, i.e. that turn into paying customers. This is one of the most important ratios for a sales team, as it gives a baseline to determine the number of leads the team needs to meet business objectives. It will depend on each company and industry, but generally, a low lead-to-conversion ratio will alert you to the weakness of your sales pipeline.

### b) Skyrocket Your Retail Sales With These Reporting Practices

As one of the most sales-oriented businesses, retailers must also track, measure, and report on important sales values on a weekly basis to be able to get a bigger picture in comparison with daily reports. Let's see which ones are the most prominent.

### 12) Rate of return

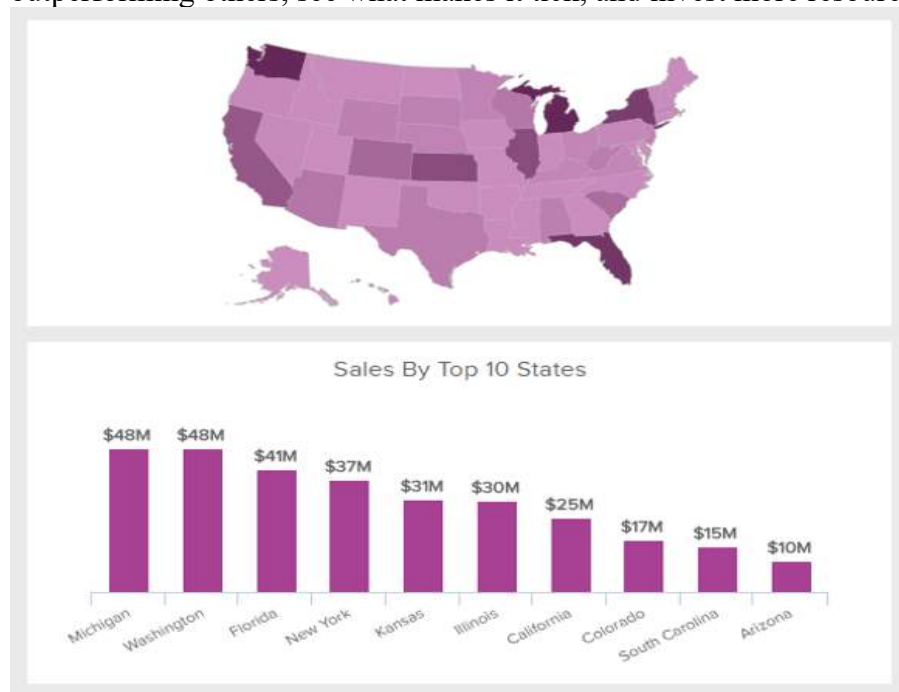
Our next example is a retail sales report template tracking the rate of return. Whether a big or small business, the rate of return can tell you a lot about what customers think of your merchandise.



No retailer is happy when their products are returned, therefore, tracking and reporting these values on a weekly basis will enable you to decrease this number in the future when you investigate why the goods are being returned, and what can you do to improve these items or your overall offer.

### 13) Total sales by region

Tracking your sales by region can tell you which of your stores (or customers' locations if you are an online business) are performing well. That way, you will be able to compare these values and implement various other marketing activities based on your results. If you see a specific location outperforming others, see what makes it tick, and invest more resources to grow even further.



Now that we have tackled monthly and weekly sales reports, provided examples you can implement in your own business strategies, it's time to take a look at some more detailed insights through daily sales reports.

### 3. Daily Sales Reports

A daily sales report is a management tool used by businesses, sales reps, and managers in order to extract the most relevant daily sales data such as the number of closed deals, client conversations, opportunities created, and many other sales-related KPIs.

When it comes to daily reports, you don't want to get too focused on outcome-dependent metrics. Instead, you want to focus more on process metrics. What's the difference?

An *outcome metric* is something like revenue earned which your sales rep can't directly control. A *process metric* is something your sales rep *can* directly control, like how many calls they've made, emails they've sent or meetings they've set up.

On a daily basis, your reps are simply going to have some bad days and some good days due to reasons beyond their control. So, seeing that a rep has one low earning day, and then calling them into your office, would be a little premature, and arguably an example of micromanagement.

However, if several days in a row are pretty bad, or if a week goes by where your reps aren't performing at their normal standards, that's a pretty good sign that you might want to ask them what's going on. Maybe they need to learn some new skills – or maybe their dog just died and they're in a bad spot. Either way, it's your role as a manager to support them. Hereafter are some examples of B2B and retail KPIs you can track in this sales reporting template.

#### a) B2B Daily Reports To Control Your Operations

As mentioned, each day in a sales department is different and there are many things simply out of human control. But having a closer look at your daily sales operations, the better you can conclude

what works in your sales process and whatnot. Now we will focus on some examples you can track on a daily basis.

### 1) Number of meetings set up by a rep

While you can't actually force a potential customer to set up a meeting with you through sheer force of will, you can mostly control how many meetings you set up. Take note that we're not keeping track of phone calls and/or emails sent out explicitly, as while those KPIs can measure effort, they can also be manipulated quite easily.



And this contains an important lesson about KPIs, even daily ones – they have to serve your overall goals. If your daily KPI measures something that doesn't contribute to your overall goal, it's not valuable. All in all, it's hard to have too many sales meetings set up, and that's what makes this daily sales activity report format useful.

### 2) Number of client conversations by rep

This is the equivalent of: "How many phone conversations and in-person meetings are each rep having, each day?". Again, all else being equal, a rep who spends more time talking to customers is going to generate more results for your business than a rep who isn't.

This is assuming that you are qualifying your leads properly of course, which at times can be easier said than done.

### 3) Lead response time by rep



This daily sales report template can be tricky and controversial sometimes since it can vary greatly, based on the type of lead and actual scenario. The optimal response time should be determined after different strategies are tested. That means you should decide when is the right time to react when

prospects download a free trial or whitepaper, whereas prospects requesting an offer should be contacted as soon as possible.

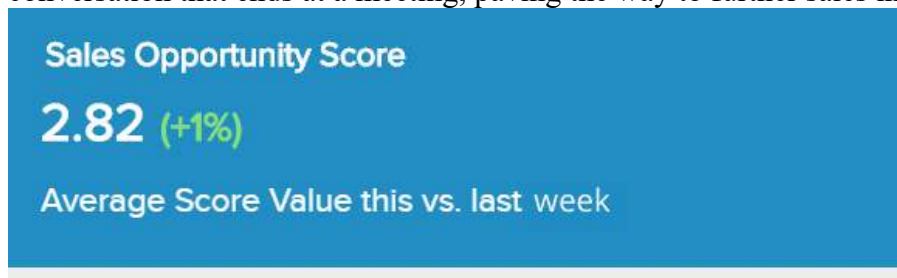
After you have your benchmarks, you can track on a daily basis how your sales reps are performing, and what their averages are. That way you can better analyze the effects on your overall strategy.

#### 4) Number of outbound calls by rep

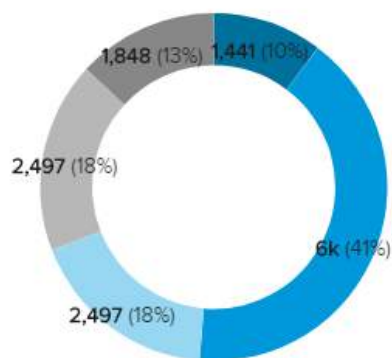
You can track the number of outbound calls made by each of your rep on a daily basis and see how effective they are in their performance and take appropriate measures if there are significant deviations from set targets. That doesn't mean you should micromanage sales reps on a daily basis, as mentioned earlier, but provide them a helping hand when needed.

#### 5) Number of sales opportunities

An opportunity is basically a lead that gets qualified, because of the good response and interaction it had – meaning, this is no junk email address nor a fake phone number. An opportunity can be a conversation that ends at a meeting, paving the way to further sales interaction.



#### Number of Opportunities



■ 1 - low potential ■ 2 ■ 3 ■ 4 ■ 5 - high potential

Valid qualified leads are extremely important to sales as well as comparing the number of opportunities against the purchase volume. This sales analysis template will show you the potential purchase value of new opportunities and it would make sense to track it daily but also its development so that you can easily pinpoint successful days and try to recreate the processes in the future optimization of your sales funnel.

#### 6) Number of touchpoints created by rep

This is a tie-in metric that looks at:

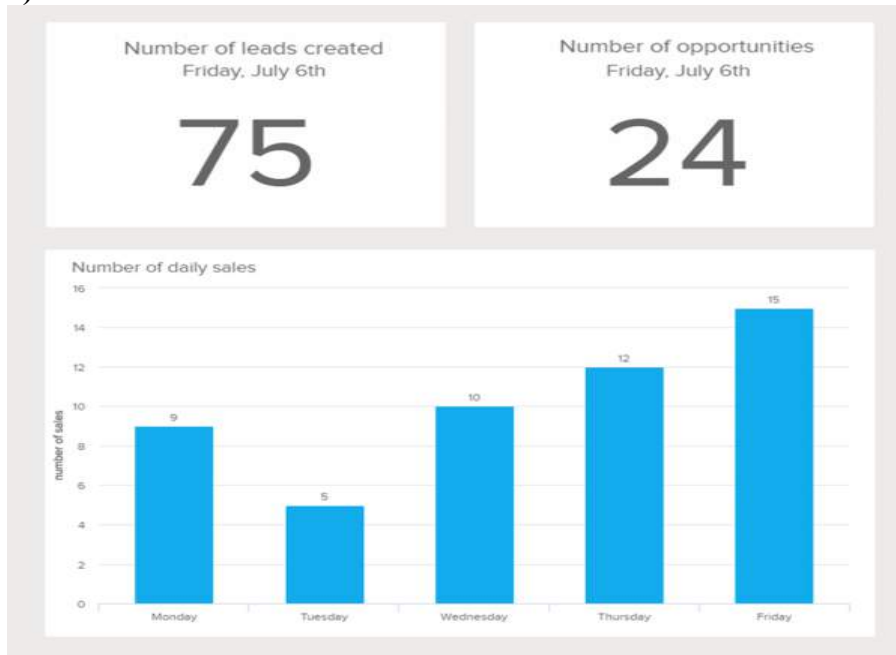
1. How many emails were sent to a potential customer that has shown interest
2. How many phone conversations were held, and/or voice mails left with potential customers who have shown interest

With this metric, we're trying to provide an overall "effort" KPI for each rep without making things too easy to manipulate. That's why it can be useful to specify that in order for an email or phone conversation to count, there has to have been prior contact with a customer identifying them as a lead.

