Centre for Distance & Online Education (CDOE)

Bachelor of Commerce

BCOM 601

SALES MANAGEMENT

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Contents

Subject: **SALES MANAGEMENT**	
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INTRODUCTION TO SALES MANAGEMENT

STRUCTURE

1.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand the objectives of sales management
- Identify key roles and tasks performed by the sales force
- Learn the functions of sales management
- Explore approaches for customer relationships and driving sales

1.1 INTRODUCTION

The initial days of industrial revolution saw dramatic changes taking place in the overall functioning of business organisations. The task of selling the goods was no longer a simple exercise as meeting of the buyer, and seller at a marketplace and carrying out the exchange. The businesses grew big and the goods were manufactured at a large scale and were not sold out in small areas where the manufacturer could personally sell them. At this stage the marketing department evolved, which served as a link between the buyer and the seller. In the process of marketing, the people who carried out the activity of making the product available to the customers had to function in a different set of circumstances that could not be managed in the way the other departments of the company were managed. So, the business organisations evolved a separate department that came to be known as sales department and the process of managing this department as sales management. The definitions and concepts are further elaborated herein.

Originally, sales management refers to the direction of sales force i.e. the people associated with the activities of selling. With time, the term acquired a broader meaning. In addition to management of personal selling, sales management meant management of all marketing related activities such as advertisement, sales promotion, marketing research, physical distribution, pricing and product merchandising. However, it was pointed out these activities are primarily carried out by the marketing department of a company and there was a need to clearly define the purview of sales management. Finally, American Marketing Academy agreed that sales management means *the planning, direction and control of personal selling, including recruitment, selection, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to personal task force.*

The above definition defines the purview of sales management as activities related to the management of sales force. However, in actual practice, the activities of sales managers are much wider. So, some academicians are of the view that the activities of sales managers can be classified as sales management and management of sales force. The activities concerned with personal selling are sales management, while the activities of managing those carrying out the activity of personal selling may be called as sales force management. The sales managers organise the sales activity both within the organization and outside the organization. In the company, the sales managers build both formal and informa1 organisations to ensure effective communication in the sales department as well as other departments of the company. Outside the company, the sales managers build key contacts with the customers and publics to ensure a smooth personal selling.

1.2 UNDERSTANDING SALESMANSHIP

The term salesmanship has been defined in various ways. Some of the definitions of salesmanship are:

- Salesmanship is the art of persuading persons to buy goods or services, which will give them lasting satisfaction.
- Salesmanship is the art of helping prospects and customers achieve their goals in life.
- Selling is a buying process wherein the salesman ascertains the customers' needs and indicates convincingly how the needs can be satisfied through the purchase of goods and services.
- Salesmanship is the art of solving the customers' problems through the benefits offered by the products or services being sold by the salesman.

The work of a salesman can best be described in one single word as *service* i.e. helping the customer to get most from the he pays to acquire a product or service. A skilled salesman is the one who devotes time to solve-the customers' problems because more often the customer is looking for a solution to his problem when he buys a product. He might not be even aware of his needs. It is here that a good salesman helps a customer in purchasing what will solve his problem. The salesman persuades feelings to action or evidence that convinces reason and judgement.

1.2.1 OBJECTIVES OF SALES MANAGEMENT

The prime responsibility of the sales department is to build up higher volume of sales. This higher volume of sales leads to greater production in the factory and the company achieves the economies of scale. This helps in reducing the costs and making the products of the company more competitive in the market. This leads to the automatic achievement of the other two objectives that is increase profits and continued growth of the company.

The top management, delegates the responsibility of achieving the sales objectives to the marketing department that ultimately directs the sales department to carry out activities in order to achieve them. The sales managers thus play a key role in the company because the entire growth of the company depends on their ability to achieve the stated objectives. The sales managers also carry out the important task of the appraisal of market opportunities and convey the same to the company. This helps in designing the products which customers would like to possess. This helps the company in achieving greater customer satisfaction and hence greater growth in sales. The forecasts made by the sales department serve as the basic outline for carrying out the entire planning of the company.

1.2.2 VARIOUS ROLES OF SALES FORCE

In a company, the sales force has to cover a broad range of position. The actual nature of the role and the position may vary with the company; still some of the roles played by sales force are as under:

Deliverer

In many cases, the role of sales persons is mainly to deliver the products to the customers. This type of role is often played in companies selling milk, bread etc where the product is of generic nature and it is the availability of the product that decides the selling of the same. Even in soft drinks, the available product sells and the sales personnel have the main task of delivering the product. In the present age of Internet, most companies are offering the facility of placing orders by the Internet. In such companies, delivery of product is of prime importance and the sales personnel have to undertake them.

Order taker

In some cases, the sales persons may be the order takers and the delivery of the product may be made by the dealers or through courier. In such cases, the salesmen visit the customers, show their products, and persuade the customer to purchase them. They book the orders and convey it to their distribution department or their dealers. This practice is common in companies selling consumer goods. The salesmen visit the shops and book orders and convey them to the dealer who delivers them to the customers. This bifurcation of delivery and order collection activity is done so that the sales person can devote more time in understanding the customers and the market activity. Also, the sales person might be working in a wide territory and the delivery is done the distributor’s representative.

Missionary

In certain cases, the salesmen are not directed to book the orders or deliver them. Their main task is just to build goodwill and create a favourable attitude in the minds of the customers. They might also be directed to educate the potential customer. In such cases, they act as missionary i.e. making market calls with a broader mission and not merely booking orders. Medical representative visiting doctors and informing about their products plays such a role. They do not book orders but educate the doctors about their products and the benefits they offer. This practice allows sales person to visit and service customers in a large territory.

Technician

In certain cases where the product is technical in nature, the sales personnel may have to act as a technical consultant and not merely focus on booking orders. This activity is witnessed in the companies making plants and equipment that involve high technical knowledge on the part of the seller as well as the purchaser.

Demand creator

Often, the sales personnel have to stimulate the demand by product demonstration or customer education. E.g. the demand of vacuum cleaners was actually created by the salesmen by visiting the customers. Similarly, the role-played by insurance agents by educating the customers helps them in selling the insurance policies.

1.2.3 TASKS PERFORMED BY SALES FORCE

The nature of tasks performed by the sales personals vary from company to company depending upon the objectives laid down for them. For example the sales representatives of IBM are responsible for not only selling the computer but also for its installation and upgradation. Similarly the sales representatives of AT&T are responsible for developing, selling and protecting accounts. In addition to the difference in company objective, other factors such as state of economy, market orientation of a company etc. also determine the nature of tasks performed by sales force. In general the sales personal perform the following tasks:

Prospecting

The sales force has to be on the lookout for new customers always. The customers have the prospect of purchasing must be identified and persuaded to purchase the products of the company. The new customers serve as a base of growth of sales volumes and so they need to be-identified and converted from a prospect to a customer.

Communicating

The sales force has to skilfully communicate the information about the companies' products and services. In fact communication is one of the single most important functions which are performed. The communication is both within the organisation as well as outside the organization. Within the organization, the sales representatives have to take instructions from marketing and sales managers. They convey order collected form the customers to the distribution department so that it can make the delivery. The sales representatives also communicate with the accounts department of the company in order to ensure that the timely collection of payments is made. In case a complaint is received from the customers, the sales representatives have to communicate the same to the technical personnel in production and quality control department.

Outside the department, the sales representatives have to meet the customers, distributors, retailers and all those who affect the selling activity directly or indirectly. They collect orders and payment. In addition to this, one of the important tasks of sales representatives is to communicate market intelligence i.e. the activities of the competitors so that the senior managers can formulate strategies to face the competition. Thus, communication is one of the single most task performed. The successful sales representatives have to master the art of communication.

Selling

This is the core function of the sales representatives because all the activities must ultimately culminate into sales. The sales representatives have to very skilfully master this art of approaching the customers, presenting their product, convincing them about the benefits of the products over the competing products, answer the queries and objections of the customers. The sales representatives have to learn the art of negotiations and closing the deal. The order thus collected must be conveyed to the company. The responsibility of selling does not end here. The sales persons have to ensure product delivery and customer education.

Servicing

The task of sales force does not end after taking the order. The customers have to be visited again in order to resolve their difficulties or complaints. In case the product is not performing well, the sales representatives have to get the same repaired. It is also possible that the customer will have to be educated about using the product. The sales people find it easier to sell their products, to the existing customers. So, once a relationship is established between the sales person and the customer, it has to be strengthened with the help of services.

Information gathering

The sales personnel have to gather the information about the customers and the market conditions and report the same to the company. The market information helps the company in fighting competition. The information about the customers helps the company in identifying customer needs and designs the products, which the customers want. This helps the company is getting an edge over the competitors.

Allocating

The sales representatives have the first hand information of the market conditions. So, their opinion is significant in distributing or allocating the products to the customers at the times when the product is in short supply.

1.2.4 SALES MANAGEMENT FUNCTIONS

The functions of sales managers are much wider than the tasks of sales force. The important functions are described as follows:

I. Sales programming

The sales programming functions refer to the functions associated with planning in order to develop sales programme. This starts from understanding the top management’s strategies and policies that form the blueprint for the functioning of the entire organization and sales is no exception. On the basis of these, the sales plans are formulated and the blueprint of the activities is prepared in order to execute these plans and policies. During the process of formulation of plans, a mechanism is built in to facilitate evaluation and control of the plans. This is a continuous process that keeps on providing inputs by way of feedback for innovations in the system for improvement.

II. Sales organization

The sales organization function consists of four sub functions: personnel direction, sales direction, sales control and cooperation. Personnel direction functions are essentially personnel management functions of recruitment, selection and training of sales force. The compensation packages are designed so as to continuously motivate sales force to achieve higher and higher sales volumes. Designing right employment conditions, which facilitate functioning of sales team, are covered under this category of functions. It must be noted that although these are essentially personnel functions, but they are performed by the sales managers because of the unique requirements of sales department. The traditional principles of compensation and governance of sales force do not give fruitful results. So, they are not within the purview of the personnel department.

Sales direction functions are the activities facilitating maximum output from the sales force. The sales force once recruited has to be allocated territories wherein they have to function. The routing of their territories is done to reduce costs and exercise maximum control on the sales team. The sales team is informed about the products, the expected sales targets that they are to achieve and the nature of reporting desired out of them. Providing office support to the sales team is also an important function of sales direction. The sales force is also given exposure of training through seminars etc. Finally, a periodic review of performance is done at the conferences and meetings. The experiences of various sales force members are exchanged so that there is a mutual sharing of knowledge.

Sales control is one of the important functions because the sales team operates in the field, far away from the direct supervision. So, adequate sales control has to be exercised so that the employees do their work sincerely. The control is exercised through review of sales performance; reports and other indicators lay down by the sales managers. These can be sales budgets, sales expenses etc.

Finally, sales team has to achieve synergies through cooperation and coordination with other departments and general management. The coordination as a function of sales team will be described in detail subsequently.

III. The product functions

The product functions include development, setting price and other sales terms and physical handling of products. The sales team contributes a lot to product development by way or providing the feedback to the R&D department. They inform them about the needs and wants of the customers so that the products can be designed accordingly. The sales team suggests standardization of features. Once a product is developed, it is tested in the market by the sales team before it if finally launched into the market. This saves the costs and significantly reduces the chances of product failure in the market.

The sales team is in direct touch with the market and the customers. So, it is best informed about the price that the customers would be willing to pay. Also, the sales force can apprise of the prevailing market conditions and suggest the price, which will make the product, compete in the market. The sales force also advises the company about launching the gift schemes, sales promotion offers etc. The innovative finance schemes such as hire purchase or consumer finance schemes are suggested to the top management so that a greater sales volume is achieved.

The sales team invariably cannot escape physical handling of the products. They are the interface between the customers and distribution department. So, they have an important role in planning and allocation of the inventories. While the logistics other departments, sales team’s directions are used to control them, handle functions.

IV. The market functions

The market functions include the activities performed in the marketplace and include marketing research, feedback about competition, distribution and relationship building with customers and all those engaged in influencing sales functioning. In many companies, marketing research may not be a separate department. So, the sales team has to perform this function. Even if there exists a marketing research department in a company, sales department has to do the basic job of providing information of the customers’ needs so that the R&D team can develop products as demanded by the customers. The sales team finds out the market potential and trends etc. and provides the required feedback. For routine flow of information, sales team is an important linkage in the management information system (MIS). It must be noted that marketing research seeks information for specific problems while routine information flows in the normal MIS. The sales department also provides the information regarding competitor activity so that the sales department can formulate strategies to face the competition.

V. Business development functions

The sales team has to contribute to the activities leading. to business development. Such activities include advertisement, promotion, publicity etc. They provide the basic information on the basis of which the strategies pertaining to branding, advertisement budgeting, product campaigns etc. are designed.

Salesmanship: an art or science

Often, the suffix “ship” is added to denoting persons and signifies skill or art, e.g., craftsmanship, horsemanship etc. These persons have the fundamental knowledge of the skill or the craft and salesmanship is no exception to this. He invariable has a thorough knowledge of his profession and uses innovative ways and means to achieve his objectives. The art of approaching a customer, opening, negotiating and closing a deal has no standard format. The salesman masters this skill through his knowledge, experience and ingenuity. The skilful use of communication that is both verbal and non-verbal contributes a lot to the success of a salesman. He is an artist who paints a mental picture with a verba1 brush. Art is the way of making knowledge more efficient by exercising the skill.

Science is a systemized knowledge arranged under general principles of truth. Over a period of time, the techniques of salesmanship have evolved. The generalisations for facing specific situations have been documented and practiced so that those engaged in the profession of sales can face the situations. This support of systematic body of knowledge makes salesmanship a science. In practice, salesmanship can neither be called as a pure science, nor can be it termed as a pure art. In fact it is a combination of the two which imparts the skills for successful salesmanship.

1.3 APPROACHES TO BUILD CUSTOMER CONTACT

The sales representatives can approach a customer in various ways as described below:

Sales representative to buyer

In this method, the sales representative approaches the customer individually. The customer is usually contacted in person for the first time and subsequently the communication over phone/fax or email may be used. In this case, there is one to one contact of the sales representative and the customer. Such an approach is used in departmental stores and the companies engaged in direct marketing. It is the most preferred approach in case of industrial or institutional selling wherein one to one contact is essential I order to negotiate a dea1.

Sales representative to buyer group

In this method, the sales representative makes a presentation to a group of buyers. This method is particularly used in rural marketing wherein the sales force goes to a village and demonstrates the products to a group of persons collectively. This method is more cost effective, especially when the cost of approaching an individual customer is high. The limitation of this method is that it might be difficult in collecting the prospect in a customers at one place.

Sales team to buyer group

In this method, the team of sales persons makes the presentation to the customers or their group. The sales team usually consists of people from marketing department as well as technical people. This method-is particularly used by advertising agencies that visit the clients in a group and make presentations to give their ideas, about their advertisement campaign. This method is particularly useful when the product is technical in nature that needs the help of more than one person in convincing the customers. Also, in case of advertisement agencies, this approach is useful because the group of persons is usually more effective in highlighting the benefits of a campaign. Moreover, different members provide their specialized answer to the quarries of the client.

Conference selling

In this method, the sales representatives often bring various resource persons, organize a conference, and discuss problems and mutual opportunities. The forum of conference is used to sell the products.

Seminar selling

In this method, a seminar is organised, which is often educational in nature. The persons visiting that seminar are informed about the relative benefits of the products and are convinced to purchase the products.

1.4 DESIGNING AND MANAGING THE SALES FORCE

The important steps of designing and managing the sales force is discussed below:

I. Sales force objectives

The sales force objectives are based on the corporate objectives and the characteristics of company's target markets. Based on the two, the sales managers decide the targets and plans to be achieved over a period of time. The planning is done keeping in view the available resources at the disposal of the company. The objectives of sales force are not in isolation, in fact they are integrated with the objectives with production targets, marketing plans, advertising and sales promotion budgets etc. The objectives serve as the blue print of activities for the sales department for future course of action.

II. Sales force strategy

Based on the objectives, sales department formulates the strategies and plans achieve these objectives. The sales managers decide the level of inputs to be provided by the field force through various options of selling such as direct sales, contractual sales etc. The companies also design the role of sales team, whether they have to act as missionary, order taker, deliverer or to provide customer support and service.

III. Sales force structure

Based on the above stated steps i.e. objectives and strategy, the sales managers design the basic structure of sales force. They anticipate the number of field personnel required to carry out he planned strategies. Various options can be exercised while designing the structure. The structures can be made on the basis of territory, product, markets or combinations of them. In territory based structures, the sales force is organised on the basis of territories. The sales representatives operate at field level and are supervised by area managers and regional mangers. The sales representatives have to sell all the products of the company in a given territory. They have to fulfil the sales quotas, which are assigned to them. The disadvantage is that sometimes products cannot be focussed because the sales team has to sell a large number of products. To take care of this problem, some of the companies design their sales force on the basis of products. There are separate teams for selling different products in the same or different territories. This method is effective but is expensive. In the market based structure, the sales force is trained to serve different markets. The complex structures use combinations of these to be used when a large number of products are to be marketing in diverse markets.

IV. Sales force size

Most companies use the workload approach to decide upon the size of sales force. The customers are grouped into size classes according to their annual sales volume and the desirable call frequencies are established for each class and the annual sales calls are determined by multiplying the number of calls with the number of accounts (customers). The average number of calls that a sales representative can make is estimated and on this basis the number of sales personnel required is estimated. In case companies employ other methods of sales force structure; the sales force size will vary. The sales force size also varies with the nature of territory. E.g. in far-flung areas, the number of field person required may be large as compared to that in a metro city.

V. Sales force compensation

Various options have to be tried for designing the salary structure of sales force so that the sales force is motivated to face the challenge of sales growth. Some of methods used are flat salary, flat salary with variable commission and salary with incentives. In the first method, the sales team is given a basic salary irrespective of their performance. However, this does not motivate the sales team to work more. So, often companies provide sales related incentives in addition to the basic salary. This motivates the field force to achieve higher and higher volumes of sales. In the third type of salary structure, the sales team is provided with performance linked incentives. Companies also have a system of straight commissions wherein no base salary is provided and the sales representatives earn commission on the sales they bring for the company. Perks form an important component of compensation of the sales force and often they are linked to the performance of the sales force.

VI. Recruitment and selection

The recruitment and selection of sales force is an important function of the sales force. Due to different nature of job of sales department, sales managers do recruitment, although the personnel managers provide the basic rules and regulations. The structure of sales force is expressed in terms of number of sales persons required and the qualities such as qualifications and experience they should possess. Based on this, recruitment is done through advertisements in print media and Internet, consultants' etc. Out of the available candidates, the best are selected by way of pre-decided criteria.

VI. Training

Often, the sales team selected is given an orientation or training in order to familiarise with the company products and the sales strategies. It is after the training that they are sent to the field. Training of old employees also forms an important function because of the fact that the sale teams operate in a changing market and their skills have to be updated continuously to face the challenges arising out of the change. Various methods are used for training such as organising seminars, hiring consultants, role-playing, simulation, programmed learning etc. Each has its own merits and demerits and is selected on the basis of the objectives to be achieved from the training programmes.

VII. Directing sales teams

The selected and trained sales representatives are subjected to direction and supervision. The nature of direction and supervision varies greatly with the relationship they have with the company and the salary structure they have. In case they work on commission basis, the supervision is less, if they work on salary basis, they are often subjected to close supervision. Various criteria are evolved for supervision depending on the nature of company. Usually the sales representatives are directed in terms of customer targets and call norms. They are also directed about using the sales time efficiently. Direction also includes controlling their expenses and their adherence to the planned activities.

VIII. Motivating sales teams

Sales representatives are found to work more efficiently in case proper incentives and rewards motivate them to work more. So, the sales managers have to design the incentives and rewards that motivate the sales representatives. In case the rewards are common, they fail to motivate because they are perceived as a regular compensation and may not result in achieving the higher volume of sales. The incentives may be financial rewards such as bonuses or incentives for achieving or surpassing the sales targets. They can also be holiday tours or special privileges. The sales teams can be motivated by higher order rewards such as recognition, respect, and sense of achievement also. The ideal sales manager understands his team and designs the rewards that motivate the team because the same reward may fail to motivate one set of employees while may motivate others.

IX. Evaluating the sales representatives

Since the sales representatives operate largely in the field, their evaluation is possible only by reliable information systems that updates the management about what they are doing and what is their progress towards achieving the assigned results. The information I obtained through the daily call reports, activity plans, sales achievement figures, reports from the markets, wholesalers retailers and even the customers. Besides this, their performance parameters in terms of sales achievement, call reports, expense reports, adherence to their plans etc. are established and their actual performance is measured against these parameters. The comparisons between the sales persons are also done with the star performers serving as benchmarks for others. The past performances are also taken as a base for evaluating past performance. Depending on the performance appraisal and evaluation, the suitable compensation is awarded to the sales representatives.

The above classification of sales management functions is indicatives and varies greatly with the nature of the organization. In the present competitive markets situation, the eventual success of a company largely depends on the performance of the sales teams. So, this function is receiving its due importance. It might be noted that sales management is more action oriented activity of marketing and this aspect calls for devising management techniques that can contribute to achieving the desired results at optimum costs.

1.5 CHECK YOUR PROGRESS

1. **What does sales management primarily involve?**
   a) Manufacturing products
   b) Planning, direction, and control of personal selling
   c) Designing marketing campaigns
   d) Managing production lines

2. **Which of the following is NOT an objective of sales management?**

   a) Sales volume

   b) Contribution to profit

   c) Increasing product defects

   d) Continuing growth

3. **Who plays a key role in achieving sales objectives in an organization?**

   a) Finance department

   b) Sales managers

   c) Human resources

   d) Legal team

4. **What is the primary role of a "missionary" sales force?**

   a) Delivering products

   b) Educating customers and building goodwill

   c) Booking orders

   d) Handling product complaints

5. **What is the first step in designing and managing a sales force?**

   a) Recruitment and selection

   b) Determining sales force objectives

   c) Motivating sales representatives

   d) Evaluating sales representatives

6. **Which approach involves a sales representative addressing a group of buyers?**

   a) Seminar selling

   b) Sales team to buyer group

   c) Sales representative to buyer group

   d) One-on-one selling

7. **What is the main task of the sales force in "prospecting"?**

   a) Identifying potential customers

   b) Communicating with the accounts department

c) Delivering products

d) Resolving complaints

8. **What is a common method used to determine the size of a sales force?**

   a) Sales volume approach

   b) Workload approach

   c) Market research approach

   d) Budget allocation approach

9. **What is one of the key functions of sales management?**

   a) Marketing research

   b) Sales programming

   c) Designing advertisements

   d) Manufacturing products

10. **What is the purpose of evaluating sales representatives?**

    a) To determine product quality

    b) To measure their performance against assigned goals

    c) To create new customer groups

    d) To assess competitors' strategies

1.6 SUMMARY

Sales management means the planning, direction, and control of personal selling, including recruitment, selection, equipping, assigning, routing, supervising, paying and motivating. Salesmanship is the art of persuading persons to buy goods or services which will give them lasting satisfaction. The important objectives of sales management are sales volume, contribution to profit and continuing growth. The important steps of designing and managing the sales force include: sales force objectives, sales force strategy, sales force structure, sales force size, sales force compensation, recruitment and selection, training, directing, motivating and finally evaluating their performances. The various tasks performed by the sales force include prospecting, communicating, selling, servicing, information gathering etc.

1.7 KEYWORDS

- **Sales Management:** The process of planning, directing, and controlling personal selling activities, including recruitment, training, and motivation of the sales force.
- **Sales Force:** A team of individuals within a company responsible for selling products or services and building customer relationships.
- **Sales Volume:** The total quantity of products or services sold by a company within a specific period, reflecting its market performance.
- **Customer Relationship Management (CRM):** The practice of managing interactions with current and potential customers to enhance satisfaction and foster loyalty.
- **Sales Strategy:** A plan designed to achieve sales objectives through targeted activities, including customer segmentation, pricing, and promotional tactics.

1.8 SELF ASSESSMENT TEST

1. "Sales management is the core activity of marketing." Critically analyse the importance of this statement.
2. What is salesmanship? Do you call salesmanship as a science or an art? Briefly explain various roles played by a salesman.
3. What are various tasks performed by a sales representative?
4. Explain the various steps of designing the sales force?
5. "Sales management is basically management of the sales force." Do you agree with this statement? Give reasons in support of your, answer.
6. Sit at the shop of a retailer for one day and study the activities of the salesmen visiting the retailer. Try to relate the activities with the concepts described in the lesson.

1.9 ANSWER TO CHECK YOUR PROGRESS

1. What does sales management primarily involve?
   Answer: b) Planning, direction, and control of personal selling

2. Which of the following is NOT an objective of sales management?
   Answer: c) Increasing product defects
3. Who plays a key role in achieving sales objectives in an organization?
   Answer: b) Sales managers
4. What is the primary role of a "missionary" sales force?
   Answer: b) Educating customers and building goodwill
5. What is the first step in designing and managing a sales force?
   Answer: b) Determining sales force objectives
6. Which approach involves a sales representative addressing a group of buyers?
   Answer: c) Sales representative to buyer group
7. What is the main task of the sales force in "prospecting"?
   Answer: a) Identifying potential customers
8. What is a common method used to determine the size of a sales force?
   Answer: b) Workload approach
9. What is one of the key functions of sales management?
   Answer: b) Sales programming
10. What is the purpose of evaluating sales representatives?
    Answer: b) To measure their performance against assigned goals

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PERSONAL SELLING, SALES ACTIVITIES & TASKS

STRUCTURE

2.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to-

- Understand personal selling and its importance
- Learn principles of personal selling
- Identify the major steps in effective selling
- Elaborate various sales activities and tasks of sales manager

2.1 INTRODUCTION

In the competitive market place, it is important that the product is communicated across to the customers. Traditionally, advertising is the tool for communication. However, as the competition has increased, the process of communication has also become more and more complex. The marketers of today cannot rely in only advertising in fact, the marketing communication mix comprise of 5 modes of communication as explained herein:

- **Advertising**: Any paid from of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- **Sales promotion**: A variety of short-term incentives to encourage trial or purchase of a product or service.
- **Public relations and publicity**: A variety of programmes designed to promote or protect a company's image or its individual products.
- **Personal selling**: Face to face interaction with one or more prospective purchasers for the purpose of making presentations, and answering questions, and procuring orders.
- **Direct marketing**: Use of mail, telephone, fax, e-mail or internet to communicate directly with or solicit & direct response from specific customers and prospects.

The present chapter deals with person-al selling as one of the modes for selling. The topic falls within the scope of both marketing communication and sales management. Personal selling is the most effective tools, especially at the later stages of buying process. It is very useful in building buyer preference, convictions and action. Personal selling has three distinctive qualities:–

- **Personal confrontations**: Personal selling involves an immediate and interactive relationship between two or more persons each party is able to observe the other's reactions at close hand.
- **Cultivation**: Personal selling permits all kinds of relationships to spring up, raging from a matter of fact selling relationships to a deep personal friendship. Sales representatives usually have customer's best interests at heart.

- **Response**: Personal selling makes the buyer feel under some obligation for having listened to the sales talk.

2.2 PRINCIPLES OF PERSONAL SELLING

Personal selling is more of an art. Often effective sales persons have an instinct. Yet, it is realised that proper training can enhance the skills of good salesmen. In present times, personal selling is becoming more and more customer oriented be cause no more do are have a buyer’s market. Three major aspects of personal selling are:

Professionalism

The belief that good sales are born is giving way to professional approach to the sales activity. The sales managers realise the importance of training of the sales force and spend huge sums of money each year for the same. We find the market flooded with training aids comprising of books, video and audiocassettes, CD’s and many more. The aim at sharpening the skills of a salesman to make him more and more effective.