### 7) Number of new leads created by rep

This is a pretty straightforward report. If you're worried about reps boosting their numbers with low-quality leads, you can identify specific qualifications for leads and base your report on those numbers.

### 8) Number of sales/closed deals



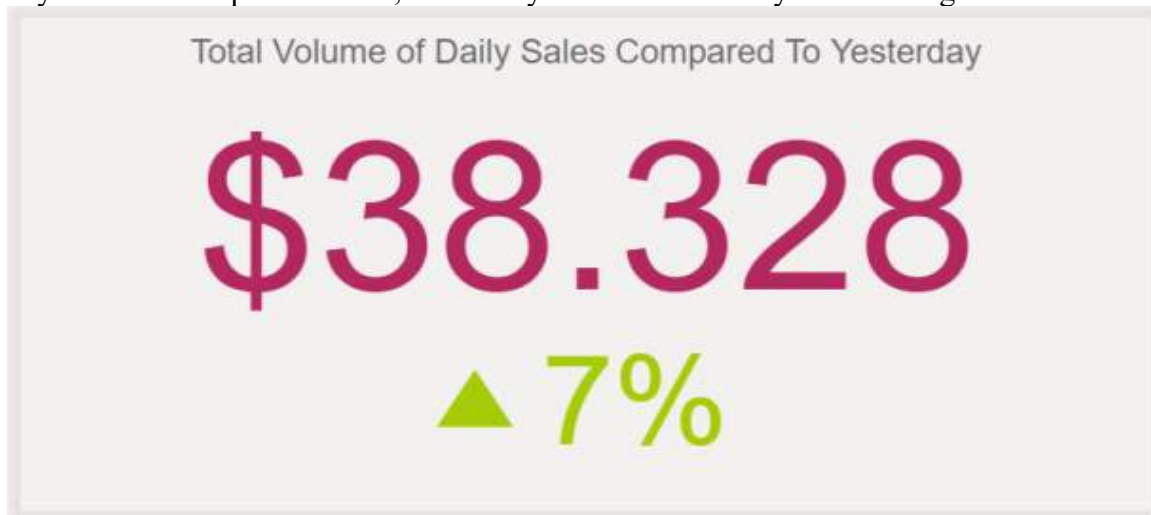
Quite straightforward, this KPI counts the number of sales performed on the day. This is particularly important for small retailers who have a lot of items with low-added value, and who hence need to close as many deals as possible to make a profit margin.

### b) Retail Sales Reports You Should Track On A Daily Basis

The retail KPIs we will explain next are indispensable in the retail industry. Retailers must track these KPIs since they need to have a daily overview of their operations, costs, and expenses to be able to generate profit. Let's take a closer look at each of them.

### 9) The total volume of daily sales

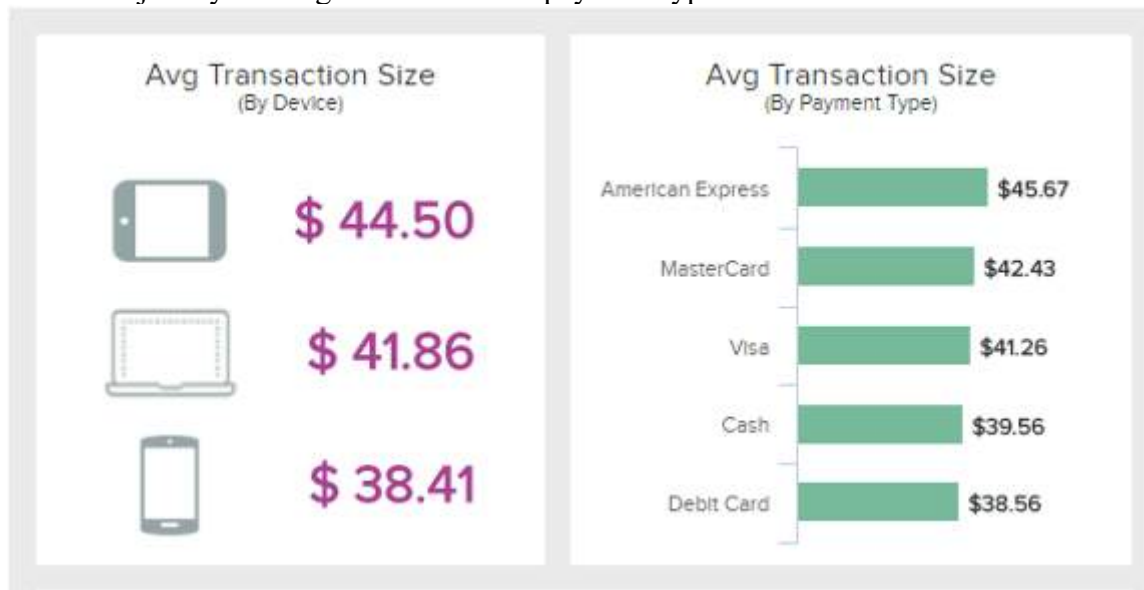
This is one of a clear-cut daily report that focuses on the number of sales achieved on a daily basis. It is quite important to track, especially in the retail industry, since daily volumes can indicate which days of the week perform best, and how you can use this to your advantage.



The goal is to keep your daily sales volumes growing, but don't panic if it starts to decrease - instead, investigate why, and adjust your strategies.

## 10) Average transaction size

Another retail KPI that is extremely useful to track since you can conclude a lot about customer behaviors just by looking at the device or payment type.



This KPI certainly varies, depending on the retail store type. But evaluating this KPI can tell you how to adjust your advertising and online shop to correspond with your customers' needs.

## 11) Total orders and average units per customer

Order placement must be tracked on a daily basis since retailers need to keep an eye on how many orders they received each day to ensure profitable results. This will enable you to improve your retail analytics and evaluate which weekdays are busy the most to avoid out-of-stock situations.

The average number of units per customer evaluates how many items are purchased by customers (on average, of course) which can set the tone of the purchase trends and give you enough data to evaluate your sales even more precisely.

## 4. Bonus: Quarterly Sales Reports Examples

A quarterly sales report is a tool used to record the performance of sales metrics in a three months period. One month is often not enough time to track the success of strategies or to discover trends and patterns that will lead to improvement opportunities. For this reason, businesses use quarterly sales reports to track growth based on a target, a specific market, a geographical area, or any other relevant sales-related process.

After analyzing, monitoring, and evaluating the most prominent KPIs through a quarterly sales report, managers and sales representatives use the results to define what steps need to be taken in order to improve in the next quarter. As bonus content for our examples section, we will present you 3 quarterly sales report examples that you can apply to your business.

### 1. Pipeline Value Forecast

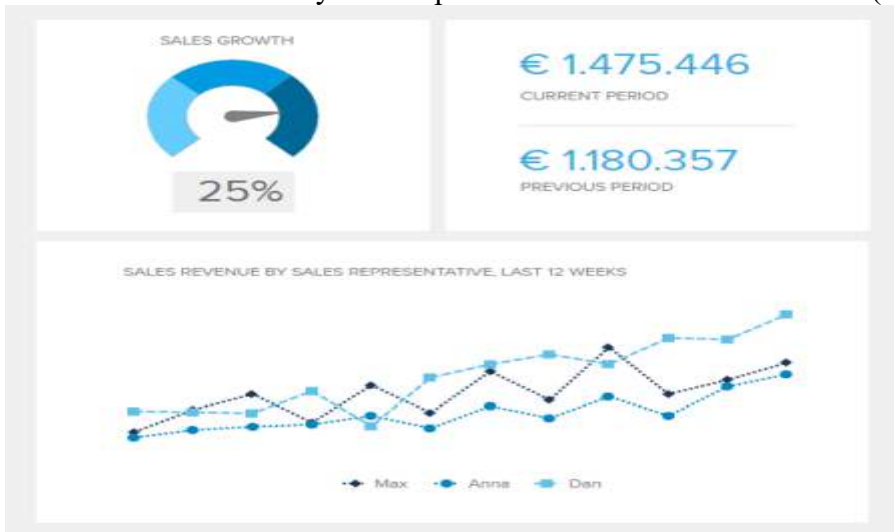
Our first quarterly sales report example is the pipeline value forecast. By analyzing your historical data to find trends and patterns, this powerful sales report aims to predict the sales value of your business as well as the performance of your sales representatives for the next three months.



The predictions not only consider the value of your sales pipeline but also your committed deals, which can also include old clients upgrading their contracts, as well as a worst and best case scenario for each value. By getting these predictions you can quickly understand if you are on the way to meet your sales targets or if you are facing some underperforming issues and implement strategies to fix them on time.

## 2. Sales Growth

Arguably one of the most important quarterly sales reports to track, the sales growth aims to measure the amount of revenue by sales representatives in the last 12 weeks (or 3 months).



This is a relevant sales KPI to track as it allows you to drive several conclusions about your sales strategies. For instance, if each of your sales reps is working for a different target group or market, you can monitor which of them brings more revenue and focus your efforts on that target.