All sales training approaches try to convert a sales person from a passive order taker into an order setter. An order taker is passive and is dominated by the situation. An order getter moulds the situation in his favour and takes charge in order to achieve his objectives. The modern professional approach to salesmanship is customer oriented. The act of selling is projected as aimed at solving the problems of the customers. Such an approach is satisfying the customers more there by making sales activity more and more effective. The sales personal are trained to understand the situation and then formulate their reaction because no single approach works in all situations.

Negotiation

Negotiation skills are one of the most important skills of a salesman. The two parties need to reach agreement on price and other terms of sales. A good salesman wins the order without making deep .concessions that will hurt his profitability. Also, he must not unduly extract the customer because such as approach will be detrimental in long run. This process of exchange by way of negotiation is more of an art learnt by salesman over time.

The professional approach to negotiation identifies the zone of agreement between the seller's surplus and buyer's surplus. Such an understanding helps in reaching at the agreement point where both the parties feel satisfied. Negotiation involves communication that is focussed and planned.

A good salesman understands his customer well and then formulates a negotiation strategy.

Relationship marketing

As the salesman becomes close to the customers, the transactional nature of the selling approach gives way to the relationship approach. The transactional approach is deal to deal approach centred on short-term gains. The relationship approach is long term and establishes a relationship between the buyer and the seller. Both understand each other and support each other.

Sales managers have realised that it is far easier to get sales from an old customer as compared to getting the same from a new customer. So, it is important to retain the existing customers. Personal selling is the most effective method of building relationships. No other means can establish relationships as effectively as personal selling does. So modern salesmen work with long-term prospective, establishing close customer associations. Such a practice is most evident in banking, airlines, insurance and investment industries.

2.3 MAJOR STEPS IN EFFECTIVE SELLING

While it is established that no single approach to selling works, in all situations, still a generalisation can be drawn and the major steps in effective selling can be identified as under:

2.3.1 Prospecting and qualifying

The first step is selling is to identify and qualify prospects. Traditionally, the task of identifying the prospect rests with the salesman. Nowadays, with the advances in information technology and software like CRM, companies can establish direct relationships with the customers. Thus, the task of identifying prospect .is shared and it makes the job of salespersons more focussed. The prospective customers are contacted and then sorted according to the level of interest and financial capability. The salesman can personally visit those customers where the chances of success are more. Four main steps in prospecting are:

- **Formulating prospect definitions**: This means defining the prospects according their financial capacity and the interest to purchase. This helps in segmenting the prospects into the categories where chances of selling are more. This makes the selling activity more targeted.
- **Searching potential accounts**: After segmentation, the prospects are analyzed with respect to probability of selling. This may involve an exploratory visit to the prospects or contacting them over phone, man or Internet. This further narrows the focus area of the sales reps
- **Qualifying prospects and determining probable requirements**: After having identified must probable prospects, their requirements are studied so that salesman can actually design a negotiation strategy that fulfils the prospect's needs. This increases the probability of the success of a sales call.
- **Relating company products to each prospect's requirements**: The final step is to integrate both the customers and sales rep so that higher success is achieved with fewer efforts.

2.3.2 Pre approach

Pre approach is the activity of sales persons to learn as much as possible about the prospect. This helps in identifying the factors that play an important role in buying decisions making process. Once a sales person is familiar with the factors that are important from the point of view of a customer, he can design his approach strategy accordingly. The chances of success increase with the details of information. Sales persons go to the extent of knowing the time, place, cultural habits and language of their customers. This helps them to step into the customer's shoe. This activity helps in saving resources and increases the chances of success.

2.3.3 Approach

The manner in which a sales person approaches the prospect has a lot of effect on the chances of success of a sales call. As it is said, first impression is the last impression, the sales person should know how too great the buyer to get the relationship off to a good start. The dressing, manner and etiquette, language, politeness and persuasiveness have a lot of effect on the success of a sales call. The right approach comes from the degree of proximity with the customer. Proximity in terms of knowing the customers is very important and nowadays more and more companies are doing the same.

2.3.4 Presentation & demonstration

After approaching a customer, the sales person narrates the story of his product. The underlying scheme of presentation is often based on AIDA model i.e. gaining attention, generating interest, arcossing desire and obtaining action. Different styles of sales presentation are used, as described herein.

- **Canned approach**: This the oldest approach wherein a sales, person memorizes, the sales talk covering the main points. It is based on stimulus-response thinking i.e. the buyer is passive and can be moved to purchase by the use of the right stimulus wards, pictures, terms and actions.
- **Formulated approach**: It is also based as stimulus-response thinking but first identifies the buyer's needs and buying style and then uses a formulated approach to this type of buyer.
- **Need Satisfaction approach**: It starts with a search for the customer's real needs by encouraging the customer to do must of the talking. The sales person takes on the role of a knowledgeable business consultant hoping to help the customer save money or make money.

The sales presentations can be improved with demonstration aids such as booklets, flip charts, slider, movies, audio and video cassettes, product samples and computer based simulations. Computer aided presentations are also very useful means. Usually, presentation is followed by leave behinds such as brochures, leaflets, samples etc.

2.3.5 Overcoming objections

There arise objections to all the presentations because of psychological resistance. It is very important to resolve them. In fact, objections are the starting point of communication that might transform to negotiation and finally action. So, they must be encouraged as they can have a positive effect on the sales call if they are resolved.

2.3.6 Closing

The manner of closing a sales call is as important as approach. Closing leaves behind an impression, which has a long term, carryover effect. Unconfident sales persons fail to ask for order rendering the entire sales call fruitless. So, the process of winding up of a sales call must incorporate persuasive phrases and actions that not only effect purchase but also help in carrying a long term effect in the mind of the customer.

2.3.7 Follow up and maintenance

In order to ensure repeat business, follow up and maintenance are very important. After closing a sales call, the sales person should not break contact with the customer. Sustained contact helps in getting business next time. It also helps enhancing customer satisfaction and reducing cognitive dissonance. It also provides the feed back to the company for improving the quality of products and service in future.

2.4 SALES ACTIVITIES & TASKS

In the present items, several developments have taken place that affect the operation of business activity and sales management is no exception. At the onset of industrialization, sellers used to dominate the market. Hence the prime function of sales force was order collection and timely delivery. With the onset of competition, sales personal could not get the orders with ease and had to supplement him, activities by focussing around the customers' needs. There arose a need for a greater coverage of the markets and each customer required personal attention. So, personal selling activities dominated the scene whereby sales person's prime job was to push the sales by luring the customers. The luring act could involve personal meetings, long business talks and use of sales promotion measures. The needs of the customers were not the prime concern and it was important to sell the product to the customers.

The current trends of globalization and technological advances, particularly. The advances in information technology have changed the way he business done. The distinction between marketing and selling as slowly being reduced, in fact the two activities are merging into one. A salesman starts from the customer by identifying customers needs and then designs the product mix suiting the specific needs of a customer. Hence, the scope of sales management involves marketing tasks as well. For the purpose of simplicity, the function of sales management can be divided into administrative, operating and staff functions.

2.4.1 Administrative functions

Just as proper management and administration is a must for the success of any organization, sales managers have to perform certain administrative functions that facilitate the running of the department. The administrative functions establish the frame wash for smooth running of the department. The frame wash comprises of management functions such as planning, organizing, directing and control.

Sales policies

Policies are guiding principles set by the company to govern usually repetitive or routine actions. Sales policy provides a basic guide to thinking and action taken by the executives within the sales organization under a given set of circumstances. A comprehensive sales policy assures the success of any business. The backbone of successful sales policies is customer satisfaction and customer goodwill, based on reputation for reliability and fair trade practices. It is important to ensure that the sales policy supports other missions, policies and objectives of marketing department and the organization as a whole.

Sales planning

Planning is choosing from alternative courses of action is a prime managerial, function. It involves the selection from among several alternatives, enterprise objectives, policies and procedures, programmes and schedules. Sales planning is a part of marketing planning, covering sales forecasting, sales programmes to achieve sales goals, and making a sales budget sales planning decides in advance, the future course of action regarding the marketing or selling of the product. After formulation of the broad marketing objectives and plans, the course of action is drafted in measurable terms about how a goal is of sales is to be achieved. Sales planning saves the resources and achieves greater results in a given set up.

Sales Organization

Sales organization involves separation and grouping of sales activities and fitting in persons to carry out their activities. Relationships based on authority, responsibility and accountability are established between them. Sales organization is very important because persons carry out all plans and activities and if an organization is rightly designed, lot of-advantage is achieved in facing the competition. There can be no fixed organizational structure and it depends on many factors such as the corporate objectives, resources, business environment etc.

Direction and motivation

Supervision, which comprises of both direction and motivation involves:

- Observing, monitoring and reporting the performance of sales force.
- Counselling and watching sales force to remove defects and weaknesses in their performance.
- Giving them adequate information regarding company plans and polices and charges in these policies.
- Receiving feed back and solving their business & personal problem.
- Motivating the sales force through appropriate non financial incentives in order to give there people a sense of achievement.

The sales manager has to be very innovative while supervising sales force unlike other departments, sales personal do no work in an office or a plant. They work in the field. So, adequate measures must be incorporated in reporting so that they actually work and achieve the desired objectives.

Coordination

Coordination is one of the prime functions of sales department because it has to depend heavily on others for its functioning sales people have to collect orders and ensure delivery. They have to coordinate among the customers and the-factory. At factory they have to ensure timely dispatch of the material. Also, they have to coordinate with production department to ensure adequate inventories of the finished goods. Also, they inform the production department about the needs and customers so that they can make the product that value aspirations of the people. Sales department has to coordinate with accounts department to ensure timely receipt of the payment. With a large number of factors affecting success of a sales manager, the task of coordination is very challenging and requires lot of tactfulness.

2.4.2 Operative Functions

The operative functions are the functions performed by the sales department that concern with its operation various operative functions are described herein.

Recruitment

Recruitment is motivating and peoples to apply for the job. Sales manager has to depend on his team for getting sales. Since this job is highly dependent on the personal traits of the sales representative, it is very important to ensure that good, hard working and energetic people join the organization. Recruitment is a long-term process involving the activity of building good company image, liaison with campus, consultants, placement agencies etc. A judicious mix of in house and outside talent ensures that good people are inclined to wish for the company.

Selection

Selection means choosing the best persons for employment in the company from among the reservoir of prospective candidates. This process can involve a series of tasks, group discussions, personal interviews etc. A nicely designed selection process ensures that right people join the organization. Since the sales terms cannot be changed very frequently, the process of selection is very crucial for both long terms as well as short term profitability of an organization.

Training

After selecting the right people, it is important to integrate them with the company objectives. This may require same initial orientation programme, on the job-training etc. Not only the fresher, it is important to train even the existing staff as well to periodically sharpen their skills. Since the market position changes very frequently, it is very important that the sales team is trained to face the fluid even changing situation around them. Training may be through seminars group discussions, games, role plays, case studies etc.

Territory allocation and routing

Since sates team works in the market place, the sales managers are faced with a difficult task of allocating the territories to the sales force. The territory has a lot of effect on achievement of results. If the territory is too vast, the sales persons may not be able to cover the same. If the territory is too far flung the sales persons may waste a lot of time in travelling. Similarly, small territory would be wasteful. If there is imbalances territory allocation, the morale of sales teams is adversely affected because of if effect on performance appraisal. The companies, depending upon their needs, resources and the shape of territory use various methods of territory allocation.

Controlling

The sales team does not work in a closed area such as office or a plant. So it is very important to devise ways and means to control them. Companies have to rely on daily cell reports. Sales performance and market feedback. The right kind of control begins at the storage of planning control should not finding faults, but it must mean identifying the reasons of not achieving the results. A positive control boosts the morale and helps in achieving the pre laid objectives.

Physical distribution

A sales person's job does not end after taking the order. He has to ensure the delivery of goods to the customers. Often physical distribution is taken care by the plant and sales team has to coordinate with them. However, in some cases the sales team might have to deliver the goods themselves. As the competitions increasing, more and more companies are moving out to reach their customers and physical distribution is becoming more and more important.

2.4.3 Staff functions

The staff functions mean the support-functions that are performed to help the time functions that are directly working towards achievement of company objectives. The important staff functions are explained herein.

Marketing research

The sales personal are in direct touch with the customers. They are best aware about their needs and aspirations. Hence, they are the best source of information for conducting marketing research. This support is gives to marketing department who in turn gives, to the feedback to the production people and ensure that the goods and services are as per the needs of the customers.

Advertising

Advertising persuades customers to buy the products. The sates team acts as a booster to the effect of advertisement. They can also help in designing advertisements suiting the aspirations of the people.

Sales promotion

Sales department is the only tool of implement sales promotion schemes. They ensure that the schemes are passed on to the customers and the channels of distribution do not keep the promotional schemes to themselves. Effective implementation of sales promotion helps in achieving the sales targets.

Merchandising & product development

The activity of merchandising and product development needs the vital support of the sales department. They provide the information and other necessary inputs required to carry out this activity.

Sales analysis & performance appraisal

Correct analysis of sales helps in knowing the strengths and weaknesses of the company. If a company is able to perform well it must know its strengths and if it is not able to perform well in the market place. This helps or taking the necessary corrective action and hence achieve the objectives.

Channel Management

Although distribution is often described as the task of logistics department it cannot function with the participation of the sales department. The sales team helps in building congenial relations between the channel members that are very essential for the success of a company. Even the activity of warehousing, transportation etc. can be made more effective and useful with the help of sales department.

2.5 CHECK YOUR PROGRESS

1. **Which of the following is a key element of the communication mix?**
   a) Personal Selling
   b) Distribution Management
   c) Supply Chain Management
   d) Inventory Control
2. **What does personal selling primarily involve?**

a) Non-personal communication with potential buyers

b) Face-to-face interaction with prospective buyers

c) Use of mass advertising channels

d) Exclusive reliance on digital marketing

3. Which step in the selling process focuses on identifying and qualifying prospects?

a) Pre-approach

b) Prospecting

c) Closing

d) Follow-up

4. What is the primary goal of relationship marketing in personal selling?

a) Short-term sales

b) Establishing long-term buyer-seller relationships

c) Increasing advertising expenditure

d) Maximizing one-time sales profits

5. Which approach to sales presentation focuses on discovering and addressing the customer's real needs?

a) Canned Approach

b) Formulated Approach

c) Need Satisfaction Approach

d) Transactional Approach

6. What is the primary objective of the pre-approach step in the selling process?

a) Collecting payments

b) Learning about the prospect's needs and preferences

c) Delivering products

d) Finalizing the sale

7. What is the purpose of follow-up in personal selling?

a) Closing the sales deal

b) Ensuring repeat business and customer satisfaction

c) Negotiating discounts

d) Managing inventory

8. Which of the following is an administrative function of the sales department?

a) Sales promotion

b) Sales planning

c) Physical distribution

d) Territory allocation

9. What is one of the operative functions of a sales manager?

a) Marketing research

b) Recruitment and selection

c) Channel management

d) Product development

10. Which element of personal selling helps resolve customer objections during a sales presentation?

a) Presentation aids

b) Relationship marketing

c) Overcoming objections

d) Territory allocation

2.6 SUMMARY

Personal selling is one of the most important promotional tools used by marketers. It includes face to face interaction with one or more prospective purchasers/ buyers for the purpose of making presentations, answering questions, and procuring orders. There are situations in which role of personal selling becomes very important, such as, when product is technical, complex and costly. In these situations the role to sales force is very important. In such situations people do not rely only on advertisement or sales promotion schemes. They rather want to have face to face interaction with the company representatives. Personal selling has three major aspects i.e., professionalism, negotiations, and relationship marketing. The major steps of effective selling include, prospecting, pre-approach, approach, presentation and demonstration, overcoming or handling objections, closing the sale and finally follow up and maintenance. The administrative functions of sales force are sales policies, planning, organising and directing. The operative functions of sales force include recruitment, selection, training, territory allocation, routing and scheduling of various selling activities. There are various supporting functions performed by sales force include marketing research, sales promotion, channel management, etc.

2.7 KEYWORDS

Personal Selling- Personal selling is form of promotion based on face to face interaction with prospective buyers for the purpose of procuring sales orders.

Relationship Marketing- This approach is long term and establishes a relationship between the buyer and the seller for mutual benefits.

Pre-approach- It is the activity of sales person to learn as much as possible about the prospective customers.

2.8 SELF ASSESSMENT TEST

1. What are various elements of communication mix? Explain the importance of personal selling in communication mix.
2. What are various steps in effective selling?
3. Explain various operative functions of sales department.

4. What are various staff functions of sales department? Why should the sales team perform these staff functions?

2.9 ANSWER TO CHECK YOUR PROGRESS

1. Which of the following is a key element of the communication mix?
   Answer: a) Personal Selling
2. What does personal selling primarily involve?
   Answer: b) Face-to-face interaction with prospective buyers
3. Which step in the selling process focuses on identifying and qualifying prospects?
   Answer: b) Prospecting
4. What is the primary goal of relationship marketing in personal selling?
   Answer: b) Establishing long-term buyer-seller relationships
5. Which approach to sales presentation focuses on discovering and addressing the customer's real needs?
   Answer: c) Need Satisfaction Approach
6. What is the primary objective of the pre-approach step in the selling process?
   Answer: b) Learning about the prospect's needs and preferences
7. What is the purpose of follow-up in personal selling?
   Answer: b) Ensuring repeat business and customer satisfaction
8. Which of the following is an administrative function of the sales department?
   Answer: b) Sales planning
9. What is one of the operative functions of a sales manager?
   Answer: b) Recruitment and selection
10. Which element of personal selling helps resolve customer objections during a sales presentation?
    Answer: c) Overcoming objections

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Subject: **SALES MANAGEMENT**	
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Lesson No.: **3**	Updated By: **Dr. Yogesh Verma**

PLANNING FOR SELLING EFFORT:
DEMAND MEASUREMENT, SALES FORECASTING, MEASURING MARKET AND SALES POTENTIAL AND MARKET SHARE

STRUCTURE

3.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to-

- Understand significance of planning in sales management
- Identify different methods of sales forecasting
- Learn to measure sales potential and market share

- Describe estimation for future demand

3.1 INTRODUCTION

Planning is one of the most important activities of management and sales management is no exception. It is the planning that serves as the basis for all other management functions; Planning helps in anticipating the future by the environmental appraisal and helps in appropriate resource allocation so as to achieve optimum realisation of objectives. Planning of sales has its effect on not only the functioning of sales management, but affects the whole organization. The anticipated level of sales helps the company in production planning, purchasing, and planning for funds and finally the profit resulting from the business activities. Thus, planning for sales effort serves as a blueprint for the entire organization. This makes planning one of the most important activities for the company and any errors in sales planning can cost the company heavily. So, management takes all the care by using the all available tools and techniques for accurate sales planning. Before discussing the methodology of sales planning, it is necessary to define and understand certain frequently used terms in marketing and sales planning.

3.2 FREQUENTLY USED TERMS IN MARKETING AND SALES PLANNING

3.2.1 Potential Market

The potential market is the set of customers who profess some level of interest in a defined market offer. For example, a company wants to measure the potential market for its product say motorcycles, it will try to estimate the number of people who have even the slightest interest in purchasing the motorcycles. The number thus arrived at will give an idea about the maximum possible units that cal) be sold in a defined market. This is available to all the manufacturers or service providers.

3.2.2 Available market

However, the number of people having an interest to purchase a product may not imply the sales volume that the company will be able to achieve. The number of customer who not only have an interest to buy a product but also have the ability to buy the product is more important. For example, there might be students who have lot of interest to buy motorcycle but do not have the money to buy the same. While they will be counted in potential market estimate, they are of no use to the company. The desire and interest must be backed by the ability to buy a product. Also, customers’ accessibility to a product is important because even the customers having interest and availability to buy may not be able to make purchases if the product is not accessible to them. For example, there might be many people who are interested to have internet connection, they also have the money to buy the same; but the internet service providers cannot access them because no telephone line$ are available. So, these set of customers are not of any use to the company. Consider another case, many people would be interested to buy books from *www.amazon.com* (bookshop on Internet) but they do not have the credit cards to make the payment.

In both the above cases, the potential market is far greater than the actual available market for the company. Thus, *available market may be defined as the set* of *customers who have interest, income and access to* a *particular market offer*.

3.2.3 Qualified available market

In certain markets, some of the customers might be restricted to the sales of particular product. So, they need to be deducted from the available market. For example some countries may ban sale of motorcycle to people less than 18 years of age. So, they need to be excluded from the estimates of available market. The number of customers who are actually qualified to make purchase are known as qualified available market. They have interest, income, access and qualifications for a particular market offer.

3.2.4 Served market

The company might not plan to serve the entire qualified available market and might like to concentrate on only a few market segments. The part of qualified potential market is known as served market. For example .Internet service provider like *Mantraonline, Glide or Dishnet* do not serve the markets of Haryana. So, for them the served market constitutes only the qualified market of Delhi and/or Chandigarh where they provide-their services.

3.2.5 Penetrated market

The penetrated market is a set of customers who have already purchased the product. In a market, there might not be only one company operating. The competitors also operate in a market and they might have sold their product to some of the customers that form the penetrated market. For example, when *Satyamonline* is planning to enter Haryana, the customers who already have the Internet connection from VSNL or *Palcom* constitute *penetrated market* i.e. the market that has already been penetrated.

3.2.6 Market demand

Market demand for a *product* is the *total volume* that would be *bought* by a defined *customer group* in a given *geographical area* in a defined *time period* in a defined *marketing environment* under a defined *marketing programme.*

There are eight elements of this definition as described here in:

- *Product.* Market demand measurement requires defining the scope of the product class. A tin-can manufacturer has to define whether its market is all metal-can users or all container users. It depends on how the manufacturer views its opportunities for penetrating adjacent markets.
- *Total volume.* Market demand can be measured in terms of physical volume, dollar volume, or re1ative volume. The Indian market demand for automobiles may be described as 10 million cars or Rs. 1000 crores. The market demand for automobiles in the New Delhi area can be expressed as say 2.5 percent of the nation's total demand.
- *Bought.* In measuring market demand, it is important to define whether "bought" means the volume ordered, shipped, paid for, received, or consumed. For example, a forecast of new housing for the next year usually means the number of units that will be ordered, not the number that will be completed (called housing starts).
- *Consumer group.* Market demand may be measured for the whole market or for any segment(s). Thus a, steel producer may make separate estimates of the volume to be bought by the construction industry and by the transportation industry.
- *Geographical area.* Market demand should be measured with reference to well-defined geographical boundaries. A forecast of next year's passenger automobile sales in Haryana will vary depending on whether the boundaries are limited to Haryana or include Chandigarh also.
- *Time period.* Market demand should be measured with reference to a stated period of time. One can talk about the market demand for the next calendar year, for the coming five years, or for the years 2000. The longer the forecasting interval, the more tenuous the forecast. Every forecast is

based on a set of assumptions about environmental and marketing conditions and the chance that some of these assumptions will not be fulfilled increases with the length of the forecast period.

- *Marketing environment.* Market demand is affected by a host of uncontrollable factors. Every forecast of demand should explicitly list the assumptions made about the demographic, economic technological political, and cultural environment. Demographic and economic forecasting are well developed. Technological forecasting is coming into its own, but political and cultural forecasting are still in their infancy. Much interest in the whole subject of predicting future environments is being stimulated by futurists. At the same time, Levitt has cautioned: “The easiest kind of expert to be is the specialist who predicts the future. It takes only two things: imagination and a good command of the active verb.”
- *Marketing program.* Market demand is also affected by controllable factors, particularly marketing programs developed by the sellers. Demand in most markets will show some elasticity with respect to industry price, promotion, product improvements, and distribution effort. Thus a market demand forecast requires assumptions about future industry prices, product features and marketing expenditures.

Since demand varies with the above stated variables (there can be even more number of variables according to a specific situation), total market demand is not a fixed number, but is in fact a function and is often rightly called as market demand function or market response function. The following figures show the variation of market demand as a function of industry marketing expenditure in particular and two different environments. It may noted that some minimum sales (called *market minimum)* would continue even when no industry expenditure is made. Increase in the industry marketing expenditure yields an increase in the market demand, first at an increasing rate and then at a decreasing rate. After a point, any more increase in industry yields no further increase in market demand. This point is known as *market potential.*

The distance between market minimum and market potential is known as *marketing sensitivity of demand.* It must be noted that market demand function is not a picture market demand over time. Rather, the curve shows alternative current forecasts of market demand associated with alternative possible levels of industry marketing effort in the current period.

3.2.7 Market Forecast

The market demand corresponding to only one level of industry marketing expenditure is known as market forecast. For example in the earlier figure, the market demand at a given point of expenditure will be called as market forecast. Since market demand is a function of many variables, in order to arrive at a forecast, these variables have to be defined and the market demand corresponding to these defined sets of variables is market forecast.

3.2.8 Market potential

As clear from the figure, the market demand increases with the increase in the industry expenditure. This increase is at an increasing rate and then at a decreasing rate. As the expenditure rises, there is no further increase in the market demand. Thus, market potential is the limit approached by market demand as industry marketing expenditures approach infinity, for a given environment. Since the demand changes with the change in marketing environment, the market potential can be defined only in a given set of circumstances. For example in the recessionary trend O market, the market potential will be low as compared to a boom period, even for the same level of industry expenditure.

3.2.9 Sales potential

Some authors use the term the term sales potential as a subset of market potential representing the maximum number of sales opportunities open to a specified company selling a good or service during a stated future period.

3.2.10 Company demand

The company demand is the company’s share of market demand. For example, in a given environment for a given industry expenditure if the market demand of automobile industry is say 1.5 lac cars per annum and the share of Maruti is 45%, then the company demand is 67500 cars. Mathematically, company demand (Qi) can be expressed as under:

$Q_i = S_i . Q$

Where S_i = Company i’s market share

Q = Total market demand

3.2.11 Company forecast

The company forecast is the expected level of company sales based on a *chosen marketing plan and an assumed marketing environment* The company demand represents the company's estimated sales at alternative levels of marketing efforts. The management chooses one of the levels of industry expenditure and the company demand corresponding to that level is known as company forecast.

3.2.12 Sales quota

The sales quota is the sales goal set for a *product line, company division or sales representative.* It is a primary managerial devise for defining and simulating sales effort. The management sets sales quotas on the basis of company forecast and psychology of stimulating its achievement. Generally, sales quotas are set higher than estimated sales to stretch the sales force's effort.

3.2.13 Sales budget

A *sales budget is* a *conservative estimate of the expected volume of sales and is used for making current purchasing, production and cash flow decisions.* The sales budget considers the sales forecasts and the need to avoid excessive risk. Sales budgets are generally set lower than the company forecast.

3.2.14 Company potential

The company potential (also called company sales potential) is the limit approached by company demand as company-marketing effort increases relative to competitors. In many cases, company potential (also called sales potential, described earlier) is less than the market potential because no company has the power and resources to attain 100% market share.

3.3 ANALYSING THE MARKET POTENTIAL

The market potential can be analysed by following three steps:

Market identification

Before the market potential can be estimated, it is important to identify the markets. The sales professionals need to answer the following questions:

- Who buys the products?
- Who uses it?

- Who are the prospective buyers and/or users?

The answers to these questions can be sought from the company's internal records or by the help of marketing research. While there may be no formal research project for this purpose, the information generated from the marketing channels and other sources can be used as inputs. The marketers of consumer goods identify the buyers, users and prospects and classify them according to various characteristics such as age, sex, education, income and social class. In case of the industrial marketing, the buyers, users and prospects are identified and classified according to the variables such as size of the company (user), geographical location, type of industry etc.

The identification of market helps in knowing the differentiating characteristics of the company's products and the variables that affect consumer behaviour. The analysis of data thus collected helps in estimating the market potential.

Market motivation

The next step for analysing market potential is to detect the reasons why customers buy the product and reasons why the potential customers might buy it. The process of market motivation answers the following questions:

- Why do people buy?
- Why don't people buy?

The answer to these questions gives an additional information about the likely success or failure of marketing inputs and promotional schemes.

Market potential analysis

After the market identification and market motivation, market potential is analysed. Often direct estimate of market potential is very difficult because it is practically not possible to count the number of customers and prospects in a given market. So, often the use of indirect *market factors* is made. A market factor is a key feature or characteristic related to the product's demand. For example, the demand for automobiles in a given market may not be directly proportional to the number of people; their income level, education and nature of profession may be the key variables that decide whether the people purchase cars or not. The marketers have to identify and study these variables in order to arrive at market potential. However, in addition to this, the market segments that do not contain Prospective buyers of the product need to be eliminated to arrive at a correct market potential estimate. For example if a sales executive wants to estimate potential for mid size cars in Punjab and Haryana, he might have to eliminate the rural customers who may not purchase the product despite the fact that they have the income to buy the same. There might be other variables affecting their purchase decision. The process of analysing market potential is a two step process as under:

- Selection of market factors that are associated to the demand of a product
- Elimination of those market segments that do not contain prospective buyers of the product.

3.4 DEMAND ESTIMATION

The process of demand estimation can be divided into two parts namely:

- Estimation of current demand
- Estimation of future demand (Sales forecasting)

The sales professionals have to know both-the types of demand because the current demand helps in planning for short term and the future plans are based on the sales forecasting. Even the current sales serves as a basis for planning for the company. Both types of methods of demand measurement are described in the following pages.

3.4.1 Estimation of current demand

While estimating current demand, the following are estimated:

Total market potential

Total market potential is the maximum amount of sales (in units or in value terms i.e. rupees) that might be available to all the firms in an industry during a given period under given level of industry marketing effort and given environmental conditions. This is estimated commonly by the formula:

$Q = nqp$

Where, Q = total market potential

n = number of buyers in a given market under given conditions

q = quantity purchased by an average buyer

p = price of an average unit

When the sales managers have detailed data, they can make use of complex formulae such as *chain ratio method.* This is a complex method and entails study of all possible variables that are likely to affect the sales potential and study their interrelationships in order to arrive at a final formula.

Area market potential

The companies often have to identify the sales territories that will give them more returns for the efforts and other inputs. In that case, they have to estimate area market potential, which is measured by the following methods:

a) Market build-up method

b) Multiple factor index method

Market build-up method

This method attempts to identify all potential buyers in each market and estimates their potential purchases. The problem with this method is that practically, the information of potential buyers and their likely sales is not available. So, often companies use indirect methods by estimating the market potential by studying the variables that affect the same.

Multiple factor index method

This method uses the indirect variables, called as indices, which can be used to estimate the level of total market potential. For example, Hindustan Levers may assume that the consumption of its soap say Lux is directly related to the population. If the company wants to find out how much will be the contribution of Haryana to its sales, it will measure the population of Haryana with respect to total population of India and then estimate the likely contribution of Haryana Assume that Haryana has 1.5% of the total population of India, Hindustan Lever can assume that the state will contribute 1.5% to its total sales in the country. In practice, such simple variables are not chosen. In fact, a multiple variables are chosen, their significance is estimated, and the weights are assigned in order to arrive at meaningful estimates.

Further suppose that Punjab National Bank finds that level of deposits in a territory (say Haryana) are related to two variables i.e. population and income and income has double the effect than population, then the total market potential will be estimated by the formula Q = P + 2I

Where P = population of Haryana

I = Average income level of population of Haryana

3.4.2 Estimation of future demand

The estimation of future demand is one of the important functions in a company. The planning of the entire operations **of** the company are based on the accuracy of the forecasting of demand. Correct demand forecast help in formulating production plans, procurement of raw material and also the allocation of financial resources. Forecasting also helps in estimating the human resource requirement of a company. The correct estimation of future demand has a wide spread effect determining the overall profitability of the company. The methods for demand forecasting are diverse, arranging from crude to highly sophisticated. The commonly used methods for estimating the future demand are:

Buyers survey

This is the simplest and the most logical approach to estimating future sales. The buyers i.e. the prospective customers are asked about their future buying plans on the basis of which the sales managers can estimate what the likely sale shall be in future. This method is particularly useful in case of industrial marketing and the marketing of consumer durables. Its advantage is its simplicity and reliability. It is also useful when the company operates in a limited geographical area. It is the method of choice in case of ancillary units estimating future demand on the basis of the future demand of their buyer.

However the limitation of this method is its being impractical when the customer base of a company is quite large. In such a situation, it is practically very difficult for the sales manager to take the opinion of a majority of their customers and then make estimates of their future demand. Another major drawback of the system is that it is based on the assumption that the buyers plan is once made are not likely to be changed. This is an unrealistic assumption particularly in a dynamic business environment in which we are living. This method is also likely to have measuring, sampling and non-sampling errors.

This makes it less popular method for estimating the future demand.

Opinion survey of composite sales force

Since the opinion of the customers is not practically feasible in all situations, most companies use indirect methods of determining future demand. Since the sales force operates in the market, they can best estimate the future trends of the markets and thus forecast the sales. So, some companies rely on the opinion of the composite sales force, although their estimates are not accepted directly. The opinion of sales force is often believed to be biased because it might be either to optimistic or too pessimistic. The reason is that in case they want to show high performance, they might give higher targets that might not be the realistic estimates of future sales. So, the opinion of the sales force is accepted after some corrections. Still, the estimates of the sales force provide a useful estimate of territory wise sales, customer wise estimates, product wise estimates etc. Such a data is not otherwise possible to be estimated. Usually the companies use this method in conjugation with other methods such as statistical analysis or opinion of experts.

Expert/Executive opinion (Delphi method)

In this method, the opinion of the top executives or the experts who can analyse the market and give their comments is taken as a basis for estimation of the future sales. The experts may be dealers, distributors, suppliers, marketing consultants, trade associations etc. They are the people who keep a close watch over the market situations and can judge which shape the market will take in the future and thus give their opinions. In certain cases, the experts jury may be called in for a group discussion and the final decision arrived at from their discussion is taken as the estimate of the future sales.

This method basically consists of two steps; in the first step, the high-ranking executives and experts estimate the sales and in the second method, an average of their opinions is calculated.

The advantages of this method are its ease and speed. The people who pool their opinion are well informed and their judgement can be takes as reliable. In new companies who do not have much market experience, this method is a cost-effective alternative. This method can be used even in absence of adequate sales and market statistics. Another advantage of this method is that results can be arrived at easily, without much statistical or mathematical analysis.

Rand Corporation, for predicting the future developed Delphi technique several years ago. In this technique, a panel of experts responds to a sequence of questionnaires in which responses to one questionnaire are used to produce the next questionnaire. The information available to some and not to other experts is disseminated to all, enabling all to base their final forecasts on all available information. In a way, this method encompasses the majority opinion of a panel of experts.

Projection of past sales

The historic data generated on the basis of the past performance serves as a useful basis for estimating the future sales. This projection can be used in various forms. In the simplest form, the sales forecast for the coming year is taken as equal to the last year's sales. Some companies may add a fixed percentage as a growth rate the want to attain. Some companies also use the average of last few years' sales as a basis to arrive at the future sales estimates. The companies using this method believe that the future sales will invariably have some relations to the sales performance achieved in the last years. The projections can be based on some advanced techniques as under:

Time series analysis

Time series analysis is a statistical procedure to estimate the future sales on the basis of past projections. This procedure involves isolating and measuring four chief types of sales variations namely the long term trends, cyclic changes, seasonal variations and irregular fluctuations. Then a mathematical model describing the past behaviour of the series is selected, assumed values for each type of sales variation are inserted acute sales forecast is made. This method is particularly useful for long range forecasts. The disadvantage of this method is that it does not appreciate the changes in the business environment and would mathematically arrive at the forecasts on the basis of the past cycles of boom and recession.

Exponential smoothing

This is also a statistical technique particularly useful for short term forecasts. Exponential smoothing is a type of moving average that represents a weighted sum of all past numbers in a. time series, with the heaviest weight placed on the most recent data. Often this technique is used in association with the time series analysis- in order to achieve both long-term and short-term sales forecasts.

Evaluation of past sales projection methods

In the methods described above, the major limitation is that the changes due to change in business environment, competitor activity of other reasons are not considered, So, the pragmatic approach is that the allowances are made for such developments also. Suitable corrections are made to the sales estimates when the market is near saturated or in situations when the market is rapidly growing. The past sales projection methods are used appropriately for obtaining "heck forecasts" against which forecasts secured through other means are compared. Most companies make use of past projections in their sales forecasting procedures. The availability of numerous computer programmes for time-series analysis and exponential smoothing has increased the practice of using this method.

Market test method

This is an experimental method and is used when the buyers do not plan their purchases carefully or are very unpredictable in carrying out their intentions. Also, when insufficient market data is available and the experts are not able to provide an accurate forecast, this method is used. Usually, this method is used while the launch of new products or when the companies start their activities in a new territory. The estimates for first time sales, replacement sales etc. are made and the total sales are projected on the basis of data gathered. This method not only gives the sales projections, but also provides cues of consumer behaviour as well. The limitation of this method is its being slow and expensive Also, an error in the selection of test market may affect the results. There is a vast scope of sampling errors. If these are rectified, then elaborate techniques have to be used making the method quite difficult to use.

Statistical demand analysis

Statistical demand analysis is a set of statistical procedures designed to find out the most important real factors affecting sales. This technique also attempts to find out the relative influence of these real factors. Unlike time series analysis, which takes only the historical data is the basis for calculating sales projections, this method considers numerous other factors that might be operational in reality in affecting demand. The factors most commonly analysed are price, income, population and promotion. Statistical demand analysis expresses sales (Q) as a dependent variable and tries to explain it as a function of a number of independent demand variables X_1, X_2... X_n etc.

Mathematically, $Q = f(X_1, X_2 .... X_n)$

Using the technique of multiple regression analysis, various equation forms can be statistically fitted into the data in the search for best predicting variables and equation. The demand equations are derived by fitting the best equation to the historical or cross sectional data. The coefficients of the equation are estimated accordingly to the least; squares criterion. According to this criterion, the best equation is the one that minimises the sum of square deviations of the actual from the predicted observations. The equation can be derived through the use of standard formulae. With other things being equal, the closest equation is selected as a basis for projecting the sales. The advantage of this method is its reliability and dependence on a larger set of variables. The limitation is the difficulty in identifying the variables and gathering data about the. Also, the method may be more useful in long term sales projections as compared to short-term sales projection. This method has become popular and easy with the advent of computers for data computations and the regression analysis required for this method.

Econometric model building and simulation

This is considered a very useful method, as useful as sales projection, by the companies making consumer durable goods. This approach uses an equation or system of equations to represent a set of relationships among sales and different demand-determining independent variables. Then, by plugging in values (Le. estimates) for each independent variable, the sales projections are made. This method involved simulation the total situation for sales forecast. Unlike statistical techniques like regression analysis, econometric model is based on an underlying theory about relationships among a set of variables, and parameters are estimated by statistical analysis of past data. An econometric sales forecasting model is an abstraction of a real world situation, expressed in equation form and used to predict sales. For example, consider the following sales equation for a durable good:

S = R + N

where S = total sales

R = Replacement demand

N = New owner demand

The total sales of durable goods may be assumed to consist two components: purchases made to replace units that have been scrapped and purchases by new owners. Thus, a person having a five-year old machine will use it for part payment of a new machine and will become a part of replacement demand. The replacement demand is measured by several methods, the use of life expectancy table being most common. Constructing of econometric model primarily consists of three steps. Firstly, independent demand variables affecting each demand category (new or replacement) are identified and those bearing a logical relationship to sales are chosen. Secondly, the combination of independent variables that correlates best with the sales is detected. Thirdly, suitable mathematical expression to show the quantitative relationships among the independent and dependent variable and sales is chosen. This expression becomes the econometric model.

Econometric model building technique is an ideal technique since it considers the interaction of independent variables that bear logical and measurable relationships to sales. Also, it uses regression analysis techniques to quantify these relationships. The econometric models are best suited for forecasting industry sales instead of forecasting sales for individual competing companies. Most companies use it to forecast the industry sales and use their market share in order to project the sales of their companies.

3.5 CHECK YOUR PROGRESS

1. **What is the primary purpose of planning in sales management?**
   a) To reduce marketing expenses
   b) To serve as a blueprint for the entire organization
   c) To replace the need for forecasting
   d) To focus only on short-term sales goals
2. **What does the term "potential market" refer to?**
   a) Customers who have already purchased the product
   b) The maximum possible sales for a company in a market

c) Customers showing interest in a defined market offer

d) Customers qualified to buy the product

3. **Which market consists of customers with interest, income, access, and qualifications to purchase a product?**

   a) Available market

   b) Potential market

   c) Qualified available market

   d) Served market

4. **What does "penetrated market" refer to?**

   a) Customers who have interest but no income to buy

   b) Customers who have already purchased the product

   c) Customers identified as potential buyers

   d) Customers restricted by regulations

5. **What does the formula Q=nqpQ = nqpQ=nqp represent in market potential estimation?**

   a) Market share calculation

   b) Total market potential

   c) Company demand

   d) Sales quota

6. **Which method of sales forecasting involves directly asking buyers about their future purchasing plans?**

   a) Statistical demand analysis

   b) Market test method

   c) Buyer survey

   d) Delphi method

7. **What does the Delphi method rely on for sales forecasting?**

   a) Historical sales data

   b) Expert opinion through iterative questionnaires

c) Direct interviews with customers

d) Simulated market testing

8. **Which sales forecasting method uses past sales data to predict future sales?**

a) Market build-up method

b) Statistical demand analysis

c) Projection of past sales

d) Econometric model building

9. **What is "market potential"?**

a) The limit approached by market demand as marketing expenditures increase

b) The portion of the market a company chooses to serve

c) The sales goal set for a sales representative

d) The historical sales record of an industry

10. Which method estimates future sales by simulating the relationships among variables affecting demand?

a) Market test method

b) Econometric model building

c) Time series analysis

d) Opinion survey of sales force

3.6 SUMMARY

Planning is one of the most important activities of management and sales management is no exception. Planning for sales effort serves as a blueprint for the entire organisation. Market potential is the estimation of total numbers of products to be sold in a particular market for a defined time period of the industry whereas, sales potential is the estimation of total number of products to be sold in a particular market for a defined time period of a company. So, when we say number of TV sets to be sold in

India in year 2007, its market potential and number of TV sets of LG to be sold in India in year 2007 is sales potential for LG. Demand estimation can be divided into two parts namely: estimation of current demand and estimation of future demand (Sales forecasting). Current demand is estimated by total market potential, area market potential, total industry sales and market share. Estimation of future demand or sales forecasting is one of the most important function in any organisation. The planning of entire operations of a company are based on the accuracy of the sales forecast. The commonly used methods of sales forecasting are buyer survey, opinion survey of sales force, expert opinion (Delphi method), projection of past sales, market test method, statistical demand analysis, econometric model building and simulation.

3.7 KEYWORDS

Potential Market- It is the set of customers who have same level of interest in a defined market offer.

Market Demand- Market demand for a product is the total volume that would be bought by a defined customer group in a given territory in a defined time period under a defined marketing programme.

Market build up method- This method attempts to identify all potential buyers in each market and estimates their potential purchases.

Multiple factor index method- This method uses the indirect variable, called as indices, which can be used to estimate the level of total market potential.

3.8 SELF ASSESSMENT TEST

1. Explain the concepts of potential markets, available market, qualified available market, and served market.
2. Distinguish between market potential, sales potential and company demand. What is the difference between market potential and potential market?
3. Explain the methods of buyers' survey, composite sales force opinion survey and Delphi method. What are the relative merits and demerits of each of them?
4. Differentiate between statistical analysis techniques and econometric model building techniques of sales forecasting.

3.9 ANSWER TO CHECK YOUR PROGRESS

1. What is the primary purpose of planning in sales management?
   Answer: b) To serve as a blueprint for the entire organization
2. What does the term "potential market" refer to?
   Answer: c) Customers showing interest in a defined market offer
3. Which market consists of customers with interest, income, access, and qualifications to purchase a product?
   Answer: c) Qualified available market
4. What does "penetrated market" refer to?
   Answer: b) Customers who have already purchased the product
5. What does the formula Q=nqpQ = nqpQ=nqp represent in market potential estimation?
   Answer: b) Total market potential
6. Which method of sales forecasting involves directly asking buyers about their future purchasing plans?
   Answer: c) Buyer survey
7. What does the Delphi method rely on for sales forecasting?
   Answer: b) Expert opinion through iterative questionnaires
8. Which sales forecasting method uses past sales data to predict future sales?
   Answer: c) Projection of past sales
9. What is "market potential"?
   Answer: a) The limit approached by market demand as marketing expenditures increase
10. Which method estimates future sales by simulating the relationships among variables affecting demand?
    Answer: b) Econometric model building

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Subject: SALES MANAGEMENT	
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Lesson No.: **4**	Updated By: **Dr. Yogesh Verma**

SALES TERRITORIES

STRUCTURE

4.0 LEARNOING OBJECTIVE

After going through this lesson, you will be able to-

- Learn the concept of sales territories
- Identify the steps for territory design
- Elaborate the importance of routing and scheduling plans

4.1 INTRODUCTION

The task of assigning the sales territories to the sales representatives has a significant effect on the functional efficiency of the sales department. The sales representatives do not work within the boundaries of the organisation. For them, working at the market place is the prime responsibility. In case the territories are not assigned by clear planning, there is likely to no control over the activities of the sales representatives. Also, in case the territories are too large or too small, the performance is bound to be affected. In case the nature of the territories is not homogenous, the comparison of the performance of the sales representatives becomes difficult. With this background of the difficulties that can arise in case of unplanned territory allocation, it is of prime importance that the managers plan the territories of the companies very carefully.

The territory can be defined in terms of the size of the area in which the sales representatives operate as well in terms of the number of customers. Operationally, it is better to define the sales territory as *a grouping of customers, and prospects assigned to an individual sales person.* This definition lays more stress on the customers and prospects in an area instead of the size of the territory. A company might prefer to keep more sales representatives in a densely populated metropolitan city and keep a few sales representatives in an area with a lesser density of the customers and prospects. E.g. Daewoo Motors selling Matiz and Cielo cars would prefer to keep more sales representatives in Delhi and might keep only a few sales representatives in the entire state of Haryana or Himachal Pradesh, although in terms of the size the states are much bigger. It is the number of the customers as well as the prospects who are likely to decide the sales volume that can be achieved by a company and not the geographical area. The prospects represent the sales potential that can be useful for the company in future. As the companies start their marketing operations, they usually start with appointing the sales representatives in the potential areas and increase the number of sales representatives in the underrepresented area. This might call in for increasing the number of sales representatives in the territories. In cases when a single account is very large and is responsible for a significant part of the sales of a company, them a single representative might not be assigned this important client but it might be handled by a group of executives from the head office. Such a client (often called as account) is known as *house account.*

4.2 PURPOSE OF ESTABLISHING SALES TERRITORIES

The task of setting up sales territories is a continuous process and in constantly updated or revised keeping in view, the changes that occur in the marketplace. The sales territories are primarily set up to facilitate planning and control of sales operations. In specific terms, the reasons of establishing the sales territories can be stated as under:

4.2.1 Proper coverage of market

In the present competitive world, the market coverage is the key to gaining competitive advantage. The opportunities of the marketplace cannot be wasted and allowed to go into the hands of the competitors. So, the competition, to provide adequate coverage of the market. In the present age of competition, it is the sellers market and, not the buyers market. It is not expected out of a customer to wait to purchase the product. So, the companies have to make themselves available to the customer so that the customer can purchase the product. The ease in making the company accessible to the company is called as the spatial convenience, which in itself is acknowledged as a part of customer service.

However, it is important to note that mere design of territories to cover the markets should not be the only aim. The territory design should facilitate the operational working and study the feasibility of establishing the territory, keeping in view the costs of sales in that areas and the likely returns to make the sales a profitable venture in that area. A good design will facilitate a sales representative in spending more time in servicing the customers and reduce the time in non-productive activities such as travelling. The territory design must match with the sales programmes to achieve better coordination of the operation of the sales department as a whole.

4.2.2 Controlling the sales expenses

While sales department is a major source of returns to the company, it is also a major cost centre because of the investment and the costs incurred in achieving the sales. The territory design has a key role to play in controlling the sales expenses. In case the territories are too small in terms of numbers of customers and prospects, the sales representatives achieve the sales at a greater cost. The limit to the number of customers would not allow the sales to grow beyond a point and the overhead expenses would increase the cost of sales. Similarly if the territories are large in terms of number of customers, it might not-be possible for the sales representative to be able to contact all of them. This would result into loss of some opportunities for the company. If the sales territories were too large in terms of physical size, the cost of sales would mount because of the greater travelling expenses and less of productive time spent with the customers.

The sales representatives have to report to their area sales managers and regional managers. So, an error in the territory design would affect their organization structure also that thereby adding to the sales expenses. Thus, the territory design has to be optimum to achieve the maximum sales at the, lowest possible costs to increase the profitability.

4.2.3 Facilitating evaluation

The sales representatives are evaluated for their performance so that they can be adequately compensated. In order to achieve a fair evaluation, the sales representatives must have an equal platform for evaluation. The well designed sales territories facilitate their evaluation. The territories must-be so designed that they can be considered as homogenous for comparing the performance of the sales representatives. It is noteworthy that the nature of duties of the sales representative does not allow their performance evaluation in the manner in which the functionaries of other department of the company are evaluated. The sales representatives do not have fixed duty hours, nor do, they have well furnished offices or work premises. So, for their evaluation, all these factors have to be kept in view. Territory all9cationfacilitates evaluation and hence leads to more satisfied employees. The sales of a company are affected significantly in case the sales representatives are not satisfied from the compensation. It is the personal relationship that the sales representatives develop in the market that helps them in getting the sales. Consequently, if a sales representative leaves an organization, the new person has to develop the relations to get the same level of sales. So, the managers have to devise ways and means that keep the managers going to achieve their targeted sales.

4.2.4 Contributing to morale of sales force

As explained in the previous point, correctly designed territories facilitate evaluation of the sales representatives When the sales representatives feel that they are getting their due reward for their efforts, they feel motivated to achieve higher levels of sales performance. Their commitment to the company increases and their morale i.e. their drive increases.

4.2.5 Coordination

The territories help in achieving the coordination between personal selling and advertisement. If left alone, both of them cannot be an effective means to achieve higher sales. It is their combined effort, which can achieve the sales objectives. By the allocation of territories, the specific requirement of each area can be studied and the advertisement and the sales promotion scheme can be designed accordingly. These customized approaches helps in servicing the customer in-a better way and thus gain more sales. e.g. A company can divide the Indian states as territories and study the requirements of the customers of each state. Each state will have its different language and may require different sales promotion campaigns. Correctly formed territories will reduce the wasteful expenditures into unproductive sales promotion schemes and adopt a more effective and targeted approach.

4.3 STEPS FOR TERRITORY DESIGN

The steps for designing the sales territory very with the nature of business operation. For example the principals followed while designing the sales territories would be very different in case of FMGC companies like Hindustan Levers, P&G etc. in comparison to consumers durable companies like Maruti, BPL etc. Still some generalisation can be drawn regarding the steps for setting of the sales territory:

4.3.1 Selecting a basic geographical control unit

The stating point in the planning of the sales territories is the basic geographical unit. The commonly used geographical control unit in India is the district or the state. In case of metropolitan cities, the territories are allocated as per residential/business localities. Some of the other bases of selecting a control unit are Zip code numbers (practiced in U.S.A.), cities, trading areas etc. While selecting a control unit, it is preferable to keep them small and allocate them on the basis of geographical proximity in order to facilitate the sales operation subsequently. Such an allocation of territories also facilitates readjustment of territories at a later stage. The various basis of geographical control units are further-described herein:

Countries

The firms operating in multinational markets divide their markets on the basis of the countries. The countries can be assumed to be homogenous markets, although large countries need to be further subdivided into smaller territories. However, the companies in the initial stages of multinational marketing find it most convenient to divide their market on the basis of countries or even groups of countries such as Middle East, Far East, Europe, South Asia etc.

States

For the firms operating in India, state is considered to be a very convenient geographical control unit. The companies might even use groups of states and call it and region. The region shall be further divided into the states and then the states further divided if necessary to districts under the area sales managers with sales representatives operating in the smaller towns. E.g. Cipla Ltd. A major pharmaceutical company has 22 regions in the country, each comprising of one or more states. Similarly, most companies divide all India sales operations into five regions, namely North, South, East, West and Central India. Each region consists of a group of states.

Districts

With the increased competition, the companies have to formulate territories much smaller than the states because they have to increase their reach. For this purpose, the district serves as a logical basis for division into territory. However, most companies divide the districts according to their convenience and may not adhere to the administrative districts as formed by the government. E.g. Shahbad, although comes under district Kurukshetra, most companies count it as a part of the territory of Ambala district because the stockists of Ambala visit Shahbad while those of Kurukshetra do not. So, the sales in Shahbad are not counted into the performance of Kurukshetra district and are counted as the sales performance of Ambala district. Analogous to districts, American companies use Zip code as a basis for making the territories. Zip code contains area that can be counted as one homogenous market.

Metropolitan cities

Metropolitan cities comprise of a large population in a relatively smaller area. The population in Delhi is, almost equal to that of the state of Haryana although in terms of area it is very small. So, in case of metropolitan cities, the localities are divided depending on the basis of the number of customers and prospects living in an area. Usually, the people living in a locality can be taken as a fairly homogenous in terms of their income levels, education and consequently consumer behaviour. So, they can be taken as one territory. E.g. people of Greater Kailash and Nehru Place localities in Delhi can be taken as one territory while those living, in Janakpuri and Vikaspuri can be taken as another territory. Similarly, people living across river Yamuna can be taken as another territory. The economic level, education, occupation etc. in these localities is likely to be homogenous. White the first is a posh locality, the second one may be taken as middle income class 1ocality and the third as a lower income locality. The companies can allocate the resources to these territories and achieve their sales targets.

4.3.2 Territory allocation on the basis of product

In certain cases, companies are resorting to allocating territories on the basis of products. E.g. Cipla Ltd. Has representatives promoting specialised products such as anti asthmatic and cardiac range of products in addition to the representatives selling the regular antibiotics and anti inflammatory .products. The representatives promoting specialised products are assigned special territories, exclusive of the regular territories. There might be representative selling cardiac products only in Punjab and Chandigarh while the other may visit the doctors only in Haryana and Delhi. With the ever-increasing product lines of companies, this basis bf territory allocation is also becoming quite popular.

4.3.3 Estimating the sales potential in each control unit

Once the basis of a control unit is established, the sales potential of each control unit is estimated. The sales potential is estimated not only in the present terms but also the future terms by estimating the number of prospects in a sales territory. For this, the customer profile must be defined and an estimate of the number of customers is made. Caution must be exercised to estimate of the number of target customers and not vaguely defined individuals. E.g. a company (say Revelon) marketing cosmetics has to estimate not the number of women in a territory but the women who have the capacity to purchase their premium range of cosmetics. So, they would be. interested to estimate the population of the number of women in the upper middle class society whom they would target in their marketing strategies. Thus, the territories must not be looked upon merely in terms of the geographical area and population, but in terms of the potential customers who can actually be useful to the marketers. Such an estimate may be possible, in those situations, an indirect estimate about the size of markets must be made by measuring the variables that have a direct correlation with the market size. E.g. the company selling paints may not be able to estimate the number of people who will get their houses painted in the next year, but the estimate of population may be an indicator of the likely sales. In a populated area, the sales are likely to be more as compared to a sparsely populated area.