## 3. Customer Acquisition Cost (CAC)

Last but not least in our bonus sales report examples for quarterly reports is the customer acquisition cost. As its name suggests, the CAC aims to track all costs incurred in signing up a new customer. These costs will defer depending on your business type and what resources you implement to acquire new customers. Which can be from campaigns implementation to staff salaries and other related costs.



In the report example above, we see the CAC tracked for a year period, however, tracking it on a quarterly basis will allow you to fine-tune your strategies before bigger issues affect your entire revenue. It is recommended that the customer acquisition costs should be recovered in less than one year of your customer's subscription. The goal here should be to keep your CAC as low as possible while increasing your customer lifetime value.

After we have expounded these sales examples, we will now explain how to make one for yourself and your boss, provide some tips for conducting an effective sales reporting practice, and expound on why are sales reports important.

### How To Make A Sales Report?

When you write a report, you need to keep your final objectives in mind. To master report writing, there are a couple of crucial questions that you need to ask yourself: who are you reporting for, and why? Is this a weekly check-up or an assessment of a situation or a campaign project? What is the time period of the report? What is the main message you want to share?

Once these questions have found an answer, you can easily articulate your report accordingly. Here's how to do it:



- **Define your audience:** before writing, think about who will read and what they need to know. Consider their background as well and if they are familiar with the jargon you might use. It's not the same if you write for a specific sales audience or a general one.
- **Define the purpose of your report:** sharing monthly advancement with top management, or just having the weekly overview and analysis of the sales objectives with your team. Both reports will have a different structure and the info you will share will also be very different. You can also benefit from report automation and schedule a specific time for your reports to be produced and shared.
- **Decide on a time period:** that means that you can create a daily as well as a monthly report, or choose to display the data of the last quarter or year. You can customize the examples we have presented based on your own goals, departmental structure, or c-level management's requirements.
- **Gather the right data:** since you have set specific KPIs to track, you now just need to compile them all together and analyze them with the help of online BI tools. They are specifically designed to ease your data and create compelling sales analysis reports in no time.
- **Visualize and communicate your findings:** the most important part, once you have analyzed and dug out insights from your data, is to convey this information to your audience. Using a professional business intelligence dashboard that works with real-time data will always let you up to date when sharing your insights.
- **Provide context:** an aspect that is often forgotten, when we are deep in the reporting mindset, is that numbers never tell the full story. Provide some background and a bigger picture to the figures, especially if you are presenting weekly sales report templates for instance: how was the situation been the month, the quarter? Is the general trend going up or down?
- **Get creative!** When building your report, add a little bit of fun or more personal touch that will catch the attention of your audience and make you more confident while presenting!

These tips will help you create a powerful business sales report that you can share with your colleagues and key stakeholders. But what to do when you need to create a sales reporting system and present data to your boss? Here we present to you some additional tips and tricks.

## Top 7 Tips For Your Sales Reporting Process

Sales reporting can be a tricky task both for teams and managers. We have already expounded on how to make a report, but to be able to clearly compose your data which you can tell a story with, you should follow these additional tips:

### 1. Identify your goals

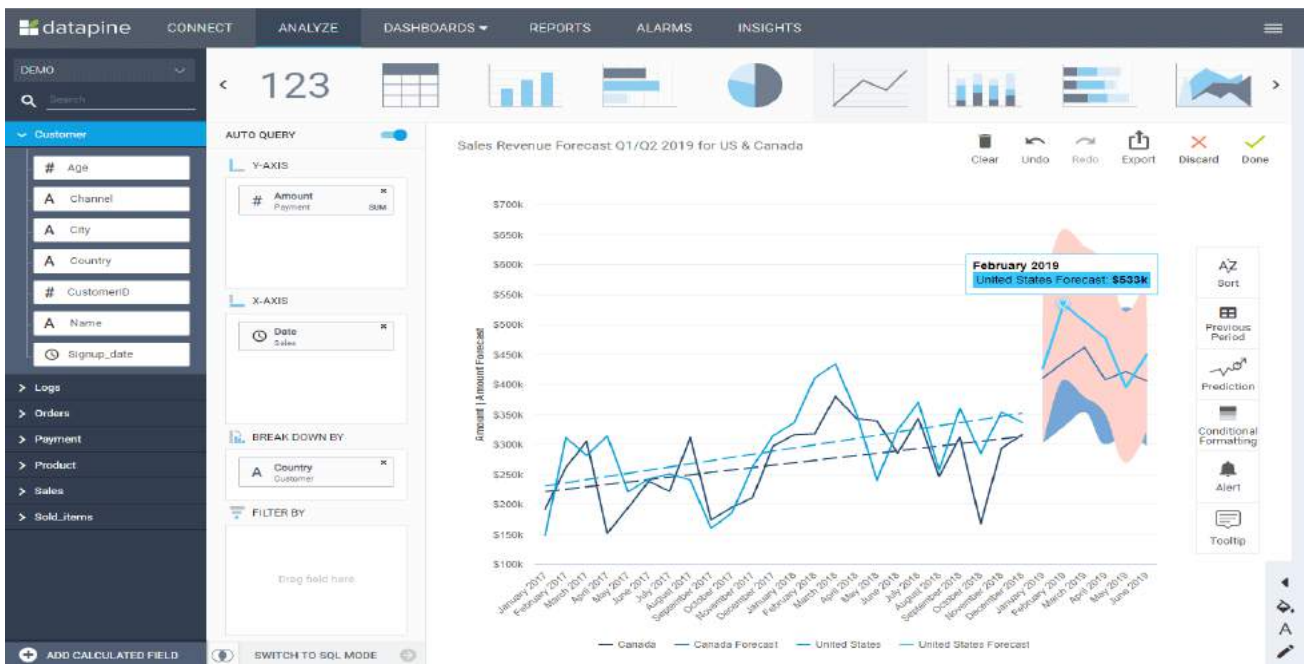
There is no point to create a solid sales reporting process if you don't have a goal in mind. Define specific questions you need an answer to, and tie all the metrics that correspond to your final destination.

### 2. Tell a story

As shown in our examples section, various types of reports tell different stories, based on the goals we have predefined. In this area, you also need to take a look at the bigger picture. If your goals aren't being met, there is a reason behind it – does your customer or client have a rough business patch that resulted in lower sales volumes?

### 3. Take advantage of sales forecasts

One of the most crucial tips we can give you is to utilize sales forecasts to be able to make better and more informed business decisions, predict future performance, and give insights on how to manage your sales strategies, like in our example below:



This example shows an intuitive user interface of modern business intelligence software like [datapine](#) that allows you to analyze and visualize sales data with a few clicks, and take advantage of advanced analytics features such as predictions, intelligent alerts, and conditional formatting.

#### 4. Create an unforgettable presentation

Humans are visual creatures, and by visualizing all the numbers and correlations on a single screen, you enable faster insights, pattern recognition, easy-to-spot trends, and interactivity with data. A simple sales report presentation with visualized data is much more digestible and effective when it's done through the power of [online data visualization](#).

#### 5. Identify patterns in your data

An important tip to consider when using sales reports for your [online data analysis](#) process is to act on results. Often organizations react when the numbers are negative, however, the true value of reporting lies in the fact that it provides a deeper look into your business. Once you get your sales reports done, examine the data carefully, find trends and patterns and patterns to understand why something is happening. Like this, you will not only fine-tune your sales strategies but will find new opportunities that will lead your business to grow.

#### 6. Share your findings

Whether you need to input your colleague, show your sales manager or board of director's achievements, and current insights, these kinds of reports should be easily sharable. This can be easily done through modern [business dashboards](#). That way you empower collaboration and increase productivity between stakeholders.

Now that you know each bit of detail of creating and utilizing a sales working report from our selected examples, we will discuss why are these reports important and recap the key takeaways from this article.

#### 7. Use automated reporting tools

One of the main benefits of sales reporting is to help businesses deal with their sales data in the most efficient way possible. To help you with this purpose is that sales business intelligence tools provide automated features that will autogenerate your reports with just a few clicks. By investing in these types of [business intelligence solutions](#) to leverage your sales data, you can leave the pains of manual reporting in the past and benefit from interactive dashboards filled with real-time data ready to extract fresh business insights.

### Why Are Sales Reports Important?

If a sales team sets an ambitious quarterly goal of closing six figures in new revenue streams, and then check the progress about two months in... only to realize that they're way off target from hitting their

goal. They were probably busting their butts to make their goal become reality, but just working hard isn't enough. Setting goals is fine, but they need to be realistic as well as achievable. Tracking your progress with the help of [self-service data analytics tools](#) and regularly reporting on realistic goals make sales manager's reports one of the most critical parts of sustainable business development. But that's not all:

- **They provide a navigational system:** Think of reporting as your “navigational aid” for steering your sales team in the right direction. Modern reporting software will help you to get actionable sales insights to drive future revenue and crush quotas. They make things crystal clear for your sales team as far as what's important and what they should be working on.
- **They ensure consistent monitoring:** You need to work hard, on the right things, at the right time. In other words, you need to work hard with intention and awareness. And that's what a daily and a weekly sales report sample we presented in this article will help you achieve. They give you indications of how your team is performing on a constant basis so that you can course-correct things as needed.
- **They keep goals simple and clear:** As long as you're not overloading your team with too many KPIs, by using reports you can show your staff, “Hey, these numbers are crucial to our success. So, we're going to keep track of them on a frequent basis.”. When your team has a set of simple, clear [KPI examples](#) they need to execute on, they can invest all of their energy into drumming up revenue – instead of wasting time thinking about what they should focus on next.

To put things into perspective, let's say that you've been doing an aggressive cold calling campaign to drum up a new business. If you use a weekly report, you might find after a week that NOBODY has made any significant progress. Knowing this, you can switch to [another strategy](#) in time to still hit your monthly revenue goal.

Granted, all of this information depends in large part on your sales cycles. If you have a massively expensive enterprise software package that often takes half a year to close, then a monthly report would be your version of a weekly report, and your weekly report would be similar to a daily report for other businesses with shorter sales cycles.

In essence, what a sales report provides is a roadmap to track your progress and monitor the team's efficiency in order to develop the most profitable funnel, keep your costs at a minimum while productivity is at a maximum level. If you want to improve the performance management of your sales cycles periodically, you can also read our extensive article on the benefits and value of a [KPI scorecard](#).

### **In The End, What Should A Sales Report Include?**

To sum up this long and rich article, here is a list of what you can find in a sales report:

- An overview of the sales operations and activity of the company
- Specific sales KPIs tracked and analyzed to assess said activity
- A determined time period over which the KPIs are analyzed
- Graphs and charts to visualize all the data collected
- An executive sales summary for top-management

## **Evaluation of Sales Organization Effectiveness**

### **MARKETING AUDIT**

Although the term audit is most often used to refer to financial audits (i.e. inspection of an organization's accounts) carried out by accounting firms, the audit concept is extended to other functions in recent years.

A marketing audit is a comprehensive, periodic, and systematic examination of a company's marketing plan, environment, objectives, strategies, tactics, performance, organization, and people with a view to find out opportunities and problems, and recommend an action plan to improve the company's marketing performance. It also evaluates the long-term business growth alternatives of the company.

As per a study, an average US Corporation loses half of its customers in five years, half of its employees in four years, and half of its investors in less than one year. This indicates some weaknesses. Organizations that become aware of their weaknesses must carry out a thorough study that is called a marketing audit. A complete marketing audit is a large project that is time consuming, problematic, and costly. But the rewards can be substantial.

A marketing audit covers a company's total marketing system. The audit concept can be applied to a company's major functions within the marketing management. For example, a company can audit the sales function, or the marketing research department. Often outside sources, like management consulting firms, are employed to carry out the marketing audit to ensure unbiased approach.

### **SALES AUDIT**

A sales audit is a comprehensive, systematic, diagnostic, and prescriptive tool. The purpose of a sales audit is to assess whether a firm's sales management process is adequate, to give direction for performance improvement, and to recommend the needed changes.

Sales audit is a good method for evaluating the effectiveness of a sales organization. Because auditing should be objective, it should be conducted by someone from outside the sales organization. This could be someone from another functional area within the firm or an outside consulting firm. However, members of the sales organization should participate actively, as most of the information is provided by sales managers and salespeople.

The sales audit is an expensive and time-consuming process, but the benefits are much more than monetary and time costs. Marketing and sales audits should be conducted on regular basis, so that the company can identify and correct potential problems before they become troublesome.

### **The Evaluation Process of a Marketing/Sales Audit**

Whether it is a marketing audit or a sales audit, the evaluation process is the same. It consists of three stages, as shown in Figure 7.1.



**Fig. 7.1 The Evaluation Process of Marketing/Sales Audit**

It is the responsibility of the company's management to find the following:

***What Happened***

The company should get the information by comparing the actual performance with the goals or targets. This will show favorable or unfavorable variations. For instance, if the actual performance on sales at the end of first quarter of the year 2016 is `90 million against a sales goal of `100 million, it shows a negative or unfavorable variance of `10 million.

***Why It Happened***

This stage is more difficult and time consuming. What specific factors have contributed to the negative variance? There are many factors, including environment, competition, marketing mix elements, salespeople, and sales managers. Which of these factors have contributed, for example, for the negative variance mentioned in stage 1?

***What to Do about It***

In this stage, the corrective actions are decided and implemented to solve the problems, overcome the harmful conditions, or leverage the favorable conditions. For example, if the customer service is not as per the customer expectations, first find what kind of service needs improvement – presales, during sales, or post-sales – and then implement suitable corrective actions.

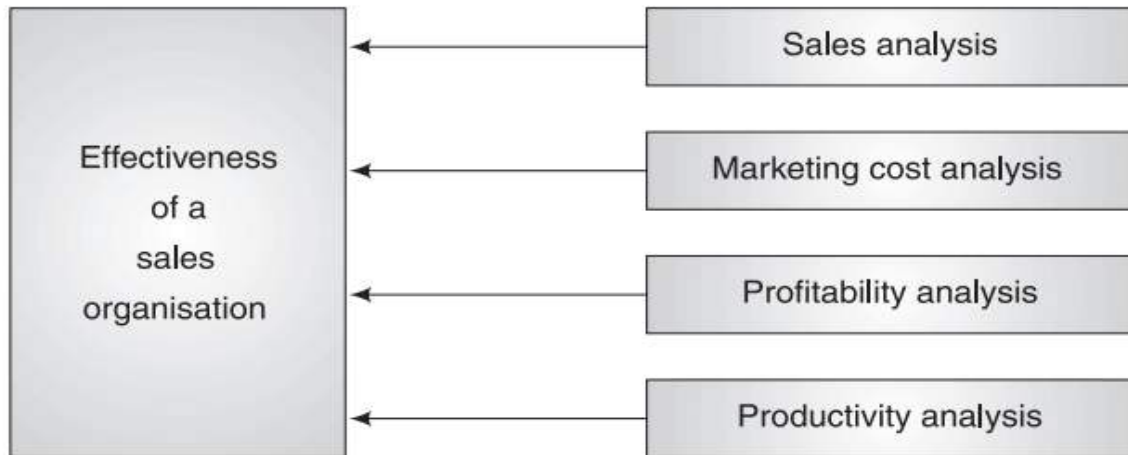
Since a full marketing audit is costly and takes a long time many companies evaluate different elements of marketing. For instance, one company may analyze its sales volumes only, but another firm may decide to analyze sales, marketing cost, and profitability. We shall, therefore, discuss analysis of sales volume (or sales analysis) first, and later, marketing costs, profitability as well as productivity analyses.

**EVALUATION OF EFFECTIVENESS OF A SALES ORGANIZATION**

Sales organizations have many goals and objectives. Therefore, many factors need to be analyzed to evaluate the effectiveness of a sales organization. (Here, the effectiveness means an organization that gives expected or targeted results consistently). Figure 7.2 shows four types of analyses that are usually needed to develop a comprehensive model for evaluation of a sales organization. These are: (i) sales analysis, (ii) marketing cost analysis, (iii) profitability analysis, and (iv) productivity analysis.

Each type of analysis can be done in different ways. For example, sales analysis can be done by total sales, sales by territory, sales by products, sales by customers, and sales by salesperson. Actual sales can be compared with sales quotas (or sales goals/targets), sales of previous periods, or sales of competitors.

Sales analysis should be done at different levels of the sales organization, such as regions, branches, districts, and territories. Many companies, in a study, use sales analysis for evaluating their sales organizations, but few companies use reports on marketing cost, profit contribution, net profit or return on assets analyses.



**Fig. 7.2 Effectiveness Model of a Sales Organization**

**Sales Analysis**

Sales analysis (or sales volume analysis) is an important element for evaluating the effectiveness of a sales organization, because the purpose of a sales organization is to generate sales. Sales managers use sales analysis to evaluate current performance, take corrective actions, and do future planning.

Sales analysis is described as a detailed inspection of a company’s sales data, which includes collecting, classifying, comparing, and drawing conclusions. All companies collect sales data in the form of customer sales invoices or cash register receipts, which are needed for maintaining their accounting records.

Definition of what is meant by a sale is necessary before starting a sales analysis. The company must decide when a sale takes place – whether at the time an order is received, shipped (and invoiced), or paid for. Most companies define a sale when an order is shipped or transported and invoiced. The sales organization should develop an information system based on whatever definition of sale is decided.

Another point companies have to decide is whether to concentrate on sales value (e.g., Rupees or Dollars), or sales units (e.g., tons or numbers). It is often useful to include both sales value and units in a sales analysis, because each one gives different type of evaluative information.

**Framework for Sales Analysis**

There are many alternatives available to a company for analyzing Sales Volume of a sales organization as shown in Figure 7.3. These alternatives are grouped in three important decision areas: (i) all levels in the sales organization, (ii) different type of sales, and (iii) different type of analysis.

## **All Levels in the Sales Organization**

Sales analyses should be done at all levels in the sales organization. There are two reasons for this:

**(i) for evaluation and control purposes**, sales managers at various levels need sales analyses. At higher levels, that is national sales managers and regional sales managers, sales analysis is needed not only at their levels but also at the next level(s) below for evaluation and control, and

**(ii) for identifying problems (or strengths and weaknesses)**, companies use a hierarchical sales analysis. This includes evaluation of sales performance from the company level down to the last level. For instance, the sales analysis is first done at total organization level, by comparing the actual sales with the sales budget of the company, both in value (Rupees or Dollars) and units (numbers, tons, or liters). If the actual sales performance of the company is not up to the budgeted level, the sales analysis of the next level, say, regional level is done to identify which region(s) are having problems in reaching their sales quotas.