Having conducted the exercise stated above, the companies estimate the marketing potential. The next step is to estimate the sales potential by analyzing the historical market shares within each control unit. The changes required (if any) in the strategies and marketing practices are studied before arriving at any conclusion. Having estimated the sales potential of the control units, the territorial planner identifies those territories that have substantial sales potential to justify sales-coverage. In case the company plans to have mass coverage as its strategy, then all the territories are covered irrespective of the sales potential. However if the company plans far a selective coverage of markets, then the territories have to be selected an the basis of the sales potential. This is the practice preferred during the initial launch stages of the products are in case the companies are marketing industrial products.

Designing tentative territories from control units

The control units are combined to be converted into the tentative territories. The territories are always subject to change, so they have been termed as tentative. As a first exercise, contiguous control units are designated as territories, each containing approximately same sales potential. The number of sales persons required are estimated by dividing the sates potential and the average sales that can be realised by an individual sales person. Historic data and competitor information serve as useful basis in making such decisions. For example, .assume that the management estimates that an average sales person can realise a sale of Rs. 25,000 and the sales potential of Haryana is Rs. 2,50,000. The management will have to divide Haryana into ten territories and appoint ten sales representatives in order to achieve the sales targets. In practice, while every effort is made to keep the, territories homogenous in size, such figures present lot of practical difficulties. So, the sales potential of a territory is often expressed as the percentage of sales potentials of the total market.

Designing the shape of territories

The shape of the territories affects the selling expenses as well as the efficiency of the sales person. If the territory shape permits a sales person to spend minimum time on the road and more time in meeting the customers it results in more productive time and hence better achievement of target. This also contributes to increasing the morale of the sales persons. Three types of shapes are most commonly used; the wedge, the circle and the clover leaf territories. There shapes are as shown in the figure.

The wedge shape territory is appropriate when it contains both rural as well as the urban areas. The urban areas are situated in the middle of the wedge and the sides of the wedge protrude in the direction in which the rural markets are spread. Wedges can be in m-any sizes. The travel time along the adjoining wedges can be equalised by balancing urban and non-urban calls.

The circle shaped territory is appropriate when the customers (accounts) are evenly distributed throughout the area. The sales person assigned to circular shaped territory is based at some point near the centre, making for greater uniformity in frequency of calls on customers and prospects. This also makes the sales persons nearer to more of the customers than is possible in a wedge shaped territory.

The cloverleaf is desirable when accounts are located randomly throughout the territory. Careful planning of call schedule results in each clover leaf being completed in a week or a fortnight in order to facilitate the completion of one touring cycle of the sales representative. The sales representative can report to his head quarter after the completion of one tour cycle. Usually home base of the sales persons assigned to the territory is near the centre. Cloverleaf territories are more common among consumer market and among companies cultivating the markets extensively rather than intensively.

4.3.4 Adjusting and redesigning the territory

The final step is to adjust the tentative-territories by adjusting them for coverage difficulty. The tentative territories should be so designed that each territory contains approximately the same sales potential. However, it must be accepted that even the territories with nearly equal sales potentials require different selling efforts. They also differ in the selling expenses also. The unrealistic assumptions are removed so that no differences in the characteristics of geographical control units exist. Significant differences in physical and other characteristics make the sales coverage more difficult for some control units than for others.

For example, certain large cities like Delhi have greater sales potentials for most products than some states such as Haryana or Punjab. However, the time required to contact customers and prospects in cities is much less, and the same is true in case of selling expenses. The optimum territorial arrangement is reached when incremental sales per dollar of selling expenditures are equated among all territories. In working toward this ideal, both sales potential and coverage difficulty are taken into account. As the planner adjusts for differences in coverage difficulty, control units are taken away from some tentative territories and added to others. The final territorial arrangement is one in which different territories contain different sales potentials.

Differences in coverage difficulty represent differences in workloads. The planner ascertains how large the maximum workload the largest work load for any salesperson should be. All workloads need not be the same size, since sales personnel vary in ability as well as in drive, and some can safely be assigned larger workloads. However, since there is an upper limit to the desirable workload, and this also limits a territory's maximum geographical extent. When final adjustments for coverage difficulty are mad: sales territories have varying amounts of sales potential and different-sized work loads, but none exceeds the maximum desirable work load. The work load method is one of the approaches to determine the sales force size. Here, the same concept, with minor modifications is used for redistricting.

Redistricting to adjust for coverage difficulty (that is, differences in work loads) is a seven-step procedure:

- *Determination of number, location and size of customers and prospects in each tentative territory.* Customers are identified and located through sales records; prospects through trade directories, subscription lists to trade publications, classified directories, and credit reporting agencies. Size is measured in terms of sales potential.
- *Estimation of the average time required for each sales call.* This varies from account to account and from prospect to prospect, so customers and prospects are classified into groups, estimating an average time per call for each group. Time and duty analyses of sales personnel are used to check these estimates.
- *Determination of the time required for travelling from one customer to the next.* This varies among regions, depending on the density of customers and prospects and the condition of roads and transportation facilities. Particular attention is paid to physical characteristics. Large rivers, lakes, mountains, and other barriers to travel make natural and necessary territorial boundaries. The number of places where a large mountain range can be crossed by automobile are limited and often considerable time is consumed in the crossing. The same is true of large rivers, lakes, bays, and so forth. Transportation facilities are as important as physical characteristics. If public

transportation facilities such as commercial airlines are used, territories are planned with an eye on locations of air terminals. The planner interrelates and balances differences in sales potential, physical geographical characteristics, and transportation facilities and routes. After sketching in on a map the tentative territorial division according to roughly equal sales potentials, the planner makes adjustments after superimposing maps showing topographic and transportation features.

- *Deciding call frequencies.* Within certain control units, some or all customer and prospect classes require call frequencies that differ from those in other control units. Differences in the strength of competition require variations in call frequency rates. Similarly, call frequency rates are influenced by the market acceptance of the product line within control units. Cost studies on minimum profitable order sizes also provide input to the decision on call frequencies.
- *Calculating the number of calls possible within a given time period.* To determine the number of calls per day in a certain control unit, the average amount of time required for each call is added to the average time between- calls and divided into the number of working hours in the day. Adjustments are made when call lengths vary for different classes of customers and prospects.
- Adjusting the number of calls possible during a given period by the desired call frequencies for the different classes of customers and prospects. Such an exercise results in estimation for the total workload represented by the control units in each tentative territory. Further adjustments are made to assure that the workload in any territory is not larger than the allowable maximum and that selling expenses are within budget limits. The planner shifts control units among different tentative territories, adding units to some by taking them away from adjacent territories. Each' shift brings the territorial arrangement closer to the optimum-that is, closer to one in which incremental sales per dollar of selling expenditures are equated among all territories.
- Checking out the adjusted territories with sales personnel who work or who have worked in each are, and make further adjustments as required. Personnel familiar with customer service requirements, competitive conditions, and topography, roads and travel conditions may point out weaknesses not obvious to the planner. These cause further shifting of control units from one territory to another, each shift bringing the final territorial arrangement a little closer to the optimum.

4.3.5 Assigning sales persons to the territories

Upon obtaining the best possible arrangement of the territories, the sales persons are assigned to the territories. The above planning had assumed that all the sales persons are similar in their performance, however the actual allocation of persons poses lots of problems. People vary in ability, initiative, effectiveness and physical condition. Moreover, sales persons performance can vary in the territory. E.g. a South Indian is likely to be less effective in Himachal Pradesh and vice versa. So, management has to consider lots of factors while assigning the persons to the territories. Some companies find that assigning hometown to the people to work gives better results while some. companies think otherwise. There can be no prescriptive basis to serve as a basis for assigning persons to the territories. The task of assigning persons must fit into individual's ability and should result into highest contribution of the individual towards corporate profit. It might be noted that even the periodic transfer of persons of one territory to another might be done where it is felt that such an exercise will increase the effectiveness of the person.

4.4 ROUTING AND SCHEDULING PLANS

The routing and scheduling plans aim to maintain the lines of communication so as to optimise sales coverage and minimise wastage of time. The only productive time that the sales persons spend is when they are in contact with the customers. The time spent in travelling and reporting activities yields less returns to the company. 5d, the routes and schedules of the sales persons should be so designed that the non-productive time is maximised and the productive time is maximised. The management can consider the options of modes of transport in case this results in increasing the productive time. E.g. the sales person may be provided with a car which will result in increase in the productive time and an increase in the sales expenses also. Depending the financial viability, such a decision should be taken. Similarly, companies might allow sales persons to travel by air so as to reduce the travelling time.

The planned selection of routes will also result in reduction of non-productive time. The schedules must be according to the convenience of the customer, but care must be taken that the cost involved does not increase unnecessarily. The practical problems must be accommodated while designing tour plans and schedules and adequate flexibility must be allowed in the plans to allow the uncontrollable situations.

4.5 CHECK YOUR PROGRESS

1. **What is a sales territory primarily defined by?**

   a) Size of the geographical area

   b) Number of competitors

   c) Grouping of customers and prospects

   d) Revenue potential

2. **Which of the following is NOT a purpose of establishing sales territories?**

   a) Ensuring proper market coverage

   b) Increasing travel costs

   c) Facilitating sales evaluation

   d) Contributing to morale of the sales force

3. **What is the first step in designing sales territories?**

   a) Estimating sales potential

   b) Assigning sales representatives

   c) Selecting a basic geographical control unit

   d) Designing routes and schedules

4. **Which of these is a commonly used geographical control unit in India?**

   a) Zip code

   b) Districts

   c) Neighborhoods

   d) Continents

5. **Which sales territory shape is ideal for covering both rural and urban areas?**

   a) Cloverleaf

   b) Circle

   c) Wedge

   d) Rectangle

6. **What does "routing and scheduling" aim to optimize?**

   a) Sales force recruitment

b) Travel and reporting time

c) Customer service policies

d) Competitor analysis

7. **How is "sales potential" defined?**

a) Maximum revenue a company can generate

b) Total market revenue for an industry

c) Estimated revenue from a specific territory

d) Revenue achieved after a product launch

8. **What is a "house account"?**

a) A single account managed by the head office

b) A territory dedicated to residential customers

c) A customer group assigned to all sales representatives

d) An account managed by external agencies

9. **What type of sales territory is best suited for evenly distributed customers?**

a) Wedge

b) Circular

c) Linear

d) Random

10. **Why is flexibility important in routing and scheduling?**

a) To adjust to uncontrollable situations

b) To reduce travel costs

c) To improve advertising strategies

d) To assign more sales territories to representatives

4.6 SUMMARY

The territory can be defined in terms of the size of the area in which the sales representatives operate as well in terms of the numbers of customers. Operationally, it is better to define the sales territory as a grouping of customers and prospects assigned to an individual sales person. The purpose of establishing sales territories are proper market coverage, controlling of sales expenses, facilitating sales evaluation, coordination, contributing to morale of sales force etc. The process of designing a sales territory starts with selecting a basic geographical control unit, such as countries, states, districts etc. Sales potential in each control unit are estimated and tentative territories are designed from these control units. After adjusting and redesigning the territory sales persons are assigned to different territories. The routing and scheduling plans aim to maintain the lines of communication so as to optimise sales coverage and minimise wastage of time. The only productive time that sales persons spend is when they are in contact with the customers. The time spent in travelling and reporting activities yields less returns to the company. The routes and schedules must be according to the convenience of the customer. There should be adequate flexibility in the route and schedule in order to adjust uncontrollable situations.

4.7 KEYWORDS

Sales Territory- It is a grouping of customers, and prospects assigned to an individual sales person.

Routing and Scheduling- It aims to maintain the lines of communication so as to optimise sales coverage and minimise wastage of time of sales force.

Geographical Control Unit- In India the geographical control unit is the district or state.

4.8 SELF ASSESSMENT TEST

1. Explain the concept of sales territory. Why is it necessary to divide the market into sales territories?
2. What is geographical control unit? Explain the various bases for designing geographical control units.
3. What is the importance of territory shapes? What are various types of territory shapes?
4. How do companies adjust the territories in order to accommodate the practical coverage difficulties?
5. Visit the market and try to study the territory design of a pharmaceutical company, an FMCG company and companies making consumer durable products such as television, refrigerator, car etc.

4.9 ANSWER TO CHECK YOUR PROGRESS

1. What is a sales territory primarily defined as?
   Correct Answer: c) Grouping of customers and prospects
2. What is a potential disadvantage of poorly designed sales territories?
   Correct Answer: b) Increasing travel costs
3. What is the first step in designing sales territories?
   Correct Answer: c) Selecting a basic geographical control unit
4. What is a commonly used geographical control unit in India?
   Correct Answer: b) Districts
5. Which territory shape is best suited for areas with both urban and rural customers?
   Correct Answer: c) Wedge
6. What is considered non-productive time for a sales representative?
   Correct Answer: b) Travel and reporting time
7. What does sales potential in a territory refer to?
   Correct Answer: c) Estimated revenue from a specific territory
8. What is a "house account" in sales?
   Correct Answer: a) A single account managed by the head office
9. Which shape of territory is suitable when customers are evenly distributed?
   Correct Answer: b) Circular
10. What is the purpose of flexibility in routing and scheduling plans?
    Correct Answer: a) To adjust to uncontrollable situations

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Subject: **SALES MANAGEMENT**	
Course Code: **BCOM 601**	Author: **Dr. Atul Dhingra**
Lesson No.: **5**	Updated By: **Dr. Yogesh Verma**

THE SALES ORGANISATION

STRUCTURE

5.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to-

- Describe the meaning and purpose of sales organisation
- Identify the steps involved in sales organisation
- Learn different types of sales organisation

- Explain the advantages and disadvantages of different types of sales organisation

5.1 INTRODUCTION

Organisational structures are receiving increasing attention in the companies now-a-days, as companies have started recognising that yesterday's structures may hinder operations in today's dynamic environment. Companies are streamlining their organisations by reducing the number of executive levels between the workers and the CEO. To stimulate innovation, to reduce office bureaucracy, and to generate faster responses to market changes, firms are granting more authority to middle level executives in decentralized locations. These changes show that firms today demand on organisational flexibility to respond quickly in a dynamic, information-driven sales environment characterized by diversity and turbulence. Undoubtedly, new organisation structures will continue to emerge in response to changing environments.

Sales organisation is a group of individuals striving jointly to reach both qualitative and quantitative personal selling objectives, and bearing informal and formal relations to one another. The sales organisation is not an end in itself but rather the vehicle by which individuals achieve given ends.

This lesson is all about the sales organisation. It focuses on the types of organisation structures, their respective strengths and weaknesses, and their application areas.

5.1.1 PURPOSE OF SALES ORGANISATION

In an ideally organised sales department, waste movements and duplication of efforts are eliminated, friction is minimised, and co-operation maximised. The major purposes of sales organisation, therefore, are:

- Elimination of waste movements and duplication of effort;
- Minimisation of friction between individuals;
- Maximisation of co-operation;
- Assignment of responsibility, and delegation of authority;
- Development of specialists like product and brand managers;
- Facilitation of communication and smooth flow of information;

- To assure that all necessary activities are performed; and
- Economisation of executive time.

5.1.2 SETTING UP A SALES ORGANISATION

It is easy to set up a sales organisation in a smaller and new company where one cam start from scratch but in large companies, sales organisation is not built entirely. from scratch, as some structure already exists. Therefore, bigger organisations face problem of reorganisation rather than setting up of a sales organisation.

There are five major steps in setting up a sales organisation:

- *Defining the objectives*– Every organisation set the short, medium, and long term corporate objectives and sales objectives may be derived from them. These objectives may be based on the survival, growth and leadership orientation of the top management.

  Sales objectives are both qualitative as well as quantitative in nature. They are usually set in terms of sales volume, profits and growth to be achieved in some future time period. Some companies also fix qualitative objectives like number of sales calls per day, new customers created, new dealers made, and displays and demonstrations to be done by the sales force.

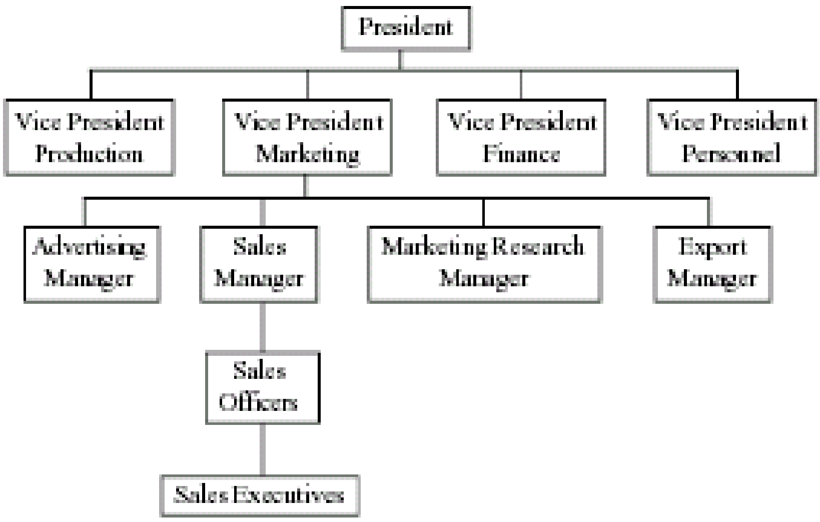
- *Delineating the necessary activities*– The top management conducts the job analysis to find out the necessary activities to be performed by the sales persons. These activities are usually needed to achieve the sales objectives already defined.
- *Grouping activities to create positions*– Activities are grouped and closely related tasks are linked to create proper positions in the organisation. Each position should contain not only a sufficient number of tasks but sufficient variation also to provide for job challenge, interest, and involvement. Important activities are assigned to higher posts like sales manager and sales executives while less important activities are assigned to lower level posts like sales co-ordinator or sales clerk. When large number of positions are set up, groups of related jobs are brought together to form departmental subdivisions.

- *Assigning Personnel to positions*– Here the controversial questions is whether to recruit special individuals to fin the positions or to modify the positions to fit the capabilities of available personnel. Generally the former is preferred.
- *Provision for co-ordination and control*– While organising, a firm takes into account the principle of 'span of control', i.e. number of persons reporting to the manager or executive. Organisational chart is one instrument which takes care. of this principle as it depicts the formal relationships among different positions. Written job description also help in the control process.

The sales organisation does not only required defining the relationship between sales and the other functional divisions of the firm but also within the sales department to implement the plans. Actually a sales organisation is both an orienting point for cooperative endeavour and a structure of human relationships.

5.2 COMPANY WIDE ORGANISATION

Main aim of organisational structure is to establish effective working relationships between sales and each one of the other major functional areas. Sales can help production by providing accurate sales forecasts. Production can return the favour with desired quality products at right time. Similarly, Sales and finance people can work together to establish pricing and credit policies. The organisation structure for the company is given below:

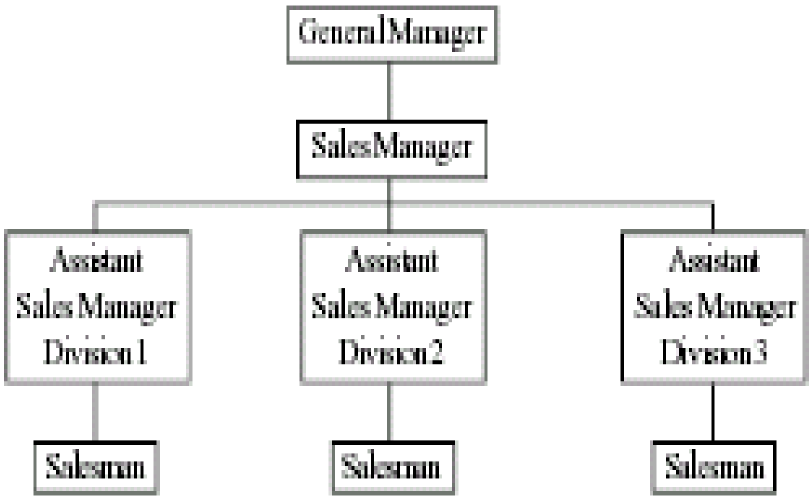


5.3 ORGANISATION WITHIN SALES DEPARTMENT

Most sales departments have a hybrid structure that evolves over the years from the needs of the company. Hence, it is not necessary that two companies in the same industry have the same structure. However, within the sales department, the sales force is organised usually on line, line and staff, functional, and committee bases. Out of these four first two are more frequently used.

Line sales organisation

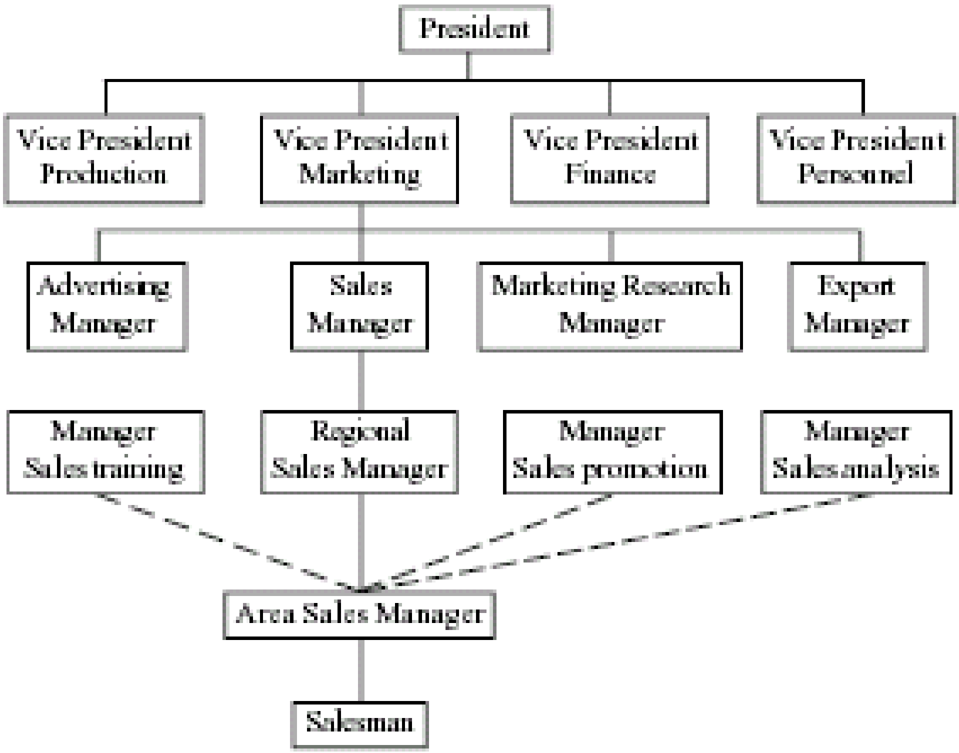
It is the oldest and the simplest structure. It is widely used in smaller firms with narrow geographical spread and product lines. In this structure, the chain of command, runs from top to bottom and each subordinate is responsible towards only one person on higher level. The main advantage of this type of structure is that responsibility can be fixed with lase and authority can be delegated. The major weakness of the structure is that much depend on the superior than subordinate.



Line and staff sales organisation

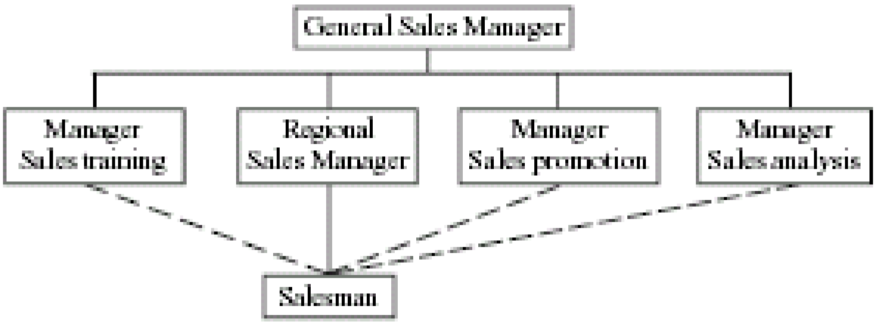
This type of structure is often used in the large or medium sized organisations having diversified products that are sold over a wide geographical area. It not only provides the sales executive his or her subordinates but also a group of specialists like experts in dealer and distribution relations, sales training etc. In this structure as is clear from the name, some sales personnel have line relationship and some have staff relationship with their superiors. Staff sales personnel do not have the authority to issue orders but their recommendations are submitted to top sales managers. If these recommendations are approved, these are communicated to the line people in terms of instructions.

The major advantage of this type of structure is that the organisation creates a pool of experts which helps in the imprinting the quality, of decisions. This structure also helps in reduction of added burden on the executive time. The major weakness of the structure is that it is expensive and co-ordination and control over staff is difficult. As you need specialists, you tend to recruit many experts which increase the costs for the company. Many persons having both line and staff relationship are sometimes difficult to co-ordinate and control. Time between problem-recognition and corrective action, also widens. This results from giving staff personnel time to study problems before making recommendations to the decision maker.



Functional sales organisation

A few companies use this type of basic structure. This type of structure, actually, has been derived from 'scientific management theory' given by F. W. Taylor. It is based on the premise that each individual in the organisation, executive and/or employee, should have as few distinct duties as possible. Here, the principle of specialisation is utilised to the fullest possible extent.



Committee structure

It is never used in isolation as sole basis for organisation. It is used for planning and execution of policy matters. In this type of structure a team of senior managers, executives, and salesmen is created. This team handles the sales of major customers or sales that are achieved through bids and tenders.

5.4 VARIATIONS IN ORGANISATIONAL STRUCTURES

With the sales department, especially in medium-sized or large firms where the line, and/or line and staff structures are used, the sales force frequently is organised in one of these three forms of specialisation variations: geographic territory, product line, or customer type.

I. Geographic specialisation

Probably the most widely used method of organising sales activities is on the basis of geographic specialisation. In this type of arrangement, each sales person is assigned a specific geographic area, called territory, in which to sell. Several salespeople representing contiguous territories are placed under a territorial sales executive, who reports directly to the general sales manager. These territorial executives usually are called district or regional sales managers.

The major advantage of this method is that more customers can be added and wider area may be tapped. A geographical organisation usually ensures better implementation of sales strategies in each local market and better control over the sales force. Local problems of dealers, retailers, and customers may be handled speedily. Customer service is also improved by using this structure variation. Local sales representatives can respond better to competitors' actions in a given territory. More and specific market information can be gathered by using this structure. As each salesman is assigned separate territory, sales supervision and control becomes easy.

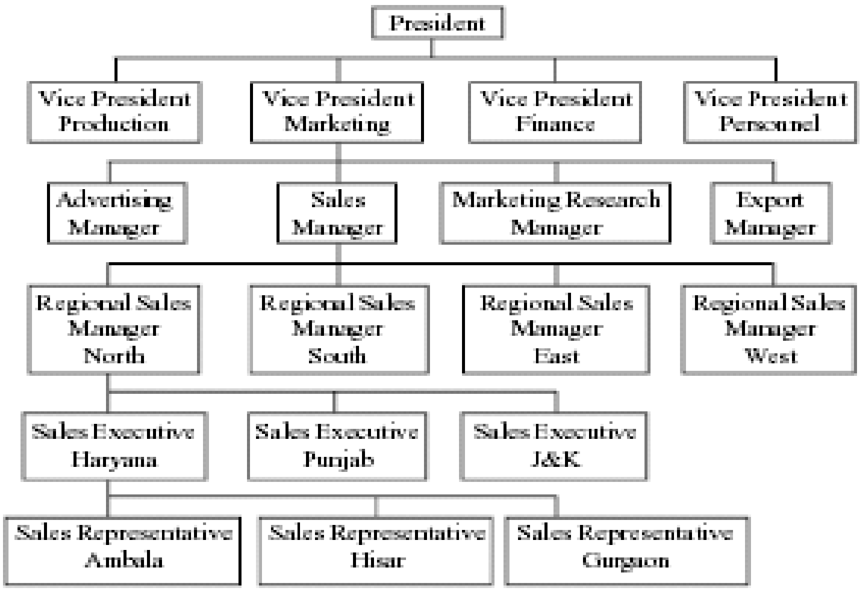
The major weakness of this structure, however, is that size of sales personnel increase enormously which adds to the costs and co-ordination problems. Other drawback is that a geographic organisation does not provide the product expertise or other specialised knowledge that some customers may want.