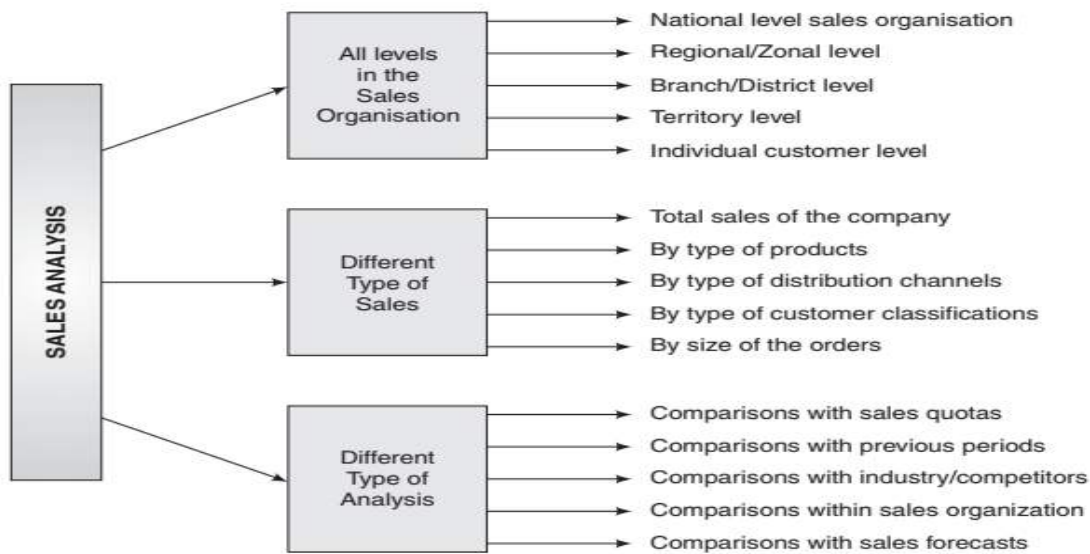
Next, sales analyses are done for all the branches (or districts) reporting to those problematic (or weak) region(s). This would identify low sales in specific branches. Further sales analyses are done for all territories in those low sales branches. This would point out territories which are not achieving their sales quotas. Further analysis is needed to find out why these territories are not achieving their sales quotas by carrying out analyses of customers in the territories, talking to customers, salespersons, and the branch manager(s). Corrective actions can then be taken to increase sales from these problematic territories. Thus, the hierarchical sales analysis method is a systematic way to carry out a sales analysis, to identify strengths and weaknesses (or problems) in the sales organization.

## **Different Type of Sales**

Analyses of different type of sales, shown in Figure 7.3, at different organizational levels definitely increases the sales manager's ability to discover problem (or weak) areas in the company's sales performance. But it makes the evaluation process confusing. A better way is to extend the hierarchical sales analysis, by focusing different type of sales on to the problematic territories. This would help understand the sales problems of the territories completely, by knowing which products and customer types are having low sales as compared to the sales quotas. Additional analysis would be needed for these products and customers to find out why sales are low and what needs to be done to improve sales performance.

## **Different Type of Analysis**

In Figure 7.3, different types of analyses are mentioned. Out of these, comparisons of actual with sale quotas are widely used by companies because it gives interesting information. Comparisons of actual performance with sales forecast or sales budget are done at the company level. Based



**Fig. 7.3 A Framework for Sales Analysis**

on the company sales budget, sales quotas are set at regional, branch or district, and territory levels. Some examples are presented to show how comparisons are done between sales quotas and actual sales in Tables 7.1 to 7.4. Table 7.1 explains the performance of different branches. Table 7.2 shows sales analysis by product lines for a consumer durable products company. Table 7.3 indicates sales analysis by customer classification. Table 7.4 is a composite measure of sales effectiveness, sales growth, and market share. In Table 7.4, an effectiveness index can be calculated by dividing the (actual) sales by the sales quota and multiplying by 100. This index helps to compare the sales effectiveness at different organizational levels. As shown in an example in Table 7.4, sales growth of this year over last year's sales is another useful analysis for the four regions of the company. Market share analysis is also done for the four regions of the company by dividing the (actual) sales by the industry sales and multiplying by 100.

**Table 7.1 Sales Analysis by Branches**

Regions	Sales Quota	Actual Sales	Difference (+/-)	Performance (% of Quota)
Delhi	400	376	-24	94
Kolkata	300	273	-27	91
Mumbai	410	418	08	102
Chennai	390	402	12	103
Total	1500	1469	-31	98

**Table 7.2 Sales Analysis by Product Lines**

Product Line	Sales Quota	Actual Sales	Difference (+/-)	Performance (% of Quota)
Ceiling Fans	425	415	-10	98
Table Fans	240	264	24	110
Exhaust Fans	175	190	15	109
Lamps and Accessories	360	353	-07	98
Total	1200	1222	22	102

**Table 7.3 Sales Analysis by Customer Classification**

Class of Customers	Sales Quota	Actual Sales	Difference (+/-)	Performance (% of Quota)
Class 'A'	970	922	-48	95
Class 'B'	315	343	28	109
Class 'C'	215	210	-05	98
Total	1500	1475	-25	98

(Note: All figures in above tables are in ₹ million)

**Table 7.4 Different Types of Sales Analysis**

	Northern Region	Eastern Region	Western Region	Southern Region
Sales (₹ million)	23	22	28.5	27
Sales Quota (₹ million)	25	20	30	25
Effectiveness Index	92	110	95	108
Sales Last Year (₹ million)	22.5	19	28	24
Sales Growth (%)	2	16	2	13
Industry Sales (₹ million)	250	200	300	250
Market Share (%)	9	11	10	11

Often, a sales analysis alone does not give complete information for evaluating effectiveness of a sales organization. The benefits of extending the sales analysis to marketing cost and profitability analysis are very much recognized. However, the most widely used measure of evaluation of a sales organization continues to be sales analysis.

## **Marketing Cost and Profitability Analysis**

While sales analysis is useful as one of the elements for evaluating the effectiveness of a sales organization, for comprehensive evaluation other elements like marketing cost analysis and profitability analysis should also be considered, as shown in Figure 7.2 earlier in this chapter.

A marketing cost analysis is a study of a company's marketing costs. The purpose of marketing cost analysis is to determine the profitability of sales (or marketing) units, like market segments, sales territories, and products. This is done by subtracting the marketing costs from the sales revenue, associated with the particular sales unit. Marketing cost analysis is a managerial tool that is used for planning and control of a company's future operations. Often, an analysis of past financial events helps as a guide for future operations. For example, a study on a bank's cost and profitability found that 30 percent of the bank's branches were unprofitable, and 60 percent of their customers generate losses<sup>4</sup>. For carrying out a proper marketing cost analysis, the company must have an account classification system.

Companies need to measure the profitability of their territories, customer groups (or market segments), products, distribution channels, and customers. This information will help the management to decide whether any sales and marketing activities or products should be expanded, reduced, or eliminated in future.

### **Procedure for Marketing Cost and Profitability Analysis**

The procedure followed for conducting a marketing cost and profitability analysis for a sales organization includes the following steps: (i) state the purpose of the analysis, (ii) identify functional (or activity) expenses, (iii) convert (or change) natural accounting expenses into functional expenses, (iv) allocate functional expenses to market segments, products, or other marketing/sales units, and (v) prepare the profitability of the marketing/sales units.

#### ***State the Purpose of the Analysis***

Before starting the marketing cost and profitability analysis, the sales manager should decide the purpose. Whether the purpose is to find the profitability of sales territories, market segments, products, branch offices, or sales representatives? Depending upon the answer, the marketing costs are classified as either direct or indirect costs. For instance, a salesperson's salary is a direct cost with respect to an allocated territory, but an indirect cost with regard to various products or customer groups. By stating the specific purpose of the analysis, the costs can be classified.

#### ***Identify Functional (or Activity) Expenses***

Each company should prepare a list of major activities (or functional) marketing costs that are relevant to its own marketing program. A manufacturer of material handling equipment, for example, performs different activities compared to a retail chain. However, a typical list of marketing cost, as shown in Figure 7.4, includes personal selling expenses, advertising and sales promotion expenses, order processing expenses, packing and delivery expenses, warehousing and inventory expenses, and administration expenses. Administration expenses consist of costs of sales offices, including salaries of sales managers and staff, travelling, and office maintenance costs. Order processing expenses include costs of processing customer's purchase orders and billing.



**Fig. 7.4 Major Functional/Activity Expenses List**

***Convert Natural Accounting Expenses into Functional Expenses***

In typical accounting records, expenses are classified according to the object of expenditure. The natural (or traditional) ledger accounts may classify marketing expenses as office rent, sales salaries, and advertising costs. However, for an effective marketing cost analysis these accounting expenses are converted (or changed) into functional (or activity) expenses. A more accountable method for allocating costs is activity-based costing (ABC), which allocates costs to marketing/ sales units on the basis of how the units actually spend or cause these costs (or expenses). Costs are gathered and then allocated to the units by suitable factors that drive costs up or down.

We shall take an example of Saragam Aluminum Company’s simplified profit and loss statement, presented in Table 7.5. We take each natural expense and allocate it to various activities (or functions). Salaries are dispersed to the functional areas where the recipients work, as shown in Table 7.6.

Travel expenses include food and entertainment expenses incurred in personal selling and are therefore allocated to personal selling expenses. Similarly, entire natural expenses on advertising and sales promotion are allocated to the functional expenses of advertising and sales promotion. However, the expenses on supplies and telephone are allocated to each function (or activity group) that incurs this expense. Rent is allocated to the various functions in proportion to the floor space used by them. Allocations of natural expenses to functional expenses are shown in Table 7.6.

**Table 7.5 Saragam Aluminium Company's Profit and Loss Statement**

Sales		₹75,00,000
Less cost of goods sold		₹52,00,000
Gross margin		₹23,00,000
Less sales expenses		
Salaries	₹11,00,000	
Rent	₹3,50,000	
Supplies and telephone	₹1,50,000	
Travel	₹1,20,000	
Advertising and sales promotion	₹80,000	
Total sales expenses		₹18,00,000
Net profit		₹5,00,000

**Table 7.6 Saragam Aluminium Company: Natural Expenses Allocated to Functional Expenses**

Natural Expenses	Total	Functional Expenses				
		Personal Selling	Advertising and Sales Promotions	Warehousing & Inventory	Order Processing	Administration
Salaries	11,00,000	6,00,000	1,50,000	1,00,000	1,00,000	1,50,000
Rent	3,50,000	100,000	40,000	1,40,000	35,000	35,000
Supplies and telephone	1,50,000	40,000	25,000	35,000	30,000	20,000
Travel	1,20,000	1,20,000	--	--	--	--
Advertising and sales promotion	80,000	--	80,000	--	--	--
Total	18,00,000	8,60,000	2,95,000	2,75,000	1,65,000	2,05,000

(Note: All figures are in Rupees)

### *Allocate Functional Expenses to Marketing Units*

To find the marketing costs and profitability of marketing units, such as branches, regions, market segments, products, or channels, the functional expenses should be allocated to the marketing unit under study. There are several bases for allocating functional expenses to different marketing units, which are presented in Table 7.7. Before we present cost allocation, let us first differentiate between direct and indirect expenses.

Direct expenses are incurred with respect to a single unit of sales or marketing operation. Hence, they can be allocated to a particular marketing unit (e.g., market segment, product, or sales territory). For example, personal selling expenses can be directly allocated to sales territories, if a territory cost analysis is being done and each salesperson has a territory. Here, personal selling expenses include the

salesperson’s salary, commission, travel, food, and customer entertainment. Costs of local newspaper advertisements and point-of-purchase (POP) materials can be charged to a sales territory.

Indirect costs are shared by more than one marketing unit and hence, allocation problems happen with these costs. For instance, if a product cost analysis is done, personal selling expense are allocated based on selling time given by a salesperson to each product. In a cost analysis for market segment or customer group, the personal selling expenses may be distributed based on the number of sales calls on each customer group. In case of indirect costs, some costs are partially indirect and some are totally indirect, For example, administration costs, including salary and office staff cost of general manager (sales), are totally indirect. Methods used for allocation are: (i) divide administration costs equally among territories, products, or market segments, (ii) allocate the indirect administration costs in the same proportion as the total direct costs. Both methods are easy to do, but can be inaccurate.

Table 7.7 Bases of Allocation of Functional Expenses to Marketing

Function	Bases of Allocation of Expenses
Personal selling	<ul style="list-style-type: none"> <li>• Direct to sales territories for a territory cost analysis</li> <li>• Selling time given to each product for product cost analysis and for market segment cost analysis, number of sales calls to each customer group or market segment</li> </ul>
Advertising	<ul style="list-style-type: none"> <li>• Direct or by circulation of media to sales territories</li> <li>• Direct or media space given to each product and market segment</li> </ul>
Sales promotion	<ul style="list-style-type: none"> <li>• Direct or equal charges to marketing units</li> </ul>
Warehousing and Inventory	<ul style="list-style-type: none"> <li>• Physical unit of goods handled, shipment, or orders received (applicable to all marketing units)</li> </ul>
Order processing	<ul style="list-style-type: none"> <li>• Number of customer orders (applicable for all marketing units)</li> </ul>
Administration	<ul style="list-style-type: none"> <li>• Equal charges among territories, products, or market segments, or in proportion to direct costs of marketing units</li> </ul>

### ***Prepare Profitability of Marketing Units***

Profitability analysis of marketing units (i.e. regions, branches, channels, products, or market segments) can be developed by preparing profit and loss (or income and expense) statements for marketing units. However, the question comes how to allocate indirect or shared expenses to various marketing units. There are two approaches of allocating marketing costs for profitability analysis: (i) full-cost (or net profit) approach, and (ii) contribution (or profit contribution) approach.

In the full-cost approach, all marketing expenses, both direct and indirect, are allocated to the marketing unit under study. By allocating all marketing costs, the company is trying to find the net profit of each marketing unit. This is presented in Table 7.8. In the contribution approach, only the direct expenses are allocated to each marketing unit, for which profitability analysis is being done. The indirect or shared expenses are not included. After deducting the direct costs from the gross margin, the amount that remains

is the contribution of the marketing unit to cover the overhead (indirect) expenses and a profit. An example, which includes both approaches, is shown in Table 7.9.

**Table 7.8 Full-Cost versus Contribution Approaches**

Full-Cost Approach	Contribution Approach
Sales	Sales
Minus : Cost of goods sold = Gross margin	Minus : Cost of goods sold = Gross margin
Minus: Direct expenses	Minus: Direct expenses
Minus: Allocated Indirect expenses = Net profit	= Contribution (available to cover overhead expense and profit)

The example presented in Table 7.9 uses full-cost approach for evaluating the profitability of western region and the contribution approach for assessing the profitability of the three branches within the western region. The profitability calculations of branches include branch sales, cost of goods sold and branch direct selling expenses. This generates profit contribution for each branch. The profitability calculations for the western region include branch selling expenses, western region direct selling expenses (that are not allocated to the branches), and allocated portion of indirect expenses. This gives a net profit figure for the profitability evaluation of the region. Table 7.9

**Table 7.9 Example of Profitability Analysis**

	Full Cost Approach Western Region	Contribution Approach		
		Branch A	Branch B	Branch C
Sales	400	150	130	120
Less cost of goods sold	300	112.5	97.5	90
Gross margin	100.0	37.5	32.5	30
Less branch direct selling expenses	12.7	4.5	4.2	4
Less west region direct selling expenses	12.0	--	--	--
Profit contribution	75.3	33.00	28.3	26
Less allocated indirect expenses	36.3	--	--	--
Net profit	39.0			

(Note: All figures are in Rupees million)

There is a considerable argument over the relative merits of contribution and full-cost approaches. Supporters of full-cost approach state that the purpose of a marketing cost study is to decide the net profitability of the marketing unit under study. They think that contribution approach does not satisfy this purpose. Besides, full-cost supporters think that a contribution approach may be misleading, because a product or market segment may show a positive contribution, but after deducting allocated indirect expenses, the product or market segment may show a loss.

Supporters of contribution approach argue that it is very difficult to arrive at a satisfactory procedure for allocating the indirect costs. Therefore, contribution approach is more objective in evaluating the profitability of a marketing unit. Further, these advocates point out that a fullcost approach may show that

a product or a branch has a net loss, whereas, this marketing unit may be contributing positively to the overhead costs.

In reality, both approaches are useful in marketing costs and profitability analyses. A full-cost approach is useful when making a long-term study of the profitability of different products or market segments. The contribution approach is useful for short-term marketing decisions, such as evaluation of profitability of branches and regions, when only direct costs are allocated to them. Branch and regional managers are responsible for direct expenses incurred by them and are not responsible for indirect expenses, over which they have no control. There seems to be a trend towards the contribution approach, for a short-term analysis.

## **Productivity Analysis**

Productivity analysis is useful for complete evaluation of effectiveness of sales organizations. Productivity is usually measured by ratios between outputs and inputs. For example, sales per salesperson are used by many companies as a measure of productivity. There are other productivity ratios, such as selling expenses per salesperson, sales calls per salesperson, and quotations submitted per salesperson. One main benefit of these productivity ratios is that they can be compared directly across the sales organization levels (e.g., sales branches) within the company and also with other sales organizations. For instance, productivity analysis between different branches within a sales organization shows specific areas of high and low productivity. The productivity analysis gives useful information that is not available with sales, marketing cost, and profitability analyses done earlier. Sales profitability and productivity are interconnected. Profitability analysis has a financial view, whereas productivity analysis has a more managerial orientation. Improvement in sales productivity should get converted into increase in profitability.

Companies are using some of the following methods that are focused on increase in sales and internal cost cutting, for improving the productivity:

- Hiring independent sales agents (also called manufacturer's representatives), who are paid on a straight commission basis.
- Reducing the size of the sales force.
- Relying on the internet, telephone, direct mail, and video conferencing to reach customers.
- Increasing participation in trade shows or exhibitions to present the products to a large number of potential customers within a short duration.
- Using the latest communications and computer technology to help the selling process.
- Removing or minimizing

## **Return on Assets Managed (ROAM)**

It includes some elements of productivity by comparing profits and asset investments. The formula for calculating ROAM is:

$$\text{ROAM} = (\text{Profit contribution/Sales}) \times (\text{Sales/Assets managed})$$

Here, the profit contribution can be either a net profit figure from a full-cost approach or profit contribution from a contribution approach. Assets managed usually include inventory, accounts receivables or any other assets at each sales organizational level.

## **EVALUATING AND CONTROLLING THE PERFORMANCE OF SALESPEOPLE**

One of the most important responsibilities of sales managers is to evaluate the performance of their salespeople. However, performance evaluation process is time consuming. It is also a difficult process, particularly for the sales manager who has to tell poor-performing salespersons how and why their performance is not up to the expectations.

We shall first look at the purposes or objectives of evaluating the sales force performance, and thereafter, discuss the procedure and different methods of sales force evaluation.

### **Purposes of Sales Force Performance Evaluation and Control**

The basic objective of the performance evaluation of salespersons is to determine how these salespersons have performed. The outcome of sales force performance review can be used for other sales force management purposes<sup>6</sup> such as to:

- Improve the salesperson's performance.
- Decide the appropriate increment in pay and incentive payment based on the actual performance of the salesperson.
- Identify the salespeople who may be promoted.
- Determine the training needs of the individual salesperson and the entire sales force.
- Identify the salespersons whose services may be terminated, after giving adequate chances for improvement.
- Motivate salespeople through adequate recognition and reward for good performance.
- Find out their strengths and weaknesses.