II. Product specialisation

Another basis for organising a sales force is product specialisation. In this kind of structure company may divide its products into separate sales manager and his sales force. This type of organisation is best suited for the companies that are selling:

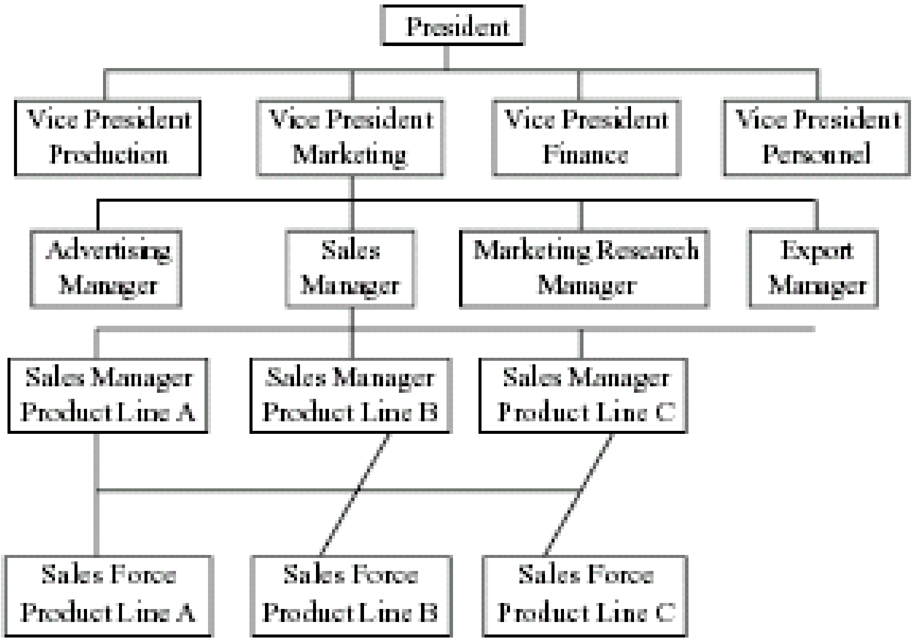
- Complex technical products
- Unrelated or dissimilar products
- Thousands of items

The main advantage of product-specialised sales organisation is the attention that each product line can get from the sales force A drawback is that more than one sales representative from the same company may call on the same customer.



III. Customer specialisation

Many companies divide their sales departments on the basis of customer specialisation. Customers may be grouped by type of industry or channel of distribution.



A company that specialises its sales operations by channel of distribution may have one sales force selling to wholesalers and dealing directly with large retailers. As more companies fully implement the marketing concept, the customer specialisation type of organisation is likely to increase. Certainly the basis of customer specialisation is commensurate with the customer oriented philosophy that underlines the marketing concept. Here the organisational emphasis is on customers and markets rather than on products.

A variation of customer specialisation is the major accounts organisation. Many companies are adopting this structure as a better way to deal with large, important customers. For major accounts, organisations usually involve team selling. In this kind of arrangement, a selling team consisting usually of a sales representative, a sales engineer, a financial executive, and a manufacturing person will negotiate with a buying team from the customers' organisation.

5.5 CHECK YOUR PROGRESS

1. **What is the primary purpose of a sales organisation?**

   a) Increase sales volume

   b) Minimise friction and maximise coordination

   c) Reduce production costs

   d) Enhance product design

2. **What is the first step in setting up a sales organisation?**

   a) Assigning personnel to positions

   b) Defining objectives

   c) Grouping activities to create positions

   d) Provision for coordination and control

3. **Which organisational structure is commonly used in small firms with a narrow geographical spread?**

   a) Functional structure

   b) Line sales organisation

   c) Committee structure

   d) Product specialisation

4. **In a line and staff sales organisation, what role do staff personnel primarily play?**

   a) Issuing orders

   b) Providing recommendations

   c) Supervising sales representatives

   d) Handling direct sales

5. **Which structure is best suited for companies selling complex technical products?**

   a) Geographical specialisation

   b) Product specialisation

   c) Customer specialisation

   d) Committee structure

6. **What is a major disadvantage of a geographical specialisation structure?**
   a) High travel expenses
   b) Lack of product expertise
   c) Increased reporting complexity
   d) Overlapping of territories

7. **What is a key advantage of a customer specialisation structure?**
   a) Simplified management
   b) Focused attention on customer needs
   c) Reduced operating costs
   d) Better product knowledge

8. **Which sales organisation** structure is derived from F.W. Taylor's scientific management theory?
   a) Functional sales organisation
   b) Line sales organisation
   c) Line and staff sales organisation
   d) Committee structure

9. **What is the major function of a committee structure in a sales organisation?**
   a) Assigning territories
   b) Handling policy matters and planning
   c) Managing customer complaints
   d) Supervising sales teams

10. **What is the main aim of using organisational structure variations like geographic, product, or customer specialisation?**
    a) Increase production efficiency
    b) Optimise sales activities
    c) Enhance technical expertise
    d) Reduce employee workload

5.6 SUMMARY

Sales organisation is a group of individuals striving jointly to reach both qualitative and quantitative personal selling objectives, and bearing informal and formal relations to one another. The major purpose of sales organisation includes elimination of duplication of efforts, economise on executives time, minimisation of friction between individuals, maximisation of coordination and cooperation, development of specialists, to ensure that all necessary activities are performed etc. There are five important steps involved in setting up sales organisation: defining the objectives, delineating the necessary activities, grouping activities to create positions, assigning personnel to positions and provision for coordination and control. The sales organisation structure are line, line and staff and functional. Sales organisations are also based on geographic specialisation, product specialisation, customer type and committee type as well.

5.7 KEYWORDS

Sales organisation- It is a group of individuals striving jointly to reach both quantitative and qualitative goals and bearing both formal and informal relations to each other.

Organisational structure- It depicts the effective working relationship, executive levels between sales and the other functional divisions of the organisation.

Geographic Specialisation- It is method of organising sales activities on the basis of geographic region.

Product specialisation- This kind of structure of sales organisation is based on dividing products in different categories for organising sales activities.

5.8 SELF ASSESSMENT TEST

1. Discuss various types of organisational structures. What are their advantages and disadvantages?
1. As a manager of a firm selling toilet soaps, how will you organise your sales department? What options are available to you? Which option will you select and why?
2. Write short notes on the following?
   (a) Geographical structure

(b) Product based structure

3. What is different type of organisation structures? What purpose they serve for the organisation?

5.9 ANSWER TO CHECK YOUR PROGRESS

1. What is the primary purpose of a sales organisation?

   Answer: b) Minimise friction and maximise coordination

2. What is the first step in setting up a sales organisation?

   Answer: b) Defining objectives

3. Which organisational structure is commonly used in small firms with a narrow geographical spread?

   Answer: b) Line sales organisation

4. In a line and staff sales organisation, what role do staff personnel primarily play?

   Answer: b) Providing recommendations

5. Which structure is best suited for companies selling complex technical products

   Answer: b) Product specialisation

6. What is a major disadvantage of a geographical specialisation structure?

   Answer: b) Lack of product expertise

7. What is a key advantage of a customer specialisation structure?

   Answer: b) Focused attention on customer needs

8. Which sales organisation structure is derived from F.W. Taylor's scientific management theory?

   Answer: a) Functional sales organisation

9. What is the major function of a committee structure in a sales organisation?

   Answer: b) Handling policy matters and planning

10. What is the main aim of using organisational structure variations like geographic, product, or customer specialisation?

    Answer: b) Optimise sales activities

5.10 REFERENCES/SUGGESTED READINGS

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Subject: **SALES MANAGEMENT**	
Course Code: **BCOM 601**	Author: **Dr. Atul Dhingra**
Lesson No.: **6**	Updated By: **Dr. Yogesh Verma**

RECRUITMENT AND SELECTION OF SALES-FORCE

STRUCTURE

6.0 Learning Objective

6.1 Introduction

6.2 Major tasks in recruitment and selection

6.3 Organisation for recruitment and selection

- 6.3.1 Recruitment and selection- conceptual framework
- 6.3.2 Sources for recruitment
- 6.3.3 Pre-requisite of a successful recruitment effort
- 6.3.4 Pre-requisite of a successful selection effort

6.4 The selection process

6.5 Check your progress

6.6 Summary

6.7 Keywords

6.8 Self-assessment Test

6.9 Answer to check your progress

6.10 References/suggested readings

6.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to-

- Learn different sources of recruitment of sales force
- Explain various steps involved in selection process of sales force
- Describe the pre-requisites of a successful recruitment and selection efforts
- Understand different types of interview techniques
- Explain various screening criterion

6.1 INTRODUCTION

Staffing is the most important management activity in an organisation. If your planning is to work, you have got to select the right people to implement it. A football term's success depends greatly on the type of players recruited. A political party's success depends on its ability to select the candidate who will attract the most voters. Similarly, a sales manger's success depends in great measure on the sales people whom the manger selects.

In attempting to recruit and select a new sales representative, the sales manager finds himself in an unaccustomed role. Instead of being a seller he or she, for once, takes on the role of buyer. It is crucial that this transition is carried out effectively because the future success of sales force depends upon the infusion of high– calibre personnel. There are a number of facts which emphasise the importance of effective sales-force selection.

- There is wide variability in the sales effectiveness of sales people. Many managers agree that top sales people earn mush more than average sales person for the company.
- Sales people are very costly. If the company decides to employ extra sale personnel, the cost will be very high.
- Other important determinants of success, like training and motivation, are heavily dependent on the intrinsic qualities of the recruit. Although sales effectiveness can be improved by training, it is limited by innate ability.

This lesson is all about the recruitment and selection of sales personnel. It discusses the-concept of recruitment and selection, describes the sources of recruitment, and then discusses the process of selection.

6.2 MAJOR TASKS IN RECRUITMENT AND SELECTION

Sales force selection includes three major tasks

- Determining the type of people wanted, by preparing a written job description.
- Recruitment of an adequate number of applicants.
- Selection of the most suitable persons from among the applicants.

The first step of a stiffing process is to establish the proper hiring specifications. To establish these specifications, management must first mow what the particular sales job entails. This calls for a detailed job analysis and a written description. This written description will later be invaluable in training, compensation, and supervision.

Determining the qualities and qualifications needed to fill the job is the most difficult part of the staffing process. We still really don't know all the characteristics that make a good sales person. We can't measure as to what degree each quality should be present. Nor do we know as to what extent abundance of one quality can offset lack of another. The search for the qualities that make a good sales person continues. Most companies want salesman to be enthusiastic, having good communication skills and strong desire to win, pleasing personality, and he must be an extrovert and self-confident person. Most customers say they want the sales representative to be honest, reliable, knowledgeable, and helpful. So the companies should look for these traits while selecting the sales people. Another approach is to look for traits common to the most successful salespeople in the company. According to research studies, star performers exhibit the following traits: risk taking, powerful sense of mission, problem solving care for the customer, careful call planners, habitual wooer, energetic, self-confident; and a chronic hunger for money.

A planned system for recruiting a sufficient number of applicants is the next step in selection. A good recruiting system:

- Operates continuously, not only when sales force vacancies occur.
- Is systematic in reaching all appropriate sources of applicants.
- Provides a flow of more qualified applicants than is needed.

To identify recruits, large organisations often use placement services on college campuses or professional employment agencies. Smaller firms that need fewer new sales people may place classified advertisements in trade publications and, daily newspapers. Many firms solicit recommendations from company employees, customers, or suppliers.

Sales managers use a variety of techniques to determine which applicants possess the desired qualifications, including application forms, interviews, references, psychological tests, aptitude tests, and physical examinations. No sales person should be hired without at least one personal interview. It is usually desirable to have several interviews conducted by different people in different physical settings. Pooling the opinions of a number of people increases the likelihood of discovering any undesirable characteristics and reduces the effects of one interviewer's possible bias.

6.3 ORGANISATION FOR RECRUITMENT AND SELECTION

The organisation for recruitment and selection of sales personnel varies from company to c9mpany. Company size, executives.' personalities, and departmental structure all influence the organisation used. Where the sales manager has a personnel staff assistant, recruitment and selection usually is handled entirely within the sales department. Companies with small sales force sometimes assign the responsibility for recruitment and selection of sales personnel to the company personnel manager, but this is unusual. It is more common for the personnel department to handle certain, but not all, aspects of recruiting and preliminary screening and for the sales department to handle other aspects of recruiting and screening and to make the hiring decisions.

Placement of responsibility for recruitment and selection of sales personnel in companies with regional or district sales offices also varies. These functions tend to be centralised at the home office when the firm requires high calibre sales personnel, such as those needed to do technical selling. However, decentralised recruitment and selection results in reduced interviewing costs and time, and facilitate the hiring of local applicants for sales work.

6.3.1 RECRUITMENT AND SELECTION- CONCEPTUAL FRAMEWORK

Recruitment is the process of encouraging people to apply for jobs in the organisation and selection is choosing the best possible for the organisation. Recruitment creates a pool of potential incumbents and selection picks the best and rejects the rest. Here are a few definitions of recruitment and selection.

According to Edwin B. Flippo, “Recruitment is the process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation.”

In the words of Dale S. Beach, “Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of available manpower upon whom the organisation can draw when it needs additional employees.”

According to Dale Yoder, “Selection is the process in which candidates for employment are divided into two classes – those who are to be offered employment and those who are not.”

In the words of Koontz and O’ Donnell, “Managerial selection is logically, choosing from among the candidate, the one, that best meets the position requirement.”

According to Dale S. Beach, “Selection refers to the negative practice of eliminating from all the candidates considered for possible employment, those who appear unpromising. It involves making a decision as to which of a number of candidates are to be given the opportunity to work.”

The above mentioned statements of experts clarifies that the recruitment is a process of searching for the prospective candidates and encouraging them to apply for jobs in the organisation while selection is choosing the best candidates from the recruitment list.

6.3.2 SOURCES FOR RECRUITMENT

The sources for recruitment and selection may be divided into two categories:

I. Internal Sources

The existing employees working in the same or other departments of the company form the internal source of recruitment. Some of the employees may be upgraded, transferred, and/or promoted to take up sales jobs. There are some advantages and disadvantages of using this source which are as under:

Advantages

(i) This technique improves the morale of employees because the fear that an outsider may be given the chance to join the organisation vanishes.

(ii) Less risk is involved in using this method as the employer already knows the candidate.

(iii) Job security and loyalty employees also increases by using this method.

(iv) Less training effort is required as the employee doesn't require information about the company and its policies.

Disadvantages

(i) It discourages new blood and fresh ideas.

(ii) Likes and dislikes of management may generate frustrations among those employees who are not given a fair chance.

II. External sources

This category calls for hiring the candidates from outside the company. The following sources comprise of external sources:

Campus placements- Various organisations visit professional colleges, institutions, and universities for the recruitment of suitable candidates. Engineering colleges and Management departments are most suitable for technical and managerial staff.

Employment agencies- Private agencies and placement consultants are sometime given contract to recruit sales staff for the organisation. These agencies maintain the database of prospective candidates and supply the list of suitable candidates to the organisation from these databases.

Advertisements in Media- Companies may place advertisements in newspapers, television, magazines, and trade journals for sales jobs. Newspapers are mostly used for walk-in interviews for sales jobs.

Computerised data base- Many young persons regularly send their resume' to good organisations. Companies may create a database of these aspiring candidates that may be utilised at the time of vacancies. Some sales managers favour immediate hiring of applicants who take the initiative in seeking sales jobs, the reasoning being that this indicates selling aggressiveness. Some companies reject all such direct applications because they believe the proportion of qualified applicants from this source is low. The most logical policy is to treat volunteer applications the same as the solicited applications. Applicants not meeting minimum requirements as set forth in job specifications should be eliminated and those meeting the requirements should be processed together with other applicants. The aim should be to recruit the better qualified applicants regardless of source from which they come. The main problem with direct unsolicited applications is that they do not provide a steady flow of applicants and their volume fluctuates with changing business conditions.

Employees' recommendations- The employees of the organisation may also recommend the names of friends and relatives as suitable candidates. Retired employees often suggest names of prospective candidates based on their experiences. Salespersons of the company may also recommend the names of their friends, salesperson working for retailers, dealers, and/or competitors. All these recommended names might be used to fill the vacancies of the organisation.

Salespeople calling on the company- Company managers, specially purchase managers, are directly in touch with sales personnel of other companies. These managers are in a position to evaluate their on-the-job performances. The managers may thus pass on the names of those high calibre sales persons of other company who are willing to switch over.

Executive club- Many senior managers are members of various types of formal and community clubs. They meet young people in these clubs in parties and on other occasions. If a manager comes across good candidates, he may encourage them to apply for sales positions in his company.

Placement brochures- Many educational institutions send placement brochures to different organisations. These brochures contain information about the students who would like to take up suitable jobs in the organisations. These brochures thus serve as a source of recruitment.

Trade unions- Trade unions may also recommend the names of its members of their relatives and friends.

Dot coms- In this era of information technology, various dot com companies have websites that display information about prospective candidates. These portals may also be used as a recruitment source.

Trade associations/Alumni associations- Many trade associations and alumni association also recommend the names of suitable persons for sales jobs in various organisations.

The major advantage of recruitment through external sources is that the organisation can get a person with required skills and experience. The major disadvantage is that sister concerns may demand the appropriate person from the parent organisation.

6.3.3 PRE-REQUISITE OF A SUCCESSFUL RECRUITMENT EFFORT

The following are the pre-requisites of a successful recruitment effort:

(i) It should be in conformity with the general personnel policies.

(ii) It should be flexible.

(iii) It should match the qualities of employees Gob specification) with the requirements of work (job description) for which they are being employed.

6.3.4 PRE-REQUISITE OF A SUCCESSFUL SELECTION EFFORT

The following are the pre-requisites of a successful selection effort:

- There should be sufficient number (quantitatively as well as qualitatively) of applicants from which the selection can be made.
- Organisation must have some standards against which the candidates may be compared.
- Job description and job specification must be known in advance.
- One should have authority to hire.

6.4 THE SELECTION PROCESS

The objective of selection is to secure an appropriate candidate for vacant position. The procedure adopted forgetting such candidate is termed as selection process. It involves a number of steps which act as filter screen that helps in getting rid off undesirable candidates. The steps of selection process are as follows:

I. Job Analysis

The job must be studied and analysed with a view to ascertain the knowledge, experience, skills and attitudes required to perform it effectively. Unless a proper study is made in detail of the job to be done, the manager concerned will not be in a position to select an appropriate person to fill that job. Selection process actually, calls for measuring the individual's capabilities against the job requirements.

A proper job analysis helps in the understanding of most significant aspects of the job. It describes the authority and responsibilities attached to a job. It also helps one understand the skills and capabilities needed to discharge the job effectively. The resultants of job analysis are actually the job descriptions and specifications. The following specifications, however, may be used while selecting candidates for sales job:

- Physical make-up: It includes details like height, health, age Weight, speech, appearance etc.
- Education and experience: It involves the type of education and work experience required which would be useful in performing the job.
- General intelligence: Level of general intelligence must also be specified which is different from the knowledge and skills the candidate posses by virtue of his education.
- Special aptitude: Special aptitudes like mathematical proficiency, use of words and vocabulary, mental alertness etc. that are required to perform a job must also be listed.
- The disposition required: This includes the degree of acceptability of the candidates to the others, his extent of dependability, self-reliance, other qualities such as d0minance, relaxed, suspicious etc. which may be desired.
- Other relevant specifications: This list answers a variety of questions including whether a bachelor or married person required? Whether willingness to travel is necessary? The list also includes the level of motivation, security, prestige, belongingness etc. which the job will satisfy.

II. Recruitment sources

The next step in the selection process is tapping various recruitment sources to create a pool of potential employees. The recruitment sources include both internal and external sources. An organisation tries to use as many recruitment sources as possible but within the monetary constraints.

Recommendation of employees, advertisements in newspapers and magazines, and databases of the organisation and other private companies and consultants are mostly used for sales jobs. The main purpose here is to attract as many candidates as possible.

III. Application blank

The organisation either invites the application and resume from the desiring candidate or may send its own application blank/form to be filled by the candidates who approach it. This form contains personal information like name, address, age, marital status etc as well as information on the education, experience, and hobbies of the candidates.

IV. Preliminary screening

Preliminary screening serves the job of eliminating the totally unsuitable candidates. Its main purpose is to save the time of both the interviewer and applicant by eliminating the unqualified candidates.

Applicants are notified about the qualification, experience and other important requirements in advertisement itself Candidates who don't fulfill these requirements are not called to appear in the selection process.

V. Written test

The use of written tests, as part of selection process, is gaining popularity specially when hundreds of candidates are applying for sales jobs. Many companies conduct written tests to check the knowledge, analytical abilities, aptitude, language usage, mathematical and reasoning abilities, psychology, and personality etc. of the candidates. Written tests may also be designed to test the knowledge about selling techniques, customer relationship building, and negotiating abilities etc.

VI. Group Discussion

This technique is used to test the communication skills and ability to influence others. Here, the candidates are given a topic or case to discuss among themselves. Experts observe and hear the discussion carefully and short list the suitable candidates.

VII. Interview

The interview is the most widely used selection tool. Companies usually form a panel of experts that includes the sales manager, personnel manager, psychologist, academicians, and senior administrators etc. This panel interviews all the short-listed candidates and make the final choice. Experts can judge the communication skills, personality, confidence, leadership abilities, intelligence, keenness, initiative, appearance, and attitude of the, candidates with the help of interview. Experts may also clarify the doubts or insufficient information given in the resume of the candidates.

VIII. References and credit checks

This process has become very important now-a- days. Companies write to the persons who know the candidate and ask for their opinions regarding the conduct, general behaviour, and the character of the candidates. Some companies write to the Principal/Head of the Department last attended by the candidate. In the case of experienced candidates, the company may write to the previous employer for his comments about the candidates. Companies have also started the credit checks to know the financial history of the candidate. Credit reports give important signals to the managers about' the financial soundness or weakness of the candidate. If the candidate has a history of payment defaults, and large debts he may not be considered for the job.

IX. Medical examination

Many companies send the selected candidates for a medical examination to check whether the candidate has any chronic disease and/or disability which may hamper his performance on the job.

Every candidate should be physically fit enough to discharge his or her duties. Companies either conduct the medical examination at their own hospitals or may hire the services of private doctors.

X. Selection and placement

After a candidate passes the medical examination, he is offered the appointment in the organisation. A formal letter of appointment is issued to the candidate. This letter contains information regarding joining period, pay-scale, nature of job, and conditions of employment. If the candidate chooses to join within the given time period he is absorbed on the offered post.

XI. Induction

At the time of joining at a particular post the new incumbent need to be familiarised with the organisation culture and those as well as his superiors, keeps and sub-ordinates. This gives him an understanding of the conditions within which, and human brings with who he has to work. This familiarisation is very important as it instantly prepares the incumbent to feel himself a part of the organisation.

6.5 CHECK YOUR PROGRESS

1. **What is the primary goal of recruitment in sales management?**
   a) To eliminate unqualified candidates
   b) To attract a pool of talented candidates
   c) To finalize hiring decisions
   d) To assess job performance

2. **Which of the following is an internal source of recruitment?**
   a) Employment agencies
   b) Promotions within the company
   c) Campus placements
   d) Advertisements

3. **What is the first step in the selection process?**
   a) Medical examination
   b) Written test
   c) Preliminary screening
   d) Group discussion

4. **What is the primary advantage of recruitment through advertisements?**
   a) Targeting a specific audience
   b) Providing job security
   c) Reducing recruitment costs
   d) Generating a larger pool of applicants

5. **Which of the following is a prerequisite for successful recruitment?**

   a) Strict job evaluation criteria

   b) Well-defined personnel policies

   c) Limited recruitment sources

   d) Minimal training efforts

6. **What does the selection process aim to achieve?**

   a) Eliminate all unsuitable candidates

   b) Reduce recruitment costs

   c) Find the best candidate for the job

   d) Increase the number of applicants

7. **What is the purpose of an application blank in the selection process?**

   a) To shortlist candidates

   b) To gather personal and professional information

   c) To assess personality traits

   d) To check physical fitness

8. **Which recruitment source is known for providing a steady flow of applicants?**

   a) Campus placements

   b) Employees' recommendations

   c) Computerized databases

   d) Employment agencies

9. **What is the objective of induction in the recruitment process?**

   a) To finalize the hiring decision

   b) To familiarize the new recruit with the organization

   c) To test the recruit's aptitude

   d) To assess physical fitness

10. **Which method is commonly used to assess communication skills in the selection process?**

    a) Medical examination

    b) Group discussion

c) Written test

d) Application blank

6.6 SUMMARY

Staffing is the most important management activity in an organisation. If you are planning to work, you have got to select the right people to implement it. The major tasks in recruitment and selection involves determining the type of people wanted, by preparing a written job description and specifications, attracting an adequate number of applicants and finally selection of most suitable persons from among the pool of talented manpower. The important sources of recruitment include campus placement, employment agencies, advertisements, computerised data basis, employees recommendations, executive clubs, trade and alumni associations, dotcoms, transfer, promotions within the organisations etc. The steps involved in selection process are preliminary screening, written test, group discussion, interview, psychological tests, references and credit checks, and medical examination. After a candidate passes all the steps, he is offered the appointment in the organisation.

6.7 KEYWORDS

Recruitment- It is a positive process in which a pool of talented people is attracted in order to employ them as sales force.

Selection- It is termed as negative process in which candidates are screened through various steps in order to offer them final employment as sales force.

Employment Agencies- These are private or government owned placement agencies to recruit sales force.

Induction- This is the process of familiarising the newly appointed sales force with organisational culture.

6.8 SELF ASSESSMENT TEST

(i) What do you understand by recruitment and selection? Discuss the sources of recruitment.

(ii) Discuss the steps involved in the selection process. Do you think the reference checks are important even for salesman?

(iii) Describe the procedure for selection of right type of salesman.

(iv) What qualities will you look for in the candidate who has applied for a sales job? Also discuss the selection process you will use.

6.9 ANSWER TO CHECK YOUR PROGRESS

1. **What is the primary goal of recruitment in sales management?**
   Answer: b) To attract a pool of talented candidates
2. **Which of the following is an internal source of recruitment?**
   Answer: b) Promotions within the company
3. **What is the first step in the selection process?**
   Answer: c) Preliminary screening
4. **What is the primary advantage of recruitment through advertisements?**
   Answer: d) Generating a larger pool of applicants
5. **Which of the following is a prerequisite for successful recruitment?**
   Answer: b) Well-defined personnel policies
6. **What does the selection process aim to achieve?**
   Answer: c) Find the best candidate for the job
7. **What is the purpose of an application blank in the selection process?**
   Answer: b) To gather personal and professional information
8. **Which recruitment source is known for providing a steady flow of applicants?**
   Answer: c) Computerized databases
9. **What is the objective of induction in the recruitment process?**
   Answer: b) To familiarize the new recruit with the organization
10. **Which method is commonly used to assess communication skills in the selection process?**
    Answer: b) Group discussion

6.10 REFERENCES/SUGGESTED READINGS

- Kotler & Keller (2016): Insights into effective recruitment and selection in sales force management.
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Subject: **SALES MANAGEMENT**	
Course Code: **BCOM 601**	Author: **Dr. Pardeep Gupta**
Lesson No.: **7**	Updated By: **Dr. Yogesh Verma**

SALES TRAINING PROGRAMMES: AIM, METHODS AND EVALUATIONS OF SALES TRAINING PROGRAMMES

STRUCTURE

7.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to

- Understand the importance of sales training.
- Describe various methods of sales training programme.
- Elaborate the contents of sales training programme.
- Identify the methods of execution and evaluation of sales training programmes.