The salesperson's performance appraisal should be carefully developed and implemented in order to make available information needed for several purposes mentioned above. For example, if the purpose of performance evaluation is to identify salespersons for promotion to the first level of sales management positions (such as district or branch sales managers), then the performance evaluation should focus on those criteria that are relevant to the effectiveness as a sales manager. This should be done in addition to the current performance as a salesperson. The same points that are mentioned above are also applicable when we talk about the importance and the objectives of performance evaluation of salespeople.

## **Relationship between Sales Management and Distribution Management**

Distribution management serves the primary function of ensuring that the product or service is made available to the consumer within an arm's length of his desire. Distribution management takes care of the availability (physical distribution) and the visibility. It provides 'time', 'place' and 'possession' utility to the consumer. It is the sales manager who decides the organization which is responsible for the distribution effort. Normally, this organization is a combination of the company's own sales force and a set of marketing channels.

Distribution is an integral part of sales management. It is the heartbeat of sales management. Either sales management or distribution management cannot exist, operate or perform without each other. While sales management may plan the strategy and the operational details to achieve revenue, growth and market shares, it is the distribution part which executes these plans, of course, under the guidance of the sales managers. Planning and execution is a team effort between sales managers and the distribution channels.

As we said earlier, distribution management has the responsibility of physical movement and storage also. The only sensible and cost-effective alternative of getting all these tasks accomplished is through sound distribution management with the help of marketing channels.

### **Distribution Channels**

The distribution channels to be managed by sales management could be a combination of:

#### **Own Sales Force**

Recruited and trained to manage key accounts and the distribution channels

#### **C&FAs or Depots**

To break bulk. Depots are the company own warehouses. C&FAs are carrying and forwarding agents who are primarily transporters with own or hired warehouses. They break bulk and send company goods to its distributors, dealers or stockists based on dispatch orders given by the salespeople. C&FAs work on a commission.

#### **Distributors, Dealers, Agents and Stockists**

The backbone of the distribution system. They are the people who buy the goods from the company and sell it to the customers like wholesalers, retailers and institutions. They may be exclusive to the company like contracted distributors or also work for other companies like dealers and stockists. All these channel partners work on a mark-up.

#### **Transporters and Warehouse Operators**

These channel members ensure physical movement and safekeeping of the goods. These channel members are usually managed by the logistics function and not sales management. They could be either on contract or hired, as necessary. Today there are a number of logistics service providers who take the entire responsibility of distributing the goods from the factory gate of the company to all its customers including collection of sales proceeds.

#### **Independent Wholesalers in the Market**

They are already operating in the markets and sell a variety of complementary goods like groceries, plumbing equipment, electrical accessories, spare parts or food items. They are not bound on contract with any company. They operate on low margins but high volumes.

#### **Independent Retailers in the Market**

More relevant for consumer goods and pharmaceutical products. They could be the corner store or a modern retail format. Retailers are the most pampered lot in the entire distribution network as they are closest to the end user or consumer.

Distribution management can also be done by the company itself. Most companies today outsource the distribution effort as it is possible to find competent distribution channels to perform the functions.

Distribution channels can be in-house or outsourced. Experience has taught sales management that it is more cost and effort effective to outsource the distribution function. Examples of own distribution channels include Eureka Forbes and Bata.

There are hundreds of examples of outsourced distribution like Maruti, LG and Nestle.

It has been seen that more intense the distribution required (like for a consumer product company), the better it is to use a host of distribution channels. Exclusive distribution may be more effective, if it is done by the company itself. Of course, this is only an indicator and should not be taken as a rule of distribution management.

### **Exhibit 9.1 Eureka Forbes**

The company products line vacuum cleaners, water filters etc were meant for everyday use by the housewife. At the same time, these products had been carefully created by the company to take advantage of simple technology to help the housewife to do her daily household chores. The products could be effectively sold by demonstrating the way they should be used and to highlight the end results. In order to do this, right from the start the company decided to sell and distribute these products directly through their own sales people. This model being effectively followed to sell products in millions of Indian homes even though these products are also being made available on a limited scale in chosen retail outlets.

### **Exhibit 9.2 Bata India**

This company is another classic example of using direct distribution to sell footwear. The company decided to set up hundreds of their own outlets (the by now familiar Bata shop as the consumer identifies them) all over the country manned by company employees to sell the products to the walk-in consumers. This network has very effectively served the company and its consumers for many decades now. Later the company started giving the Bata franchise to private outlets in smaller towns. These outlets are distinguished from the company ones as they are known as BSC (Bata Shoe Company) outlets.

## **How Sales Managers and Distribution Channels Work Together**

Sales management and the distribution function together take certain actions to ensure that the customer service objectives of the company are fully met. Some of these action points are as follows:

**Demand Management** A critical step in getting sales volumes and earning revenues. Both sales managers and their channel members help this activity through forecasts, obtaining business and securing orders to meet set volume targets.

**Supply Management** This is the major responsibility of the distribution channel working under the guidance of the sales management.

- The company depot or the carrying and forwarding agent on contract with the company receives the orders from the field force and processes them for dispatch to the primary customers of the company—distributors or institutions. They also collect the value of the sales made. This is the primary sales.
- The distributor/dealer/stockist/agent receives orders from his customers (traders or institutions) either directly or through the salespeople and processes them for dispatch. They collect the value of the sales made. This is the secondary sales.
- Both the C&FA and the distributor provide storage space for safe keeping of the goods till they are sold out.
- The C&FA and the distributor may use own transport vehicles or hired transport to move the goods from their premises to that of the customers.
- The wholesaler or the retailer is the most important channel partner for mass based consumer products. He is the one directly in touch with the end users. He makes sure that he buys the products, stocks them, displays them and sells them to the end users.

All the above activities are possible only under the supervision of the salespeople. None of the channel partners (particularly, the ones on contract with the company) acts without the knowledge and support of the company sales managers. There has to be a continuous and regular coordination between the sales management and the distribution channels to generate demand and manage it in a cost effective manner every day.

## **Sales Operations Planning**

The planning of the sales operations is always done jointly by the sales managers and the channel members. Some of the points in the operations planning exercise are highlighted here:

- List of markets to be covered and the schedule—the company would like to be represented in full strength in all potential markets and outlets.
- Market share objectives to be achieved and how—built into the secondary sales targets agreed with the channel partners.
- Tracking competition in order to always do better than them.
- Designing coverage beat plans/call plans using a milk run concept—how many outlets to be covered in a day, frequency of calls on an outlet and when a call is to be made. The milk run concept makes sure that there is no crisscrossing in the coverage—the calls are made in a sequence.
- Ensuring highest call productivity—every call has to be made to give results.
- Market working methods and tools—whether to cover the markets with ready stocks or book orders and deliver stocks later, how to run the call, how much credit to extend and to whom.
- Sales promotion efforts—could include the power of the sales call or the consumer and trade promotions occasionally run by the company.
- New product/pack launches—each such event has important milestones in volume sales, placement of the products and merchandising to be achieved. These are agreed with the channel partners and then it is their responsibility to achieve the same.
- Shelf space maximization and merchandising—most relevant to consumer products. The intention is to occupy the best shelves fully, giving little chances for competition to be present. This also means utilization of costly point-of-purchase (POP) materials effectively in the market place. The shelf space to be achieved in each outlet should at least be in proportion to the market share enjoyed by the company in the particular market.
- Reports and records—include those required by the company and those required for statutory purposes (government rules). All reports and records have to be timely and accurate.

To summarize, sales management and distribution management are two sides of the same coin and are inseparable. Sales management plans operations (with inputs from the channels) and sales management and distribution channels execute these plans. They have a tremendous influence on each other's working and work together to deliver the highest levels of customer service.

The Government of India has introduced the Goods and Services Tax (GST) from July 1, 2017 which has focus of One Nation, One Tax. The tax borders between the states are not relevant any more. Many states have already closed the check posts between states. As a result, companies may reduce the number of Carrying and Forwarding Agents (C&FAs) compared to before the introduction of GST.

**Lead Time** is the amount of time between process initiation and completion. For our customers Lead Time is the time between a confirmed customer order and its scheduled pick up or delivery based on our terms and conditions. This varies based on the customer and the product.

There are several different types of Lead Time, but there are four primary types of Lead Time for our purposes in a manufacturing or assembly environment.

1. **Customer Lead Time** – the amount of time taken between order confirmation and order fulfilment (either pick up or delivery depending on the agreement with the customer).
2. **Material Lead Time** – the amount of time it takes to place an order with a supplier and receive it, from confirmed order to having it on hand.
3. **Factory/Production Lead Time** – the amount of time it takes to build and ship a product if all the materials are available.
4. **Cumulative Lead Time** – the total amount of time it would take from confirmed order to delivery of product if you had to order all the materials (if none were on hand). It is the summation of material lead time and factory lead time.

#### **What is the difference between Factory/Production Lead Time and Cycle Time?**

- Cycle Time is the amount of time it takes to complete a cycle of action. Completion of a specific task from start to finish. More specifically it is the measured time that explains how often a part is completed by a particular process.
- Factory/Production Lead Time is the amount of time it takes to build and ship a product if all the materials are available. This includes all the manufacturing, sub-assembly, and assembly processes that impact the ability to process material into a product.

#### **Why is Lead Time important?**

- Lead Time is an important factor for customer satisfaction. Typically customers want goods or service as fast as possible with minimal effort.
- For manufacturing and assembly the concept of Lead Time is married to and has a direct relationship with the amount of inventory that exists at different points in the overall supply chain.
- If Customer Lead Time is less than: Material Lead Times, Production Lead Times, or Cumulative Lead Times it will result in the holding of inventory within the supply chain at some or all points. Variation and inconsistency will often compound this issue – it will cause the holding of stock or inventory to mitigate risks in the supply chain.