7.1 INTRODUCTION

Having selected the most suitable salespeople in the organisation, the next important function of the sales management is to train and develop these new people according to the needs of the organisation. Training is so important that organisation does not have a choice whether or not to train personnel. The only choice with the management is that of the method to be employed for training the personnel. If no planned programme of training is established, the employees may engage themselves in self-training by trial and error or by observing others and thus training cost would not in any way, be lesser but it could be rather higher.

All types of sales jobs require some type of training for their efficient performance and therefore all sales people whether new or old require training or retraining. Every new salesman irrespective of his past training, education and experience needs training according to the work environment of the firm. He must be taught how to perform specific tasks. An old salesman also needs training when he is promoted to the new position or transferred to the new sales job or when new skills are to be learnt. Training is also necessary for better career advancement. Training helps both the organisation and the employer. A trained employee becomes an asset to the firm. The entire production and marketing process culminates in the making of sales, and management's objective in training sales personnel is improved job performance. Effective sales training also assists sales management in discharging its social responsibility for controlling marketing costs when sales people perform efficiently. Cost savings show up in benefits to consumers as well as to the enterprises. A company's position in its industry is determined importantly by the performance of its sales personnel. Skilfully designed and executed sales training programmes have potential for helping sales personnel to achieve effective job performance.

7.2 MEANING AND DEFINITION OF TRAINING OF SALESMAN

Salesman selected for the job need training for effective sales performance. Here are a few definitions on sales training:

According to Edwin B. Flippo, *"Training is the art of in-creasing knowledge and skill of an employee for doing a particular job".*

According to National Society of Sales Training Executives, USA, *"Sales training is the intentional and sound application of ordinary human sense to the problem of helping the sales personnel to make the most of its talents".*

In the words of George R. Collins; *"Sales training is an organised activity involving fact finding, planning, coaching, practice, criticism and accommodation in a purposive attempt to develop selling skills and to ask those skills to selected native ability, casually acquired knowledge and experience".*

According to Michael J. Jucious, *"The term training is used to indicate only process by which the attitudes, skills and abilities of employees to perform specific jobs are increased".*

From the above definitions, we conclude that sales training is a technique or method by which efforts are made to increase the knowledge, skills and efficiency of a salesman so that he may be in a position to solve the problems of sales and provide active contribution in increasing sales of the enterprise. Training is a systematic approach of the organisation which aims at increasing the aptitude, skill and the abilities of the workers to perform specific jobs. By training, the employee will acquire new practical skills, technical knowledge, problem solving ability and attitude etc. Sales training is a mean to increase the knowledge of the salesman about the firm, product, market and customers so that he may sell the firm's product in an efficient manner.

7.2.1 OBJECTIVES OF SALES TRAINING

The main objectives of Sales training are:

- Acquainting the newly appointed salesmen with the principles of salesmanship and techniques of selling.
- Imparting knowledge of sales canvassing.

- Making salesmen familiar with the firm's policies and practices in the field of selling and also to make them familiar with the products of the company.
- Giving information about the dealers, middlemen, and the end users of company's products.
- Keeping the salesmen well informed about the laws governing sales of firm's products.
- Salesmen should also be made aware of the position of competitors in the market and to show and also and the ways of combating such competition.
- Weeding out inefficient and unsuitable appointees or promotees.
- Reducing sales force turnover.
- Keeping ready a group of trained salesmen to take place of those salesmen who resign or retire.
- Increasing efficiency.

Training must not be confused with education. Training is concerned with increasing knowledge and skills in performing a particular job whereas education is concerned with increasing general knowledge and understanding of the total environment. Moreover training is imparted by the employer and education is provided by our formal school system.

7.2.2 THE NEED OF TRAINING

The need of training salesmen arises not only at the time of hiring salesmen but at all stages of their career. In the beginning, it is needed because the newly appointed salesmen does not have the required knowledge of the product and also the selling techniques, nor does he know about the customers and their behaviour. Experienced salesmen also need training to acquaint them with the new products of the firm and those of the competitors. Son1e people believe that sales training is necessary and possible only in some big organisations with large sales force and sales budget. But this is not true. Training is needed in all organisations big or small. There are three basic reasons for this.

To develop the right work-habits: Training the salesmen is necessary to develop proper work culture. By training they learn how to cover their territories, to approach customers, in what style to live while travelling, what sort of records to keep, and how to plan and execute their sales calls. Thus, they learn the best way of doing the things at the lowest cost. If sales people are trained properly, they learn the right habits and patterns, at the right time and from the right learning source.

To offset the effects of Detraining: The second important point why salesmen need training is that they develop something wrong in their field experience and thereby they are constantly being detrained. They adopt undesirable shortcuts, gravitate towards ineffective ways of selling and often become discouraged and dispirited from the constant buffeting of the competitive market place. It, therefore, becomes necessary to train both new and experienced salespeople to offset the negative effects of their field sales experience.

Complexity of Personal Selling: Another factor contributing to the need for effective sales training is the increased complexity and sophistication of personal selling. New technology is changing the way we used to sell earlier. The sales people, therefore, should be in constant touch with such technologies through training.

7.2.3 IMPORTANCE OF TRAINING TO SALESPEOPLE AND COMPANIES

The major benefits of training for Salesmen are as follows:

Lower Turnover of the Salespeople: Proper training makes the salesmen well prepared for the field work, resulting in the lower rate of turnover of sales force. If they know their work and are remunerated and motivated properly, they will not be leaving the organisation. The lower rate of turnover results in reducing high cost of training, recruitment and selection and also reduces a tag of never stays with one firm' which ultimately helps the salesman in long run.

Greater Sales Volume: A scientifically designed training programme develops the right work habits & culture and offsets the negative effects of the field sales experience. Salesmen learn much about the product, the selling techniques and also how to behave with company's customers. This will naturally increase the sales volume of the company and salesmen get rewards for selling more.

Better Customer Relations: A well trained Salesman knows how to deal with the customers in a particular market situation. Training makes the salespeople more flexible and innovative in meeting changing competitive market situations. Training also helps in maintaining good relations with present and potential customers.

Lower Super vision Costs: Well trained salespersons require less supervisory attention from their managers. They know what to do and how to do it.

Reduces Selling Cost: Training reduces the selling costs per unit because of more territory coverage, higher sales volume, better use of company supplied sales tools and correct application of company's selling policy or operating procedures, etc.

Thus, the net effect of training is development of proper work culture and offsetting negative effects of field detraining. Sales volumes are maximised and selling expenses are reduced to the minimum, resulting in higher profits, by proper training..

7.2.4 CONTENTS OF A TRAINING PROGRAMME

The subject matter to be covered in a training programme vary from organisation to organisation due to the nature and the size of the organisation. But, in general, an effective training programme should cover the following aspects:

Basic Principles of Salesmanship: A salesman should be well acquainted with the principles of salesmanship viz. how to approach and motivate the customers to buy company's products and to know how he is to satisfy customers' needs and solve their problems. Salesmanship is an art, yet it is a science too. The salesmen must know the basic principles of salesmanship.

Information about the Firm: The Sales representative must know about the company's sales policies and procedures, organisational set-up, company's past history, reputation and goodwill earned. It enables the salesman to do his work well.

Information about the Product: A good tinning programme should impart knowledge to the salesman about the characteristics of the product, its quality, usefulness and method of using it. It will enable him to persuade the potential customers and if necessary to demonstrate its use. Thus, a trained salesman can help in increasing the company's sales volume.

Information about the Customers: The Salesman must the trained in different types of approaches to reach the customers and must also be told about different motives which prompt them to make purchases. There are different types of customers viz. silent, talkative, ill-tempered, suspicious, nervous, hesitant, argumentative etc. The Salesman must know how to deal with each one of them and satisfy them to get the product sold. There are different motives of different customers. They include considerations of health, convenience, the sense of fear, pride, fashion, recreation, affection etc. The salesmen must also know how to cash on these motives.

Information about market Conditions: The sales representative should be well informed about the market conditions Le.", policies and procedures followed by the competing firms regarding pricing, discount and commissions allowed to customers, premium schemes, quality of the product etc. Such knowledge will help him in convincing the customers about the company's products and policies.

Matters pertaining to day-to-day work: Salesmen should also be given proper training to know the following:

(i) Drafting of periodical reports.

(ii) Receiving of and Replying to letters.

(iii) Preparation of orders, cash memo and credit bills.

(iv) Maintenance of their own Sales accounts.

(v) Arrangement of display and demonstration of company's products.

Thus, a training programme, should cover all the above matters so that the salesman should possess ample knowledge about the firm, customers, products, and the market etc.

7.2.5 METHODS OF SALES TRAINING

A number of methods to train salesmen are in use. The choice of any of the methods depends. upon several factors like cost of training, number of trainees, purpose of training, depth of knowledge required, background of the trainee and so on. The Sales Manager may adopt one or more of the following methods according to the needs of the organisation:

I. On the Job Training

It is one of the most popular method of training salesman. Under this method the salesman is trained on the job itself. He is given opportunities of performing the activities of a typical salesman. Usually such on the job training is made under the supervision of a senior salesman. By keenly observing and actively participating in the training, the salesman is able to rectify his mistakes and defects. The senior salesman also points out his defects in the course of training and explains the ways to correct it. Once the trainer thinks that the salesman has gained enough knowledge and training to work independently, he is allowed to do so.

II. School and Colleges

Some concerns may have many training centres. The salesman are given the sales training in those centres. Smaller firms may admit their trainee salesmen into colleges and schools which provide coaching in salesmanship. The sponsoring authority has to pay the tuition fees of the salesman to be trained and authority also instructs them to attend such classes or courses to gain knowledge.

III. Training through Correspondence

Where the salesmen are widely scattered and training needed by them are not very critical in nature, correspondence training can be provided. It is just like getting postal coaching. The training materials are sent to the trainees by post regularly. In case of any doubts, the trainee salesman can clarify his doubt by post. After the completion of such correspondence training, the salesman are some times asked to appear in a test. This is one of the cheap and easy methods. of training salesmen. This method can be adopted only when the training required is not of such importance.

IV. Sales Meetings and Conferences

The members of the sales department may gather at regular intervals say for example weekly, monthly or even half yearly for a meeting or conference. These meetings or conferences of sales personnel are meant for educating sales people about various aspects of sales. The participants express their views and opinions about the present strategies and various aspects of sales. To make these conferences and meetings interesting, sales story, dramas, demonstrations are included in the schedules.

V. Sales Manuals

A sales manual of a company is the first course for the trainee salesman. These sales manuals contain information about the history of the firm, policies, particulars of products, advertising, sales promotion activities etc. Besides, they also provide instructions to salesman from time to time. They are rightly called ready guide or a tool of self study.

VI. Visual Training

Visual training programmes are imparted with the help of slides, strips, video recorders, etc. which tells a sales story or a part of it. There are also other aids like black boards, charts, graphs, diagrams, etc. with the help of which the salesmen are given training on a particular aspect of sales. For example, approaching a salesman arid dealing with annoyed customers can be shown. To make such programmes successful, audio aids are also used. Audio aids include tape recorders and record players. These are meant to improve the style of speaking.

VII. Role Playing

It is a newly developed method of training. Under this method a play, fully scripted and rehearsed, is presented on a stage so that the trainee salesman may understand the real life situation. By witnessing such acts, the sales man is able to know the art of dealing with various types of customers. Some times one salesman plays the role of a customer or prospect and another 'salesman tries to convince him in the role of a salesman.

The main advantages of this training technique are that (i) it adds realism and interest to the training; (ii) increases the. knowledge of the trainees in reacting immediately to selling problems in a face to face sales situation; and (iii) the trainee gains a better understanding of the dynamics of a sales situation because they participate actively in the role playing. This type of training is useful mainly for executive position. The weaknesses of the technique are (i) trainees sometimes feel very awkward and harassed when they play their role in public and audiences pass comments; (ii) the role playing skills of the trainees vary widely and, therefore, their performance may not be up to the mark. Both these defects can detract salesman from the effectiveness of this training device.

VIII. Lecture Method

This method is very commonly used in India. In cases where depth of theoretical knowledge is required, formal lectures are arranged by the organisation. Such lectures are delivered by a person presumed to be a master of the subject at hand. The speaker may be an employee of the organisation specially appointed for the purpose or an official of the organisation such as chief sales executive or sales manager or he may be an outsider but the master of the subject. Lectures sometimes are supplemented by visual aids. To make lectures effective, usually group discussions, seminars, and written tests are organised to follow such lectures. Trainee salesmen attending these lectures should take notes and ask questions.

The method is very economical as the cost of training per trainee is very low. It economizes trainees' time and trainer's time. It is very effective method for transmitting straight factual information. The difficulty inherent in the lecture method is that, unless the lecture is not carefully prepared, planned and rehearsed, the trainees will not be receptive.

IX. Game or Simulation Method

This method somewhat resembles role playing. It uses highly structured contrived situations based on reality in which players assume decision making roles through successive rounds of play. A unique feature of this technique is that trainees receive informative feedback. In one game, for example, trainees play the roles of decision makers in customers' organisation, using data ordinarily available to make decisions on various aspects of the problem say, on the timing and size of orders, and so on. The results of these decisions then are calculated by referees and feedback for the players to use in their next round of decisions.

The technique is mainly used to prepare trainees for management positions. The method is not extensively used because, of the initial difficulties in preparing games.

The simulation has a number of advantages. (i) participants take active part in the games, hence they learn difficult tasks easily; (ii) players develop skills in identifying key factors influencing decisions; (iii) Due to built-in information feedback features, games are effective in emphasizing the dynamic nature of problem situations and their inter-relationship. The main limitations of the technique are: (i) It is a time consuming process and a considerable time is required to play games, (ii) Since game designs generally are based on ordinary decision making processes, their rules often prevent payoffs on unusual or novel approaches. (iii) Players may learn something that are not so.

X. Demonstration

Under this method, the trainer shows trainees the working of the typical and complex products which need conveying information to users. The method is highly appropriate when a new product or selling technique is developed. Demonstrating how a new product works and its uses can be extremely effective, much more so than presenting the same thing by way of-a lecture.

Demonstration can generally be used in conjunction with other training methods say lectures. Showing (demonstrating) something is more effective than telling. Efficient trainers use this method very extensively.

7.3 EVALUATION OF TRAINING PROGRAMME

Sales training programmes have become a significant part of most of the companies. Their evaluation i.e., measuring programme effectiveness is necessary step, because a sales training programme requires a huge amount of investment of time, money and effort, and therefore, management must expect results commensurate with the total investment.

In some respects, evaluation of sales training programme is not difficult. As soon as the training programme is over, the trainees may be tested in terms of what they feel about the training programme. Written questionnaire may also be used for this purpose during and after the programme. They may also be tested to find out if they know the pertinent facts about products, company policies, and sales operations.

On the other hand, in the areas of sales skills and personal attitudes, the evaluation of sales training programme is difficult. There are three main reasons for this:

- Skills and attitudes are difficult to observe and to evaluate objectively.
- One can never be sure to ascertain which changes in the skill, and attitude are the result of training and which changes may have existed in the trainees before they are trained.
- After training, one cannot be sure which skill, attitudes and knowledge the trainee has learnt from sales experience and which have came from the training programme itself.

Like other educational activities, training is also a semi-measurable activity.

Evaluating the effectiveness and efficiency of sales training can never be a complete and accurate activity. During their sales career, the salespeople acquire knowledge, skills and attitudes through experience or through training – formal or informal. The process of evaluation is, therefore, an unending process and a long term activity.

7.4 TRAINING EVALUATION APPROACHES

There are a number of approaches to evaluate the training programmes. Some of them are given below:

Comparing Results with Objectives

Sales training programmes are organised for some purpose. Certain needs, aims and objectives are determined before training programmes are designed. The core of the measurement is to compare the programme aims with the results such as improved selling performance on the job etc. One can thus compare the results with training aims and evaluate the training techniques used and change or improve them to better fit market conditions.

But, in this approach, the main difficulty is that it takes time to pick up efficiency on the job and results may not show up until months after training completion. In such cases, management may make some comparisons of salesman's performance, with the results. Such as the length of time new sales personnel (who have completed initial sales training) take to attain the productivity level of the average experienced salesperson; the performance against standards of trained and untrained sales personnel; and the respective training histories of the best and the worst performers on the sales force. Such companies plot each salesperson's sales records on a before and after training basis, generally converting these records to market-share percentages.

Through Customers

Some companies solicit the views of customers on the salesperson's performance after training. Such customers can be contacted personally or by mail for their opinions. Customer's reactions may point out the strengths and weaknesses of the training programme. Further customers have unique insights into their needs that can be included in training programmes.

Observing Salespeople at Work

Some firms send skilled observers with salespeople in the field after the training is completed. Such observers are such persons who are closely associated with the designing of training programmes and its objectives. They observe and report how the salespeople are or are not applying the skills and knowledge which were provided in the training. They can thus, evaluate the training techniques used and change or improve them to better fit market conditions.

Interviews and Written Tests

Some companies measure programme effectiveness on pre and post training interviews and written test basis to determine how much trainees have learned in their aptitude

s, skills and knowledge. Written tests are usually arranged in lieu of or along with the interview.

Manager's Opinion

Immediate bosses (sales managers or supervisors) of trainees who have undergone training may be useful source of information about the value of programme. They can report the performance of the trainees after the programme. They can also suggest what more should be taught to make the trainees fit for the market situations. Management should measure the effectiveness of sales training programme during and after the programme through any of the methods discussed above. Such measures indicate what trainees have learnt. If evaluation shows that something is lacking, the management must redesign the training programme. This process begins with a re-examination of the training objectives, programme contents, teaching methods, location of training and training personnel.

If evaluation work shows that the programme is satisfactory in all respect, in such cases also, management should not discontinue the training programme because the market place is in a constant state of change as competitors introduce new products and new uses for the product. New competitors also enter the market. Changes also occur in economic, socio-cultural, demographic and political arena. Consequently the skills, attitudes and knowledge required for successful selling are also in a constant change and the form and content are always subject to change. The training programme, therefore, must continue to make them over fit into market conditions.

7.5 CHECK YOUR PROGRESS

1. **What is the primary purpose of sales training?**

   a) To increase sales quotas

   b) To improve the knowledge and skills of salespeople

c) To minimize marketing expenses

d) To create sales policies

2. **Which of the following is a method of sales training?**

a) Market segmentation

b) Role playing

c) Sales forecasting

d) Distribution analysis

3. **What is a sales manual primarily used for?**

a) Recruitment of sales staff

b) Providing information about company policies and products

c) Measuring sales performance

d) Determining customer demographics

4. **Which type of training involves experienced salespeople supervising new recruits on the job?**

a) Role playing

b) On-the-job training

c) Lecture method

d) Correspondence training

5. **What is the primary benefit of sales training for companies?**

a) Increased advertising reach

b) Reduced selling costs

c) Improved product design

d) Higher manufacturing efficiency

6. **What does role-playing in sales training involve?**

a) Conducting sales audits

b) Acting out real-life selling scenarios

c) Analyzing customer feedback

d) Designing new sales strategies

7. **What is the purpose of evaluation in sales training?**

   a) To compare sales quotas

   b) To measure the effectiveness of training programmes

   c) To identify new customers

   d) To revise sales targets

8. **Which training method combines salespeople playing decision-making roles in simulated situations?**

   a) Lecture method

   b) Simulation method

   c) On-the-job training

   d) Correspondence training

9. **Which of the following is a key element of a sales training programme?**

   a) Sales territories

   b) Basic principles of salesmanship

   c) Inventory management

   d) Budget planning

10. **What is the main challenge in evaluating sales training programmes?**

   a) Identifying training objectives

   b) Measuring changes in sales skills and attitudes

   c) Developing training manuals

   d) Recruiting qualified trainers

7.6 SUMMARY

After selecting the most suitable sales force for the organisation, the next important function of sales management is to train and develop these new persons according to the needs of the organisation. Training is the art of increasing knowledge and skill of an employee for doing a particular job. Sales training is an organised activity involving fact finding, planning, coaching, practice, criticism, and accommodation in purposive attempt to develop setting skills. The need of training salesmen arises not only at the time of hiring them but at all stages of their career. Experienced sales persons also need training to acquaint them with the new products of the firm and those of competitors. The major benefits of sales training are lower turnover of the sales force, greater sales volume, better customer relations, reducing selling cost etc. The contents of sales training programme include basic principles of salesmanship, information about firm, product, customers, market conditions, matter pertaining to day-to-day work etc. Methods of sales training commonly used by organisations are on the job training, lecture, sales manuals, sales meetings and conferences, role playing, game or simulation method etc. The evaluation of sales training programmes is a must because it requires a huge amount of investment of time, money and effort.

7.7 KEYWORDS

Training- It is the art of increasing knowledge and skill of an employee for doing a particular job.

Sales Manual- It contain information about the history, policies, particular of products etc. of an organisation.

Role Playing- It is method of sales training in which trainees are put in different roles of buyers and sellers in order to act as the roles assigned to them.

Demonstration- Under this method of training, trainer shows the trainee the working of a typical & complex product which needs conveying information to users.

7.8 SELF ASSESSMENT TEST

1. What do you understand by training to salesman? What are the main objectives of sales training?
2. Describe in brief the different methods of training salesmen.
3. Discuss the need and importance of training the salesmen.
4. How should sales training programmes be evaluated? Discuss the approaches that might be used to make this evaluation.

7.9 ANSWER TO CHECK YOUR PROGRESS

1. What is the primary purpose of sales training?

   Answer: To improve the knowledge and skills of salespeople

2. Which of the following is a method of sales training?
   Answer: Role playing
3. What is a sales manual primarily used for?
   Answer: Providing information about company policies and products
4. Which type of training involves experienced salespeople supervising new recruits on the job?
   Answer: On-the-job training
5. What is the primary benefit of sales training for companies?
   Answer: Reduced selling costs
6. What does role-playing in sales training involve?
   Answer: Acting out real-life selling scenarios
7. What is the purpose of evaluation in sales training?
   Answer: To measure the effectiveness of training programmes
8. Which training method combines salespeople playing decision-making roles in simulated situations?
   Answer: Simulation method
9. Which of the following is a key element of a sales training programme?
   Answer: Basic principles of salesmanship

10. What is the main challenge in evaluating sales training programmes?
    Answer: Measuring changes in sales skills and attitudes

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Subject: **SALES MANAGEMENT**	
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MOTIVATING AND COMPENSATING SALES PERSONNEL

STRUCTURE

8.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to

- Understand the meaning and importance of motivation

- Design sales compensation plan
- Explain the factors affecting sales compensation plan
- Elaborate different types of compensation plans

8.1 INTRODUCTION

Successful sales managers have three primary concerns in managing the sales force- attracting outstanding salespeople, motivating them to work both effectively and efficiently, and holding on to good sales people. Among the most important tools for accomplishing these three objectives is the organisation's compensation plan. The sales force of any company needs to be compensated adequately to keep its morale high and to enable it to contribute to its maximum. A sales force is the representative of the company's philosophy and business principles. The building and maintenance of sales force is possible through proper compensation plan.

Motivation is derived from the Latin term 'movere' meaning 'to move'. Motivation stimulates the movement of an individual. It can be defined as a dynamic process set in motion by creating or arousing internal needs that activate goal-directed efforts and determine their intensity and persistence. In simple words motivation is goal-directed behaviour, underlying which are certain needs or desires. It is generally regarded as the process of getting people to work towards the achievement of an objective. Sales force cannot be controlled, administered in the way factory workers can be monitored. The salesforce is required to be self starters, highly ambitions, result oriented and go-getters. Thus, the salesforce has to be kept highly motivated and committed.

8.2 MOTIVATION OF SALES PERSONNEL

High productivity in sales personnel come about neither naturally nor accidentally. Some sales personnel are self-starters, requiring little external, incentive to perform effectively, but they are the exceptions. The majority of sales personnel require motivational help from management in order to reach and maintain satisfactory job performance levels.

Motivation is goal-directed behaviour, underlying which are certain needs or desires. The term "needs" suggests 'lack of something' or a state of felt deprivation of some basic satisfaction, while the term “desires” suggests positive ardour and strength of feeling. The complex of needs and desires stemming from within individuals leads them to act in ways that will satisfy these needs and desires.

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

8.3 MOTIVATIONAL “HELP” FROM MANAGEMENT

Most sales personnel require additional motivational “help” from management in order to reach and maintain acceptable levels of job performance. They require additional motivation both as individuals and as group members. As individuals they are targets for personalized motivational efforts by their superiors. As members of the sales, force, they are targets for sales management efforts aimed toward welding them into an effective selling team. Four aspects of the salesperson’s job affect the quality of its performance. The following discussion focuses on these aspects. Each aspect is an important reason why most sales personnel require additional motivation to perform their jobs satisfactorily.

I. Inherent Nature of the Sales Job

Although sales jobs vary from company to company, sales jobs are alike in certain respects. To a greater or lesser extent, each sales job involves a succession of ups and downs, a series of experiences resulting in alternating feelings of exhilaration and depression. In the course of a day’s work, salespersons interact with many pleasant and courteous people; but they also meet some who are unpleasant and rude, with whom it is difficult to deal. They are frequently frustrated, particularly when aggressive competing sales personnel are vying for the same business, and they meet numerous turndowns. Furthermore, sales personnel spend not only working time but considerable after-hours time away from home, causing them to miss many of the most attractive parts of family life. These conditions can cause an individual salesperson to become discouraged, to achieve low performance levels, or even to seek a non-selling position. The inherent nature of the sales job, then, often is the reason that additional motivation is required to assure acceptable job performance.

Salesperson's Boundary Position and Role Conflicts: The salesperson occupies a "boundary position" in the company and must try to satisfy the expectations of people both within the company (in the sales department and elsewhere) and in customer organizations. There is linkage with four distinct groups: (1) the sales management group, (2) the balance of the company organization who must be depended upon for order fulfilment, (3) the customers, and (4) other company sales personnel. Each group imposes certain behavioural expectations on the salesperson and, in playing these different roles, the salesperson faces role conflicts, such as:

1. Conflict of identification: This arises out of multi group membership. As the salesperson works with the customer, it is reasonable to expect identification with the customer rather than the company. However, on returning to the company, the salesperson must drop identification with the customer and identify with company.

2. Advocacy conflict: This arises when the salesperson has identified with the customer, and seeks to aid the customer by advocating the customer's position to other groups in the company organization. Although this may be important-and may be encouraged by the sales n1anagement group it places the advocator in a difficult position.

Tendency toward Apathy: Many sales personnel have a natural tendency to become apathetic, to get into a rut. Those who, year after year, cover the same territory and virtually the same customers, tend to lose interest and enthusiasm. Gradually their sales calls degenerate into routine order taking. Because they feel they know the customers so well. They come to believe that good salesmanship is not longer necessary. Many salespeople require additional motivation to maintain continuing enthusiasm for their work or to generate renewed interest in it.

Maintaining a Feeling of Group Identity: The salesperson, working alone for the most part, finds it difficult to develop and maintain a feeling of group identity with other company salespeople. Team spirit, if present at all, tends to be weak. Thus, the contagious enthusiasm conducive to improving the entire group's performance-does not develop.

If management, through providing added motivation, succeeds in developing and maintaining team spirit, individual sales personnel will strive hard to meet group performance standards: Few people who do not consider themselves members of the sales team appear as poor performers in the eyes of their colleagues in the sales force.

Providing the kind of working atmosphere in which all members of the sales force feel they are participating in a cooperative endeavour is not easy-nevertheless, effective sales management works continuously to achieve and maintain it.

8.4 DESIGNING A SALES-COMPENSATION PLAN

Whether contemplating major or minor changes or drafting a completely new sales-compensation plan, the executive should approach the project systematically. Good compensation plans are built on solid foundations. A systematic approach assures that no essential step is overlooked.

I. Define the Sales Job

The first step is to examine the nature of the sales job. Up-to-date written job descriptions are the logical place to start. If job descriptions are outdated, or if they are not accurate and incomplete, revision is in order.

Other aspects of company operations should be considered in relation to their impact on the sales job. Sales department objectives should be analyzed for their effect on the salesperson’s job. Sales volume objectives, for instance, whether in rupees, units of product, or numbers of dealers and distributors, are translated ultimately into what is expected of the sales personnel, as a group and individually. The impact of sales-related marketing policies should be determined. Distribution policies, credit policies, price policies, and other policies affect the salesperson’s job. Current and proposed advertising and sales promotional programmes should be evaluated as per their significance for sales personnel. The review of company objectives, policies, at promotional programmes should assist in clarifying the nature of the salesperson’s goals, duties, and activities.

II. Consider the Company’s General Compensation Structure

Most large companies, and many smaller ones, use systems of job evaluation to determine the relative value of individual jobs. Job-evaluation procedure is not scientific; it is an orderly approach based on judgment. It focuses on the jobs, without considering the ability or personality of individuals who do the work. Its purpose is to arrive at fair compensation relationships among company jobs.

III. Consider Compensation Patterns in Community and Industry

Because compensation levels for sales personnel are closely related to extern, supply-and-demand factors, consideration should be given to prevailing compensation patterns in the community and industry. Management need answers to several key questions: (1) What compensation systems are be in, used? (2) What is the average compensation for similar positions? (3) How are other companies doing with their plans? (4) What are the pros and con of departing from industry or community patterns? The answers to these and related questions and their relative significance, differ with the company and the industry.

If there is a companywide formal job evaluation programme, it should take into account the current rates for sales positions in the community and industry. A programme for setting compensation of sales personnel is sound only if it considers the relation of external compensation practices to those of the company. Sales executives should maintain constant vigilance against the possibility that the pay of sales personnel should not get out of line with that paid for similar jobs in the community or industry.

IV. Determine Compensation Level

Management must determine the amount of compensation a salesperson should receive on the average. Although the compensation level might be set through individual bargaining, or on an arbitrary-judgment basis, neither expedient is recommended. Management should ascertain whether the calibre of the, present sales force measures up to what the company would like to have. If it is too low, or if the company should have lower grade people than those currently employed, management should determine the market value of sales personnel of the desired grade. Management should also weigh the worth of individual persons to the company through estimating the sales and profit that would be lost if particular salesperson resigned. Still another consideration in setting the sales compensation level is the amount the company can afford to pay. The result of examining these and other factors, pertinent to the situation of the individual firm, is a series of estimates for the total cost of salespeople's compensation.

V. Provide For the Various Compensation Elements

A sales-compensation plan has as many as four basic elements: (1) a (fixed element) either a salary or a drawing account, which is intended to provide some stability of income; (2) a variable element (for example, a commission, bonus, or profit-sharing arrangement), designed to serve as an incentive; (3) an element providing for (reimbursement of expenses or payment of expense allowances; and (4) an element covering the fringe or “plus factors”, such as paid vacations, sickness and accident benefits, life insurance, pension and the like. Not every company wants to, or should, include all four elements. Management should select the combination of elements that best fits the requirements of the firm’s selling situation. The proportions that different elements should bear to each other vary with the particular situation. However, most companies split the fixed .and variable elements on a 60/40 to an 80/20 basis.

VI. Special Company Needs and Problems

Although a sales compensation plan is no panacea for marketing ills, yet it is often possible to construct a plan that increases marketing effectiveness. If a company’s earnings are depressed because sales personnel overemphasize low-margin items and neglect more profitable products, it may be possible, despite the existence of other managerial alternatives, to adjust the compensation plan to stimulate the selling of better-balanced orders.

Specifically, variable commission rates might be set on different products with the higher rates applied to neglected products. Or, as another example, a firm might have a “small-order” problem. It is possible to design compensation plans that encourage sales personnel to take larger orders. Commission rates can be graduated so that higher rates apply to larger orders. However, the revised compensation plan probably should be supplemented by a customer classification and call scheduling system, enabling management to vary call frequency with account size.

As still another example, a company may want to obtain more displays or local advertising by retailers. Often, the presence or absence of point-of purchase displays can spell the difference between marketing success or failure. Under such conditions, securing retail displays of company products is important. This is a task that sales personnel may neglect, especially if they are paid commissions based on sales volume. To overcome this tendency, an incentive payment for obtaining retail displays is often incorporated in the compensation plan.

Numerous other possibilities exist for using the compensation plan to help solve special company problems. Plans may be designed to assist in securing new customers and new business, improving the quality of sales-people's reports, controlling expenses of handling complaints and adjustments, reducing travelling and other expenses, and making collections and gathering credit information. Management, however, should recognize that other means exist for dealing with such problems which are generally transitory in nature. Repeated tempering with the sales-compensation plan in an effort to solve many and varied problems frequently results in complex and difficult-to- administer plans.

VII. Consult the Present Sales Force

Management should consult the present sales personnel, as many grievances have roots in the compensation plan. Sales personnel should be asked for their likes and dislikes about the current plan and suggest changes in it. Their criticism and suggestions should be appraised relative to the plan or plans under consideration. But at this point, management should compare the calibre of the present sales force with that of the people whom it would like to have. If the present salespeople are not of the grade that the company wishes to attract, their criticisms and suggestions may be of limited usefulness. Since, however, nearly every sales force has some people of the desired calibre, more weight can be attached to their opinions than to those of others.

VIII. Reduce Tentative Plan to Writing and Pre-test It

For clarification, and to eliminate inconsistencies that have crept in, the tentative plan should be put in writing. Then it should be pre-tested. The amount of testing required depends upon the extent to which the new plan differs from the one in use. The greater the differences, the more thorough should be the testing.

The plan should be tested for the sales force as a group and for individuals) faced with unique selling conditions. Analysis should reveal whether the plan permits earnings in line with the desired compensation level. If deficiencies show up, the plan may not be at fault; weaknesses may be traced to the way territorial assignments have been made or to inaccuracies in sales forecasts, budgets, or quotas.

To conduct a pilot test, several territory representatives of different sets of selling conditions are selected. The proposed plan is applied in each one sufficiently long to detect how it works under current conditions. Pilot tests are invaluable for spotting possible sources of trouble and in uncovering other deficiencies.

IX. Revise the Plan

After test results have been analyzed, the plan is revised to eliminate trouble spots or deficiencies. If alterations are extensive the revised plan goes through further pre-tests and perhaps another pilot test. But if changes have been only minor, further testing is not necessary.

X. Implement the Plan and Provide for Follow-Up

At the time the new plan is implemented, it should be thoroughly explained to sales personnel. Management should convince them of its basic fairness and logic. The sales personnel should understand what management hopes to accomplish through the new- plan and how this is to be done. Details of changes from the old plan, and their significance, require explanation. All sales personnel should receive copies of the new plan, together with written examples of the method used for calculating earnings. If the plan is at all complex, special training sessions should be held and aimed at teaching sales personnel how to compute their own earnings. When sales personnel do not understand the plan or certain of its features, such as quotas and variable commission bases, they are prone to think that the company is taking unfair advantage of them. Inadequate understanding of the sales compensation plan is common and often a cause of low morale. No effort should be spared to make sure that everyone on the sales force fully comprehends the compensation plan and its workings.

Provisions for follow-up should be made, in order to ascertain how the plan is working, out in practice. From periodic check-ups, need for further adjustments is detected. Periodic checks provide evidence of the plan's accomplishments, and they help uncover weaknesses needing correction.

8.4.1 REQUIREMENTS OF A SOUND COMPENSATION PLAN

Designing a sales compensation plan is not an easy task. There is no single compensation plan which suits all sizes and types of firms. Devising a sound plan, two considerations must be there in mind- (i) such plan must motivate the sales people to do what the sales management wants. The sales management wants maximum sales and yet to keep sales expenses a minimum, (ii) From the sales person's point of view, the basic concern is to get a fair earnings in comparison with the incomes of his or her peer group, of other company employees, and of the relevant labour market. He also wants a balance of security (a fixed income) and payments for extra efforts (incentive income). An effective compensation plan must represent both points of view. A carefully designed compensation plan must attract, motivate and retain capable salespeople within the company's budget.

8.4.2 CHARACTERISTICS OF A SOUND COMPENSATION PLAN

The main characteristics of a sound compensation plan are as follows:

Simplicity: An effective compensation plan should be, as simple as possible, easily understandable, and simple to operate. The salespeople should be able to calculate what they are to get without any difficulty. A plan which is not easily understood loses its value as a motivator.

Fairness: The compensation plan must ensure equity. It must be fair both to company and its sales force. Compensation to sales force is the major item of selling costs and therefore, it should be in line with sales volume. The plan should not have any room for discrimination against or for any individual salesman. A plan should be to reward ability and productivity and therefore, it needs a constant watch, scrutiny and willingness to revise the plan, if necessary, to even out inequities resulting from territorial differences.

Incentive: A sound compensation plan should stimulate the salespeople to get what the company wants from them to meet the company's goals. In particular, it must motivate the salespeople to achieve higher sales profits rather than higher sales volume.

Flexibility: A sound compensation plan should be flexible enough to cope with the changing conditions of the company, salesman and the market. Changes in the supply of salespeople, products and customers as well as changes in the competitive situation will require adjustments in the company's compensation plan.

Control: The salespeople are expected to do what the sales management pays them to do. A sound to do. A sound compensation Plan should control and direct the salespeople's activities. The salesman should be penalized if he fails to achieve the sales goals.

Guaranteed Income: The plan must guarantee a minimum compensation so as the salespeople can maintain a minimum living standard. A person worried about money matters cannot do justice in performing his job.

Economical to Administer: The plan should be economical to administer otherwise it will add to the selling cost.

Help to attain objectives: A sound plan should help to attain the objectives of the sales organization and of the firm. The main objective of the sales organizations is to earn higher profits with lower selling costs.

Competitiveness: The level of compensation must be competitive with that of other competitive firms. Attractive pay is necessary to attract, keep and develop a good sales force but it should, not be much lower because nothing leads to high sales turnover faster than a non-competitive sales compensation plan.

Thus, in designing new plans or modifying old ones, the management must consider the above points into consideration.

8.4.3 VARIOUS METHODS OF REMUNERATING SALESMEN

Monetary compensation is the single most important factor to affect the efficiency of a salesman. Efficiency of salesman has direct relation with the method of remuneration adopted by the company. There are a number of methods of rewarding salesmen, it can, however, be brought under the following three basic types of compensation plans:

I. Straight Salary Method

This method is the simplest one. Under this method, salespeople get a fixed sum of money at regular intervals (say weekly, fortnightly or monthly) irrespective of the turnover he effected during the period. Regular increments are given in the salary scale. The method is suitable in the following cases:

When a salesperson’s actual work function is not directly related to sales volume or to other quantitative measures of productivity. It is often true when a salesperson is to perform many other non-selling functions also such as market research, customer problem analysis, servicing and sales promotion etc., when the firm introduces a product or develops a new market,

when a person is under training, and when there are seasonal variations in sales.

Advantages

Straight salary method of compensation has several advantages over other methods as follows:

It provides strong financial control over sales personnel. The management has powers to direct the activities of the sales personnel along the most productive lines.

There is more flexibility for management to switch customers and territories without much resistance from the salesperson. Thus, management can recast the field job according to the changed selling situations.

This method is simple to understand and economical to administer.

From salespeople stand point, the straight salary plan ensures stability of income and makes them free from uncertainties. They are not feared of the cut in earnings even when their efficiency is temporarily impaired by injury or sickness.

Disadvantages

The system has several weaknesses:

There is no monetary incentive to do hard work. Generally salesmen do only an average rather than an outstanding job.

The system does not distinguish between efficient and inefficient workers. All are paid on time basis. It, therefore, under compensates a productive salesperson and over compensates a poor performer. It leads to higher sales force turnover.

It requires a continuous and strict supervision so that a minimum can be obtained.

Due to higher sales force turnover, the cost of recruiting, selecting and training goes up.

From management point of view selling cost per unit vary with the variation in sales volume because salary paid to salespeople is a fixed expense and has no relation to sales.

II. Straight Commission Method

Straight commission method is based on the theory that individual Sales personnel should be paid strictly according to productivity. Sales volume is considered to be the best measure of productivity and therefore, salesperson is remunerated on the basis of sales affected by him. He gets a fixed percentage of commission on total sales volume affected by him during a period of time. The rate of commission may vary from company to company or product to product or according to size of orders.

Most straight commission plans fall into one of the two broad classifications:

Straight commission with sales personnel paying their own expenses. Advances against earned commission mayor may not be made.

Straight commission with the company paying expenses. Advances against earned commission mayor may not be made.

Advantages

The system claims the following advantages:

Direct motivation is the key advantage of straight commission method. A strong incentive is provided to salespeople to increase sales volume. i.e., productivity. Strong performers are attracted and encouraged whereas marginal performers are eliminated.

Under this system, sales expenses have direct relation with sales volume hence such expenses are variable in nature. Cost of sales, therefore, can be budgeted in advance.

The system is flexible. The rates of commission can be revised depending upon the market conditions and the need of earning higher profits. Products fetching higher gross margins may bear higher rates of commission.

The system requires no strict direct control and supervision over the salesmen. In other words, it encourages voluntary efforts to increase sales.

It ensures fairness to all people with poor performance get less whereas a rewarding performance is suitably compensated.

Disadvantages

The system records the following weaknesses:

Loss of control over salespeople’s activities is the major weakness of this system. It further compounds when they pay their own expenses.

Some undesirable selling practices develop under this system. The strong incentive to sell more encourage over stocking, misrepresentation of goods, considering individual accounts their private property and other undesirable practices. Such practices lead to loss of goodwill of the firm.

Because sales people are more concerned with the sales volume, they prefer to sell easy-selling low margin items and neglect harder-to-sell high margin items. It will lower down the contribution. To correct this, management can use differential commission rate.

The earning of the salespeople, under this system is quite uncertain. They cannot plan their activities. If salesperson’s efficiency is impaired temporarily, they will lose their earnings for that period. Their earnings depend on so many factors and many of which are beyond their control. A financially strained salesman cannot work efficiently.

III. Combination of Salary-and-Incentive Plan

Both the straight salary and straight commission methods have their own limitations. To overcome the weaknesses of the two systems, certain other incentive methods have been developed. Some of these are:

Salary plus Commission: This system is developed as an attempt to offset the disadvantages of both the straight salary and straight commission methods and capture the advantages of both. Under straight salary system, incentive to sell more is not there. Where the straight commission system is adopted, the executive has less financial control over the non-selling activities of the sales force. Blending of the two plan, will provide the management both control and motivation. Under this method, each salesman is guaranteed of a minimum salary each month. Over and above the fixed salary, the salesman also gets a fixed percentage of commission on sales. It provides a security of income and also an incentive to earn more by increasing the sales volume.

This method may take any of the following two forms:

- Salary plus commission on total sales.
- Salary plus commission over quota sales.

Salary plus Commission on Total Sales: This system is quite simple and most widely used. The salesman is paid a fixed and predetermined amount as salary. Commission is also paid on totals sales effected by him.

Salary Plus Commission Over Quota Sales: A fixed amount of salary is paid in this method also but the calculation of commission is not done on total sales effected by him. Under the method, a minimum quota of sales is fixed for each salesman and no commission is paid until he crosses his quota figure. In other words, he has to qualify himself for the benefit of commission by selling over the quota fixed for him over a period of time.

IV. Bonuses

Bonus is different than commission. It is an incentive payment made at the discretion of the management for accomplishing a specific level of achievement. It is usually a reward for special efforts and provides direct motivation. Unlike commission, it is not directly related to sales performance. Bonus is an additional incentive rather than part of the basic compensation plan. Payment of bonus is given in addition to the amount of salary or salary and commission or commission.

Different firms use different bases for calculating the amount of bonus. Most frequently used base is the attainment of sales quota set by negotiation between salespeople and their supervisors. Bonus is paid for sales in excess of quota sales. Sometimes, bonus is attached with the profitability of the products rather than sales volume alone. Other bases may be number of new accounts opened or performance of certain types of promotional work or reduced selling expense, collection of amounts from customers etc.

Bonuses are generally paid as a supplement to other compensation plans. It is an incentive to salespeople to get the things done what the company likes. The sales manager can control and direct the selling activities towards the organizational objectives.

In most cases, bonuses are paid in cash, but in certain cases, they are paid in kinds. Thus, combination compensation plan provide security of stable income and the direct stimulus to sales people to increase sales volume and earn more. The main weakness of the system is that more complicated records are required.

8.5 CHECK YOUR PROGRESS

1. **What is motivation in the context of sales personnel?**

   a) Creating sales quotas

   b) Goal-directed behavior to achieve objectives

   c) Providing financial incentives only

   d) Establishing sales policies

2. **Why do salespeople require additional motivation?**

   a) Due to easy job roles

   b) Because of boundary positions and role conflicts

   c) To increase marketing expenses

   d) To avoid routine order taking

3. **Which is not a characteristic of a sound compensation plan?**

   a) Simplicity

   b) Fairness

   c) Ambiguity

   d) Flexibility

4. **What is a "Straight Salary" compensation method?**

   a) A fixed sum paid regularly irrespective of sales volume

   b) A percentage of sales volume achieved

   c) A combination of salary and bonus

   d) A commission paid on quota sales

5. **Which of the following is an advantage of the Straight Salary Method?**

   a) Provides a strong financial incentive

   b) Ensures income stability

   c) Encourages selling low-margin items

   d) Requires no supervision

6. **What does the "Salary plus Commission" plan provide?**
   a) Only a fixed salary
   b) Only commission based on sales
   c) Fixed salary and commission based on sales volume
   d) Fringe benefits without any salary

7. **What is the primary disadvantage of the Straight Commission Method?**
   a) It lacks direct motivation for salespeople
   b) It leads to a fixed selling cost
   c) It encourages undesirable selling practices
   d) It offers guaranteed income

8. **What does "Bonus" refer to in a compensation plan?**
   a) A fixed element of salary
   b) A reward for achieving specific performance levels
   c) A percentage of total sales volume
   d) Reimbursement for expenses

9. **Which element is not part of a compensation plan?**
   a) Fixed salary
   b) Commission or incentives
   c) Advertising expenses
   d) Fringe benefits

10. What should management do before implementing a new compensation plan?

a) Roll it out immediately without consultation

b) Discuss it with sales personnel for feedback

c) Skip pilot testing

d) Avoid making any changes to the existing plan

8.6 SUMMARY

Motivation is goal-directed behaviour, underlying which are certain needs or desires. Specifically, as applied to sales personnel, motivation is the amount of effort of salesperson desires to put in his or her tasks. In the course of a day’s work, salespersons interact with many pleasant and courteous people; but they also meet some who are unpleasant and rude, with whom it is difficult to deal. They spend lot of time away from family life and become discouraged due to heavy competition and work pressure. Due to the inherent nature of job of sales personnel, they require more motivational support. Many of them require more motivation to motivation continuing enthusiasm for their work or to generate renewed interest in it. Through providing added motivation on sales personnel with strive hard to meet group performance standards. A sales compensation plan has four basic elements: salary, commission, reimbursement of expenses and fringe benefits. The main characteristics of a sound compensation plan are simplicity, fairness, flexibility, guaranteed income, competitiveness etc. There are three basic types of sales compensation plan- straight salary method, straight comparison method and combination of both. A well planned motivation and compensation plan can lead the sales organisation to success.

8.7 KEYWORDS

Motivation- It is goal directed behaviour of sales force in order to achieve their sales targets.

Tendency toward Apathy- Many sales person has a natural tendency to become apathetic, those who year after year, cover the same territory and tend to lose interest and enthusiasm.

Compensation Elements- A sales compensation plan has four basic elements, salary, incentives, allowances and fringe benefits.

Bonus- Bonus is different than commission. It is generally paid as a supplement to other elements of compensation plan.

8.8 SELF ASSESSMENT TEST

1. Outline the criteria for a sound compensation plan.
2. Discuss the various methods of remunerating salespeople pointing

   out merits arid demerits of each method.

3. Why the salespeople need motivation from the management?

4. Discuss the different steps for designing a sales compensation plan.

8.9 ANSWER TO CHECK YOUR PROGRESS

1. What is motivation in the context of sales personnel?

   Answer: Goal-directed behavior to achieve objectives

2. Why do salespeople require additional motivation?

   Answer: Because of boundary positions and role conflicts

3. Which is not a characteristic of a sound compensation plan?

   Answer: Ambiguity

4. What is a "Straight Salary" compensation method?

   Answer: A fixed sum paid regularly irrespective of sales volume

5. Which of the following is an advantage of the Straight Salary Method?

   Answer: Ensures income stability

6. What does the "Salary plus Commission" plan provide?

   Answer: Fixed salary and commission based on sales volume

7. What is the primary disadvantage of the Straight Commission Method?

   Answer: It encourages undesirable selling practices

8. What does "Bonus" refer to in a compensation plan?

   Answer: A reward for achieving specific performance levels

9. Which element is not part of a compensation plan?

   Answer: Advertising expenses

10. What should management do before implementing a new compensation plan?

    Answer: Discuss it with sales personnel for feedback

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Subject: **SALES MANAGEMENT**	
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SALES BUDGETS AND QUOTAS

STRUCTURE

9.0 LEARNING OBJECTIVE

After going through this lesson, students will be able to-

- Explain the purpose and methods of sales budget
- Understand the sales budgetary procedure
- Identify the purpose and types of sales quota
- Elaborate the procedure for setting sales quota
- Discuss the pre-requisites of a good sales quota

9.1 INTRODUCTION

A sales budget is simply a tool, a financial plan, that depict how resources should best be allocated to achieve forecast sales. In other words, sales budget is a blueprint for making profitable sales. It details who is going to sell 'how much' of 'what' during the operating period, and to which customers or class of trade and the likely selling expenses. It is a projection of what a given sales programme means in terms of sales volume, selling expenses, and net profits. The purpose of sales budgeting is to plan for and control the expenditure of resources (money, material, people and facilities) necessary to achieve the desired sales objectives.

The sales forecast is the source for the sales volume portion of the sales budget. The sales volume objective derived from the sales forecast is broken down into the quantities of products that are to be sold, the sales personnel or sales districts that are to sell them, the customers or classes of trade that are to buy them, and the quantities that are to be sold during different time segments in the operating period. After these breakdowns are made, the selling expenses that will be incurred in implementing the sales programme are estimated. Sales forecast and sales budget are therefore, intimately related as much as if the sales budget is inadequate, the sales forecast will not be achieved, or if the sales forecast is increased the sales budget must be increased accordingly. Sales budget by relating sales obtained and resources deployed also acts as a means for evaluating-sales planning and sales effort. It aims at attaining maximum profits by directing the emphasis on most profitable segments, customers and products.

A sales quota is a quantitative goal assigned to a sales unit for a specific period of time. A sales unit may be a sales person, territory, branch office, region or distributor. Sales quotas are used to plan, control and evaluate selling activities of a firm. As standards for appraising selling effectiveness, quotas specify desired performance levels for sales volume, expenses, gross margin, net profit, selling and non-selling activities, for some combination of these items. Sales quotas provide a source of motivation, a basis for incentive, compensation, standards for performance evaluation of sales person and uncover the strengths and weaknesses in the selling structure of the firm.

Quotas are devices for directing and controlling sales operations. Their effectiveness depends upon the kind, amount, and accuracy of marketing information used in setting them, and upon management's skills in administering the quota system. In effective systems, management bases quota on information derived from sales forecasts, studies of market and sales potentials, and cost estimates. Accurate data are important to the effectiveness of a quota system, but, they are not sufficient; judgement and administrative skills are required of those with quota setting responsibilities. Soundly administered quotas based on thorough market knowledge are effective devices for directing and controlling sales operations.

9.1.1 PURPOSE OF THE SALES BUDGET

A sales budget generally serves three important purposes.

Instrument of Planning: The budgeting process requires complex sequences of planning decisions. In order to achieve goals and objectives of the sales department, the managers must outline essential tasks to 1Je performed and compute the estimated costs required for their performance. The planners show how the targeted volume can be reached, while keeping selling expenses at a level that permits attainment of the targeted profit. Sales budgeting, hence, help in profit planning and provide a guideline for action towards achieving the organisational objectives. The alternative sales plan is drafted so that selection of the most appropriate may serve the company's sales volume and net profit objectives.

A tool of coordination: Sales department is a sub-system of marketing division and selling is one of the most important functions of marketing. To be effective, it needs support from other elements of the marketing mix. The, process of developing realistic sales budget draws upon backward and forward linkages of selling with marketing and in turn brings about necessary integration within the various selling and marketing functions, and coordination between sales, finance, production and purchase function. The sales budget enables sales executives to coordinate expenses with sales and with the budgets of the other departments.

Mechanism of Control: Control is the prime orientation in sales budgeting. The budget, which is a composite of sales, expense, and profit goals for various sales units, serves as a yardstick against which progress is measured. Comparison of accomplishments with relevant breakdowns of the budget measures the quality of performance of individual sales personnel, sales regions, products, marketing channels, and customers. These evaluations identify specific weaknesses in operating plans, enabling safes management to make revisions to, improve performance. The sales budget itself, since it is a master standard against which diverse aspects of performance are measured, then serves as an instrument for controlling sales volume, selling expenses, and net profits.

9.1.2 METHODS OF SALES BUDGETING

Methods of sales budgeting differ from company to company. There are a variety of methods ranging from the sales manager’s gut feelings to application of computer based management science models for determining the sales budgets. Some important methods are given below:

Percentage of Sales: This method is also known as rules of thumb. In this method manager multiplies the forecast sales by various percentages for each category of expense. The resultant then becomes the amount budgeted for each of the respective categories. It is generally based on the manager’s experience or feelings about what portion of the sales volume can be spent on each business function to achieve the desired profit. But, there are no guarantees that setting the budgets using these percentages will lead to optimal performance. Mass selling organisations are major users of this method.

What is affordable: This method is generally used by firms dealing in capital industrial goods. Also, companies giving low emphasis on sales and marketing function or having small size of operation make use of this judgemental method.

Competitive parity method: This method advocates determining sales budget comparable to the competitors. The use of this method presumes knowledge of the competitor’s activities and resource allocation. Large sized companies' whose products face tough competition and need effective marketing to maintain profits use this method.

Objective and task method: In this method the manager starts with identifying the objectives of sales department followed by determination of tasks that must be accomplished in order to achieve the set objectives. Later, the cost of each activity or task is calculated to arrive at the total budget. The finalisation of the budget may require adjustment both in the objectives as well as in the way the task may be performed.

Zero-base budgeting: It is relatively new approach to budgeting. It involves a process in which the sales budget for each year is initiated from zero bases thus, justifying all expenditure and discarding continuation of conventions and rules of thumb. This method suffers from practical limitations which relate to a very elaborate and time consuming process required by it.

9.2 SALES BUDGETARY PROCEDURE

Sales budgetary procedure differs from company to company with most differences tracing to difference in basic planning styles, i.e., top-down and bottom up. In top down planning, top management sets the objectives and drafts the plans for all organisational units. By contrast, in bottom-up planning different organisational units (generally departments) prepare their own tentative objectives and plans and forward them to top management for consideration. Preparation of sales budget is one of the most important elements of the sales planning process. Mostly sales organisations have their own specified procedures, formats and time tables for developing the sales budget. However, the general steps taken in systematic preparation of sales budget can be identified in the sequence given below:

Analysis of sales volume and expenses: The preparation of the sales budget normally starts at the lowest level in the sales organisation and works upward. Thus, each district sales manager estimates district sales volume and expenses for the coming period. Some of the common items each sales budget includes are salaries, travel, lodging, food, entertainment, commissions on sales, office expenses, promotional material selling aids, contest awards, product sample etc.

These district budgets are submitted to the divisional or regional office, where they are added together and are included with the divisional budget. In turn, divisional budgets are submitted to the sales manager for the particular product or market group. At the end this chain of subordinate budgets, the top sales executive compiles a companywide sales budget.