#### **Inventory is one of the 7 wastes commonly recognized by Lean theory.**

- Inventory requires people to move it, space to hold it, counting, transporting, maintaining etc.

- Inventory can hide waste and significant business opportunities: supplier issues, quality issues, housekeeping and organization issues, scheduling issues, forecasting issues, machine downtime, line imbalances, setup and changeover issues etc.
- Inventory is risk and exposure. If customers don't buy it, it will become a write off or obsolete. If there is a quality issue the business could be holding onto scrap.
- Inventory held at vendors is also exposure. Quite often inventory held at vendors has a clause that the purchasing business will have to buy the material (up to a certain amount). If a vendor has large batches of inventory made during long production runs, any quality issues would be magnified. For this reason being able to get more material quickly can be a challenge. It also can result in higher prices for the business buying material, if the supplier cannot get their costs under control.
- Inventory ties up business cash. Inventory costs money and when you spend money on inventory the business' cash is now used on the buying and holding the inventory vs. having cash on hand for other purposes (the business' cash is like its checking account).

### **How do you reduce Lead Time?**

- Hold stock, ideally the right stock.
- Vertical integration – the ability to source, manufacture and assemble internally. Suppliers can be vertically integrated or our business could become more vertically integrated.
- Reduce Cycle Times, thus reducing Production Lead Times. For example, a focus on setup reductions and Quick Changeover (QCO); Line Balance Activities etc.
- Have good equipment and employee availability. Solid Total Productive Maintenance (Preventative Maintenance, Autonomous Maintenance etc.). Robust quality systems in place. Proper staffing levels.
- Reduce supplier Lead Times. Focus on long lead time components – source local; supplier business improvements etc.
- Suppliers/vendors hold stock e.g., stocking agreements.
- Vendor Owned Inventory (VOI); Vendor Managed Inventory (VMI); Consignment Inventory etc.
- Change shipping methods – faster, more frequent shipments.
- Have accurate forecasting, planning and scheduling.
- Good supplier performance and quality. Stable strategic suppliers. A focus on supplier development can be beneficial to help with this.
- Reduce product and component variation and obsolete low runners.

### **What is the impact?**

- Reduced Lead Times can mean reduced inventory and more cash on hand for the businesses. In several aspects it means less risk, exposure and management of materials.
- One main exception would be a reduction in Customer Lead Time. If Customer Lead Time reduces it can mean winning more business and at the same time holding higher stocking levels; especially if there is a variance between the Customer Lead Time and the Cumulative Lead Time (or the Production or Material Lead time specifically).

Although not all inclusive I hope this quick overview provides some useful insight on the importance of Lead Time.

**A lead time** refers to the time it takes from when a purchase order is created for a supplier... until the goods are delivered from that supplier to the customer (this can be an individual or a store). Coping with this concept is pivotal to organizing all the different processes throughout your supply chain.

### What does each lead time measure along the supply chain?

Depending on the part of the supply chain you look at and your point of view, the words 'lead time' can take on slightly different meanings. This concept can be divided into sections to understand how it affects each area.

**Sales or commercial management:** knowing the precise lead time will allow you to commit to one delivery date or another with your customers.

**Purchasing or procurement:** managing the lead time of raw material suppliers is the key to prevent production line shortages.

**Manufacturing lead time:** this lead time simplifies manufacturing time calculations, which in turn influences logistics and sales management.

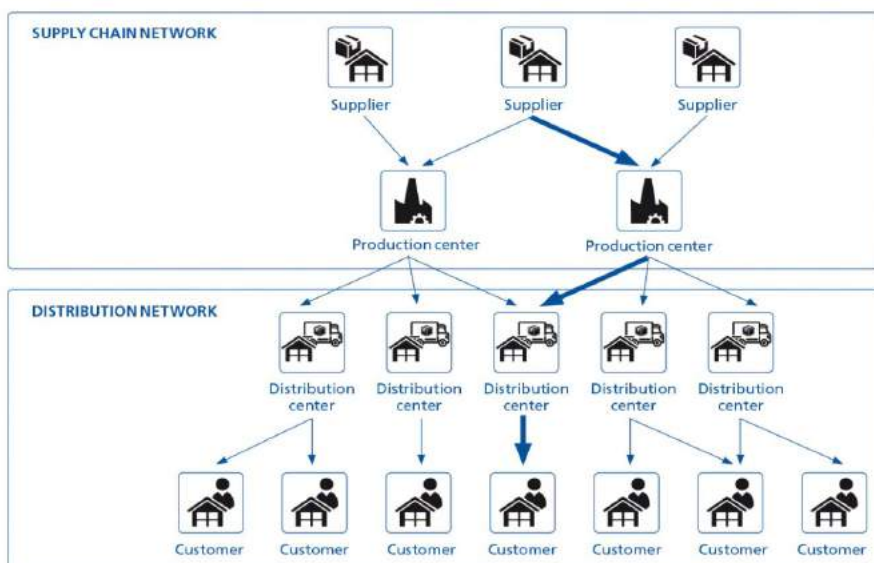
**Logistics and distribution:** a logistics lead time takes on a holistic dimension since you need to know other area's supply times to know how long it will take to produce them; when they will arrive at the warehouse; and how long it will take to process and deliver them to the customer.

### How is the lead time calculated?

Normally, the time of delivery is calculated using:

$$\text{Lead time} = \text{Delivery date} - \text{order date}$$

The answer shows the days from when the order was placed until it reached the customer. It is measured in calendar days to keep it simple. This calculation must be made based on each piece of the supply chain we had already mentioned and for each particular product.



Take a look at this diagram. If you are a customer at the end of a long supply chain, your lead time will be the accumulated lead time of the other players: the raw material suppliers, the production plant and the distribution center that will send the item to you.

For this reason, although it may seem that the lead time calculation is straightforward, it is essential to understand how it all hashes out to correctly plan operations. Plus, other additional variables must be borne in mind, such as a supplier who only accepts orders on a specific day of the week. For example, only on Tuesdays and Thursdays, meaning an order placed on Monday will be delayed one day; but Friday's order will be delayed four days.

Delivery times are measured more accurately based on the company's order history and deliveries. This is a more reliable starting point than promises from suppliers, since in reality changes do happen.

### **The importance of having short logistics lead times**

The main logistics goals are to deliver the right products to the right place, at the right time, in the right quantities and under the right conditions. Within the logistics equation, lead time shows the time dimension, which is closely related to the service level, but has a huge influence over stock control and demand planning.

### **The advantages of short delivery times are evident in...**

**More precise demand planning:** short term demand forecasting makes it possible to be more accurate. One of demand management's main rules of thumb is that the further into the future you organize, the more uncertainty there will be. Shorter delivery times can reduce this concern, as it allows more reliable, more accurate forecasts to be made.

**The opportunity to carry less stock:** a short lead time means you operate with a smaller inventory volume to meet customer demand. The primary reason why warehouse stock management takes place is to bridge the time difference between when a customer places an order and how long it takes the supplier to get the order to the customer. Supply times have a linear effect on inventory policy: the higher the lead time, the more stored stock and vice versa.

**Overall better customer care:** having a short lead time allows you to speed up delivery times and meet customer deadlines. In today's business dominated by 4.0 logistics and omnichannel logistics, eliminating between-steps and simplifying processes have proven to be a crucial added value for any company.

### **How to optimize a supply chain's lead time**

#### *1. Accurately measure all supply times through ranges*

The perfect departure point for reducing delivery times is to isolate and identify critical lead times (e.g. manufacturing, transport, warehouse processing, etc.). Afterwards, each supply time must be broken down into smaller parts to understand and optimize them.

This is the same foundation on which warehouse KPI metrics is built. Specialized software is often used to facilitate this task, seamlessly integrating data across the entire supply chain.

### *2. Analyze intralogistics processes and sub-processes in detail*

It is important to analyze intralogistics related operations to detect bottlenecks and malfunctions that delay the flow of materials. If you move to analyzing the warehouse, global operational management is the result of multiple sub-processes that work in a chain. And, the smallest detail can send ripples through these flows.

For example: just imagine a case where goods movements follow the FIFO criterion (first in, first out) and a roller conveyor is used to do so. At some way point, the conveyor is unable to keep up with the flow and boxes accumulate on the floor next to the overcrowded conveyor. They keep on piling up on top of each other.

When the congestion on the other side of the circuit is cleared and the conveyor reloads, it is likely that operators will first pick the top boxes, changing the criteria to LIFO (last in, first out) and prioritizing in the wrong order. And here is where a type of inefficiency sinkhole forms, dragging out operating times. Consequently, meticulous analysis of warehouse flows is essential to pinpoint and remedy the root of problem(s).

### *3. Manage contingencies with the help of specialized software*

A variety of reasons can lead to fluctuations in supply times. Many of them are random and unexpected. In this regard, specialized logistics software helps cut back this uncertainty and improve the lead time:

Improving your ability to react to unexpected events. This takes on greater meaning in a warehouse environment. How do I deal with a blind reception (unexpected stock arrivals)? What logistics parameters should be followed to organize order picking? These issues, and many more, can be fixed quickly thanks to a warehouse management system such as Easy WMS.

Integrating and unifying all the information in your supply chain: software with cutting-edge algorithms facilitates decision-making and detects of hot spots throughout the supply chain. This is the case for the Supply Chain Analytics Software, a special module for analyzing Easy WMS data.

### *4. Reach collaborative agreements with suppliers*

When selecting suppliers, the tendency is lean towards long-term relationships as a priority. This is because you can standardize processes and fine-tune supply time schedules. They can be shortened to operate with cross-docking or follow the just-in-time method.

The warehouse, as an invaluable nexus between supply and demand, plays a fundamental role in the entire supply chain's backbone. So, good warehouse management is pivotal in reducing lead times.