Handing competition for available funds within the marketing division: Sales executives at the top level must communicate their sales goals and objectives to the marketing department and argue effectively for an equitable share of funds. The chief sales executive of the company should encourage participation of all supervisors and managers in the budget process so that, as a part of its development, they will accept responsibility for it and later enthusiastically implement it.

Selling the sales budget to the top management: The top sales and marketing executives must visualise that every budget proposal they are presenting to the top management must remain in competition with proposal submitted by the heads of other divisions. Each and every division usually demand for an increased allocation of funds. Unless sale managers rationally justify each item in their budgets on the basis of profit contribution, the item may not get due consideration of the top management.

9.2.1 BUDGET IMPLEMENTATION AND FEEDBACK

Actual budgetary control features go into operation, as soon as the approved budgets have been distributed to all units of the company. Each item in the budget serve as standards against which management measures performance. In case actual performance is at a variance from budgeted performance, two courses of actions are available to the organisation.

To ascertain whether the variance is a result of poor performance by the sales group- necessary steps should be taken to ensure that sales persons organise their selling efforts more carefully, so that budgeted expenses can be brought back into line.

To revise the sales budget by incorporating the changed allocation of the item. For example, if the travel expenses have increased because of the necessity of calling on new customers not previously covered, action should be taken to revise the budget to reflect the changed conditions.

Salespersons are generally trained to be budget-conscious. It is the responsibility of the sales manager to ensure that sales revenue and cost ratios remain within reasonable budget limit. Experiences bring out the following main items on which variance between budgeted and actual costs often arise, are salaries and fringe benefits, direct selling expenses, maintenance of company vehicles, promotional costs, discounts, rebates etc. It is wise to tighten control over expenses especially under circumstances when sales forecasts are not being met or sales budgets are being exceeded.

9.2.2 FLEXIBILITY IN BUDGETING

If sales budget estimates are consistently, or even frequently, found to be erroneous, it may be that more time should be spent in budgetary planning.

Perhaps sales forecasting methods are misapplied or are inappropriate for the budgeting situation. Experience shows that in most fields sales can be forecast for a sufficiently long period, and within limits of accuracy that are sufficiently close to serve the purpose of stabilising production. If it is possible to forecast sales within the limits needed to stabilise production, it is possible to forecast sales within the limits of accuracy required for purposes of budgeting selling expenses.

Some companies, either intentionally or because of difficulties in securing accurate sales forecasts, use budgetary procedures without definite forecasts. One way is to prepare alternate budgets, based on different assumptions about the level of sales volume. Thus, efficiency can be evaluated, even though wide variations exists between expected volume and actual volume, 'Low-volume' and 'High-volume' forecasts are prepared on break-even style charts and interpolated to adjust for the difference between the two alternative budgeted sales figures and the actual operating level.

However, flexible budgeting is the subject of considerable criticism, because whenever it is used, plans must be made on the basis of wide range of probabilities. Some experts refer to flexible budgeting as a crutch for weak executives who have not absorbed the art of forecasting. Most writers on sales management argue that some flexibility is desirable. Companies cannot authorise a year ahead expense appropriations so flexible that there is no need later to review or revise them. Full advantage of new market opportunities must be taken as they appear. If competitors initiate actions not foreseen at budget-making time, funds must be allocated to counter-act them. A realistic attitude toward the dynamic character of a market is part of effective sales budgeting.

When the budget is in error because of faulty sales forecasting and badly set sales and profit objectives, the accepted procedure is to alter estimates by applying standard ratios of costs to the adjusted volume figure. This system, known as variable budgeting, is used by most business.

9.3 SALES QUOTA

9.3.1 PURPOSE OF THE SALES QUOTA

To provide standards for evaluating performance: Quotas provide a means for determining which sales personnel, territory, other units of sales organisation, or distributive outlets are doing average, below average, or above average job. They are yardsticks for measuring sales performance. Comparisons of quotas with sales performance identify weak and strong points, but management must dig deeper to uncover reasons for variations.

To furnish goals and incentives for the sales force: Quotas provide salespersons, distributive outlets and others engaged in selling activities, goals and incentives to achieve certain performance level. Many companies use quotas to provide their sales force the incentives of increasing their compensation through commissions or bonus if the quota is surpassed and/or recognised for superior performance. Needless to say, to be true motivators, sales quota should be perceived as being realistic and attainable and to an extent surpassable.

To control salespeople's activities: Quotas provide an opportunity to direct arid control the selling activities of sales persons. Sales persons are responsible for certain activities e.g. customer calls per day, calling on new accounts, giving a minimum number of demonstrations and realisation of firm's account. If the sales people fail to attain these quotas, the company can take corrective action to rectify the mistake.

To evaluate the productivity of sales people: Quotas provide a yard-stick for measuring the general effectiveness of sales representatives. By comparing salespersons' actual results with set quotas the areas of activities are determined where the sales force need help for improving productivity.

To control selling expenses: Quotas are also designed to keep selling expenses within limits. Some companies reimburse sales expenses only up to a certain percentage of sales quota. Others tie expenses to the salesperson's compensation in order to curb wasteful expenditure. Expense quota helps companies to set profit quotas.

To make effective compensation plan: Quotas play an important role in the company's sales compensation plan. Some Indian companies follow the practice that their salespersons will get commission only when they exceed their assigned quotas. Companies may also use attainment of the quotas in full or in part as the basis for calculating the bonus. If the salesperson does not reach the minimum desired quota, he will not be entitled for any bonus.

To evaluate sales contests results: Sales quotas are-used frequently in conjunction with sales contests. Companies mostly use 'performance against quota' as the main basis for giving away awards in sales contests. Sales contests are more powerful incentives if all participants feel they have a more or less equal chance of winning by basing awards on percentage of quota fulfilment which is a common denominator. Hence, it causes average salesperson to turn into above average performers.

9.3.2 TYPES OF QUOTAS

Differences in forecasting and budgeting procedures, management philosophy, selling problems, and executive judgment, as well as variations in quota-setting procedures, cause each firm to have somewhat unique' quota. Ignoring small differences, however quotas fall into four categories:

I. Sales volume quota

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

II. Financial or budget quotas

Financial or budget quotas are determined to attain desired net profit as well as to control the sales expenses incurred. In other words, it is set for various units in the sales organisation to control expenses, gross margin, or net profit. The intention in setting financial quota is .to make it clear to sales personnel that this jobs consist something more than obtaining sales volume. It makes personnel more conscious that the company is in business to make a profit. Expense quotas emphasize keeping expenses in alignment with sales volume, thus indirectly controlling gross margin and net profit contribution. Gross margin or net profit quotas emphasize margin and profit contributions, thus indirectly controlling sales expenses.

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

Net profit quotas: Net profit quotas are particularly useful in multi-product companies where different products contribute varying level of profits. Its emphasis is on the sales force to make right use of their time. It is important for the management to ensure that its sales force do not spend more time on less profitable products, because the salespersons are costing the company the opportunity of earning higher profits from their high margin products. In other words, it should ensure that its salespersons spend their maximum time on more profitable customers. The objective can be achieved by setting a quota on net profit for its sales force, and thus, encouraging them to sell more of high margin products and less the low margin products.

III. Activity quotas

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

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

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

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

IV. Combination Quotas

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

9.3.3 PROCEDURE FOR SETTING SALES VOLUME QUOTA

Quotas based on sales potential: One common practice in quota setting is to relate quotas directly to the territorial sales potentials. These potentials are the share of the estimated total industry sales that the company expects to realise in a given territory. A sales volume quota sums up the effort that a particular selling unit should expend. Sales potential represents the maximum sales opportunities open to the same selling unit. Many companies derive sales volume quota from sales potentials, and this approach is appropriate when- territorial sales potentials are determined in conjunction with territorial design or bottom-up planning and forecasting procedures are used in obtaining the sales estimate in the sales forecast.

Thus, if the territorial sales potentials or forecasts have already been determined and the quotas are to be related to these measures, the job of quota setting is largely completed. For instance, let us assume that the sales potential in territory A is Rs.300000 or 4 per cent of the total company potential. Then management may assign this amount as a quota for the salesperson who covers that territory. The total of all territorial quotas then would be equal the company sales potential.

In some cases, management chooses to use the estimate of potential as starting point in determining the quota. These potentials are then adjusted for one or more of the factors discussed below:

Human factors: A quota may have to be adjusted downwards because an older salesperson is covering the district. The salesperson may have done a fine job for, the company for years but is now approaching retirement age and slowing down because of physical limitations. It would not be good human relations- or ethical- to discharge or force the person into early retirement. Sometimes such persons are given smaller territories with corresponding lower quotas. Likewise sometimes new sales people are given lower quotas for the first few years until they learn a greater level of competence.

Psychological factors: Management understands that it is human nature to relax after a goal has been reached. Therefore, sometimes sales managers set their quotas a little higher than the expected potential. On the other hand management must not set the goals unrealistically high. A quota too far, above the sales potential can discourage the sales force. The ideal psychological quota is one that is bit above the potential but can still be met and even exceeded by working efficiently.

Compensation factors: Sometimes companies relate their quotas basically to the sales potential, but adjust them to allow for the compensation plan. In such a case, the company is really using both. the quota and compensation systems to stimulate the sales force. For example, one company may set its quota at 90 percent of potential. It pays for one bonus if the quota is met and an additional bonus if the sales reach 100 per cent of the potential.

Quotas based on past sales alone: In some organisations, sales volume quotas are based strictly on the preceding year’s sales or on an average of sales over a period of several years. Management sets each salesperson's quota at an arbitrary percentage increases over sales in some past period. The only merits in this method of quota setting are computational simplicity and low-cost administration. If a firm follows this procedure, it should at least use an average figure for the past several years as a base, not just the previous year's sales. Random or irregular events would greatly affect a sales index based on only one year.

However, a quota setting method based on past performances alone is subject to severe limitations. This method ignores possible changes in a territory's sales potential. Generally business conditions this year may be depressed in a district, thus cutting the sales potential or promising new customers may have moved into the district, thus boosting the potential volume. Basing quotas on previous year's sales may not uncover poor performance in a given territory. A person may have had sales of Rs.100000 last year, and the quota is increased by 5 per cent for this year. The salesperson may even reach the goal of Rs.105000. However, the potential in the district may be Rs.200000. This salesperson may perform poorly for years without letting the management realize that a problem exists. Quotas set on past sales also ignore the percentage of sales potential already achieved. Moreover, 'chase your tail' quotas- in which the more the salespeople sell, the more they are supposed to sell-destroy morale and ultimately cause top achievers to leave the company.

Quotas based on executive judgement above: Sometimes sales volume quotas are based solely on the executive judgment, which is more precisely called guesswork. Executive judgment is usually an indispensable ingredient in a sound procedure for quota setting, but to use it alone is certainly not recommended. Even though the manager may be very experienced, too many risks are involved in relying solely on this factor without referring to quantitative market measures. This method is justified when there is little information to use in setting quotas. There may be no sales forecast, no practical way to determine territorial sales potential. The product may be new and its probable rate of market acceptance is unknown, the territory may not yet have been opened; or a newly recruited salesperson may have been assigned to a new territory. In such situations, management may set sales volume quotas solely on a judgement basis.

Quotas based on total market estimates: In some companies management has neither statistics nor sales force estimates of territorial sales potentials. These companies use top-down planning and forecasting to obtain the sales estimate for the whole company; hence, if management sets volume quotas, it uses similar procedures. Management may either (i) breakdown the total company sales estimate, using various indexes of relative sales opportunities in each territory and then make adjustments or (ii) convert the company sales estimate into a companywide sales quota and then breakdown the company volume quota, by using an index of relative sales opportunities in each territory. In the second procedure, another set of adjustment is made for differences in territories and sales personnel before finally arriving at territorial quotas. Note that these choices are similar the only difference being whether adjustments are made only at the territorial level, or also at the company level. The second alternative is a better choice.

Quotas related only to compensation plan: Companies sometimes base sales volume quotas solely upon the projected amounts of compensation that management believes, sales personnel should receive. No consideration is given to territorial sales potentials, total market estimates, and past sales experiences, and quotas are tailored exclusively to fit the sales compensation plan. If for example, salesperson A is to receive Rs.5000 monthly salary and a 5 per cent commission on all monthly sales over Rs.50,000. A's monthly sales volume quota is set at Rs.50,000. As long as A's monthly sales exceed Rs.50,000, management holds A's compensation-to-sales ratio to 5 per cent. Note that A is really paid on a straight-commission plan, even though it is labelled "Salary and commission".

Such sales volume quotas are poor standards for appraising sales performance, they relate only indirectly, if at all, to territorial sales potentials. It is appropriate to tie in sales force quota performance with the sales compensation plan, that is, as financial incentive to performers, but no sales volume quota should be based on the compensation plan alone.

Salesperson set their own quota: Some companies turn the setting of sales volume quotas over to the sales staff, who are placed in the position of determining their own performance standards. The reason for this is that sales personnel, being closest to the territories, know them best and therefore, should set the most realistic sales volume quotas. The real reason, however, is that management is transferring the quota setting responsibilities and turns the whole problem over to the sales staff, thinking, they will complain less if they set their own standards. There is, indeed, a certain ring of truth in the argument that having sales personnel set their own objectives may cause them to work harder to attain them and complain less. But sales personnel are seldom dispassionate in setting their own quotas. Some are reluctant to obligate themselves to achieve what they regard as 'too much'; and others for this is just as common-overestimate their capabilities and set unrealistically high quotas. Quotas set unrealistically high or low by management or by the sales force because dissatisfaction and results in low sales force morale. Management should have better information; therefore, it should make final quota decisions. Bow, for- instance, can sales personnel adjust for changes management makes in price, product, promotion, and other policies?

9.3.4 CHARACTERISTICS OF A GOOD QUOTA SYSTEM

Realistic attainability: If a quota is to spur the sales force to maximum effort, the goal must be realistically attainable. If it is too far out of reach, the salespeople will lose their incentives.

Objective Accuracy: Regardless of what type of quota management uses, it should be related to potentials". Executive judgement is also required, but it should not be the sole factor in the decision.

Ease of understanding and administering: A quota must be easy for both management and the sales force to understand. Also, the system should be economical to administer.

Flexibility: All quota systems need adequate flexibility. Particularly, if the quota period is as long as a year, management may have to make adjustments because of changes in market conditions.

Fairness: A good quota system is perceived as fair to the people involved. The workload imposed by quotas should be the same for all sales people. However, this does not mean that quotas must be equal. Differences in potentials, competition, and ability of the sales force do exist.

9.4 CHECK YOUR PROGRESS

1. **What is the primary purpose of a sales budget?**
   a) To increase marketing expenses
   b) To allocate resources effectively
   c) To set quotas for employees
   d) To improve product design
2. **Which of the following is a method of sales budgeting?**
   a) Direct marketing
   b) Competitive parity method

c) Product analysis

d) Market testing

3. **What does zero-base budgeting involve?**

a) Using last year’s budget as a baseline

b) Starting the budget from scratch each year

c) Allocating budgets based on sales performance

d) Setting budgets based on competitors' sales

4. **Which of the following is a type of sales quota?**

a) Expense quota

b) Market share quota

c) Distribution quota

d) Logistics quota

5. **What is a key purpose of a sales quota?**

a) To manage inventory levels

b) To evaluate sales performance

c) To calculate customer feedback

d) To improve production efficiency

6. Which of the following is NOT a characteristic of a good quota system?

a) Realistic attainability

b) Flexibility

c) Ambiguity

d) Fairness

7. **What is the most commonly used type of sales quota?**

a) Expense quota

b) Financial quota

c) Sales volume quota

d) Activity quota

8. **In sales quota setting, what is a common adjustment factor?**

   a) Customer demographics

   b) Product pricing

   c) Human factors

   d) Advertising budget

9. **What does an expense quota focus on?**

   a) Increasing sales revenue

   b) Controlling selling costs

   c) Expanding customer base

   d) Improving marketing strategy

10. What is the main advantage of combining multiple types of quotas?

a) Increases sales budget

b) Balances sales activities and goals

c) Simplifies quota administration

d) Reduces selling expenses

9.5 SUMMARY

The sales budget is a statement of projected sales revenues and selling expenses. The projected sales revenues are, in effect, the sales volume objectives derived from the various sales forecasts. The projected selling expenses are determined by the different organisational units within the sales department and are based on assigned sales and profit objectives. The sales budget is best prepared in an atmosphere where the bottom-up planning style predominates, with each echelon preparing a tentative budget of revenue and expense. In reality, the sales budget is a composite of quotas-for sales, profits, and expenses- and is a valuable tool for control.

Quotas are quantitative objectives assigned to sales personnel and other units of the selling organisation. They are intended both to stimulate performance and to evaluate it, through communicating management's expectations and serving as performance measures. In successful quota systems, special pains are taken to tie in quota setting procedures with sales potentials and planning data from the sales forecast and sales budget. Sound judgement is required for adjusting tentative quotas both for contemplated policy changes and for factors unique to each territorial environment. Continuous managerial review and appraisal and balanced flexibility in making changes in quotas and improvements in quota setting procedures characterise successful quota system. When based .on relevant and accurate market information, and when intelligently administered, quotas are effective devices for directing and controlling sales operations.

9.6 KEYWORDS

Sales Quota- It is the quantitative goal assigned to a sales unit. A sales unit may be an individual sales personnel or a sales territory.

Sales Budget- It is a tool that depict how resources should best be allowed to achieve forecast sales. It is a blueprint of making profitable sales.

Zero-base budgeting- It involves a process in which the sales budget for each year is initiated from zero base, thus justifying all expenditure and discarding continuation of conventions and rule of thumb.

9.7 SELF ASSESSMENT TEST

1. What do you mean by 'Sales Budget'? Discuss in brief the purpose of sales budget.
2. Write in brief the sales budgetary procedure. Also discuss the important methods of sales budgeting.
3. Define 'Sales Quota' and discuss in brief the different types of sales quota.
4. Discuss the purpose of sales quota. Also write the characteristics of a good quota system.

9.8 ANSWER TO CHECK YOUR PROGRESS

1. What is the primary purpose of a sales budget?
   b) To allocate resources effectively
2. Which of the following is a method of sales budgeting?
   b) Competitive parity method
3. What does zero-base budgeting involve?
   b) Starting the budget from scratch each year

4. Which of the following is a type of sales quota?
   a) Expense quota
5. What is a key purpose of a sales quota?
   b) To evaluate sales performance
6. Which of the following is NOT a characteristic of a good quota system?
   c) Ambiguity
7. What is the most commonly used type of sales quota?
   c) Sales volume quota
8. In sales quota setting, what is a common adjustment factor?
   c) Human factors
9. What does an expense quota focus on?
   b) Controlling selling costs
10. What is the main advantage of combining multiple types of quotas?

b) Balances sales activities and goals

9.9 REFERENCES/SUGGESTED READINGS

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Subject: **SALES MANAGEMENT**	
Course Code: **BCOM 601**	Author: **Dr. Pardeep Gupta**
Lesson No.: **10**	Updated By: **Dr. Yogesh Verma**

CONTROLLING SALES EFFORTS

STRUCTURE

10.0 Learning Objective

10.1 Introduction

10.2 Objectives of sales control

10.3 The sales control process

10.4 Methods of sales control

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10.6 Summary

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10.8 Self-assessment test

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10.0 LEARING OBJECTIVE

After going through this lesson, you will be able to-

- Understand the meaning, objective and importance of sales control.
- Identify the process of sales control.
- Learn various methods of sales control.
- Describe the meaning and procedure of sales audit.

- Explain the purpose and procedure of cost analysis.

10.1 INTRODUCTION

Sales executives are responsible for a myriad of activities as they are involved in every decision regarding sales. In discharging, these complex responsibilities, it is very difficult for a sales executive to pay adequate attention to selling objectives and the need to achieve them at a profit to the company. Caught up in the middle of everyday activities, the sales executives at all levels of organization find it easy to neglect long term matters. In such a situation, installation and operation of control technique is essential and pays off handsomely.

If appropriately designed and skilfully implemented, control mechanisms greatly increase the chances of achieving selling and profit objectives. The sales budget is the key control mechanism and quotas (sales volume, profit and activities) provide an effective means for motivating sales people to achieve sales and profit objectives.

Sales control is an integral part of the sales management process, providing the follow up to planning. It involves procedure not only for review but also for the correction of a company's sales activities.

The term sales control denotes a comprehensive effort encompassing sales and cost analysis and periodic projects such as sales audit. Sales analysis is the examination of sales activities, improves sales forecasting accuracy and directs future sales efforts. It is identifying weaknesses so that the operations may be correctly directed towards achieving the sales objectives and ultimately organization objectives. This point culminates at sales audit. The another important component of sales control is cost analysis, examining in-depth the various cost factors which influence the profitability of the company.

10.2 OBJECTIVES OF SALES CONTROL

Sales Control mechanism, if well designed and skilfully implemented greatly increases the chances that the entire sides organization will focus its efforts on achieving selling and profit objectives. The main purpose of sales control is to keep a firm's activities on the correct line. It makes sales planning a meaningful endeavour. Main objectives of sales control are:

Measurement of Sales Performance: One important objective of sales control is the measurement of sales performance. Effective control requires feedback that enables an evaluation of sales results achieved in the marketplace from the standards already fixed. In fact, anything which is measured is better performed. Accurate measurement of actual results also form the basis for any reward system. This encourages the sales force to supply timely feedback.

Spotting out Negative Performance: The second objective of sales control is to spot out negative features of the performance and detrimental developments early. The feedback system must be so operated that smooth and timely reports may be collected on a frequent basis. The tighter the control system is, the lesser impact, .a threatening event like competitive price drop, will have before it is discovered and counteracted. Continuous feedback shall detect deterioration in salesperson's performance, which may enable the sales supervisor/manager to take corrective action timely.

Identifying Opportunities: A well-functioning sales control system identify the emerging opportunities before they are evident to competitors. The company then gets an opportunity to enter the market with the new product before an industry-wise on rush sets in. The identification of such an opportunity requires an entrepreneurial skill and a knack to read the market. Sales managers are uniquely qualified to undertake this dynamic aspect of sales control.

Sales control always looks into the question why did it happen? And ideally, addresses the issue of what is happening. This analysis leads to the questioning what the company can do to optimize results undercurrent circumstances.

10.3 THE SALES CONTROL PROCESS

Three major activities are involved in Sales Control Process:

10.3.1 Establishment of Performance Standards

The first step in the control process is the establishment of quantitative and qualitative standards against which actual performance can be compared.

A. Quantitative Performance Standards

Most companies use quantitative performance standards. The particular combination of standards chosen varies with the company and its marketing situation. Quantitative standards in effect, define both the nature and desired levels of performance. Indeed quantitative standards are used for stimulating good performance as well as for measuring it. They provide descriptions of what management expects. Each person on the sales force should have definitions of the performance aspects being measured and the measurement units. These definitions help sales personnel make their activities more purposeful. Sales personnel with well-defined objectives waste little time in pursuing activities that do no contribute to reaching those objectives.

A single quantitative standard, such as' one for sales volume attainment, provides an inadequate basis for appraising an individual's total performance. In the past, the performances of individual sales personnel were measured in terms of sales volume. Today's sales managers realize that it is possible to make unprofitable sales, and to make sales at the expense of future sales. In some fields for example, industrial goods of high unit price sales result only after extended periods of preliminary work and it is not only unfair but misleading to appraise performance over short intervals solely on the basis of sales volume.

Sales personnel have control over many factors affecting sales volume. They should not be held accountable for "uncontrollable" such as differences in the strength of competition, the amount of promotional support given to the sales force, the potential territorial sales volume, the relative importance of sales to national or house accounts and the amount of "wind fall" business secured. A simple reason exists for, setting other quantitative performance standards besides that for sales volume.

Each company selects that combination of quantitative performance standards that befits its marketing situation and selling objectives. If necessary, it may develop its own unique standards designed to serve the objectives. The standards discussed here are representatives of the many types in use.

Quotas: A quota is a quantitative objective expressed in absolute terms and assigned to a specific marketing unit. They may be in rupees, or units of products. As the most widely used quantitative standards, quotas specify desired levels of accomplishment for sales volume, gross margin, net profit, expenses, performance of non selling activities and a combination of these and similar items. When the sales personnel are assigned sales quotas, management is answering the important question. How much for what period? The assumption is the management knows which objectives, both general and specific are realistic and attainable. The validity of this assumption depends upon the market knowledge the management has and utilises in setting quotas.

Selling Expense Ratio: Sales managers use this standard to control the relation of selling expenses to sales volume. Many factors, some controllable by sales personnel and some not, cause selling expenses to vary with the territory, so target selling expenses ratio should be set individually of each person on the sales force. Selling expense ratios are determined after analysis of expense conditions and sales volume potentials in each territory. An attractive feature of the selling expense ratio is that the sales person can affect it both by controlling expenses and by making sales.

The selling-expense ratio has several shortcomings. It does not take into account variations in the profitability of different products. So a sales person who has a favourable selling expenses ratio may be responsible for disproportionately low profits. This performance standard may cause? The sales person to over economize on selling expenses to the point where sales volume suffers. Finally in times of declining general business, selling-expense ratio's inhibit sales personnel from exerting efforts to blaster sales volume.

Selling-expense ratio standards are used more by industrial product companies than by consumer product companies. The explanation traces to differences in the selling job. Industrial product firms place the greater emphasis on personal selling and entertainment of customers; consequently, their sales personnel incur high costs of travel and subsistence.

Territorial Net Profit or Gross Margin Ratio: Target ratios of net profit or gross margin to sales for each territory focus sales personnel's attention on the needs for selling a balanced line and for considering relative profitability. Sales personnel influence the net profit ratios by selling more volume and by reducing selling expenses. They may emphasize more profitable products and devote more title and effort to the accounts and prospects that are potentially the most profitable. The net profit ratio controls sales volume and expenses as well as net profit. The gross margin ratio controls sales volume and the relative profitability of the sales mixture, but it does not control the expenses of obtaining and filling orders.

Net profit and gross margin ratios have shortcomings. When either is a performance standard, sales personnel may 'high spot' their territories, neglect the solicitation of new accounts and over-emphasise sales of high profit or high margin ‘products while under-emphasizing new products that may be more profitable in the long run. Both ratios are influenced by factors beyond the sales person’s control. For instance, pricing policy affects both net profit and gross margin and delivery costs, not only vary in different territories but are beyond the sales person’s controls. Neither ratio should be used without recognition of its shortcomings.

Territorial Market Share: This performance standard takes into account market share, on territory to territory basis. Management sets target market share percentages for, each territory. Management later compares company sales to industry sales in each territory and measures the effectiveness of sales personnel in obtaining market share. Closer control over the individual sales person’s sales efforts is obtained by setting target market share percentages for each product and each class of customer or even for individual customers.

Sales Coverage Effectiveness Index: This standard controls the thoroughness with which a sales person works in the assigned territory. The index consists of the ratio of the number of customers to the total prospects in a territory. To appraise the sales person’s efforts among different classification of prospects, individual standards for sales coverage effectiveness are set up for each class of customers.

Call Frequency Ratio: A call frequency ratio is calculated by dividing the number of sales calls on a particular class of customers by the number of customers in that class. By establishing different call frequency ratio for different classes of customers, management directs selling efforts to those accounts most likely to produce profitable orders. Management should assure that the interval between calls is proper neither so short that unprofitably small orders are secured nor so long that sales are lost to competitors. Sales personnels who plan their own route and call schedules find target call frequencies helpful in as much as these standards provide information essential to this type of planning.

Calls Per Day: In consumer product fields, where sales personnel contact large numbers of customers, it is desirable to set a standard for the number of calls per day, otherwise; some sales personnel make too few calls per day and need help in planning their routes, in setting up appointments before making calls or simply in starting their calls early enough in the morning and staying on the job late enough in the day. Other sales personnel make too many calls per day and need training in how to service accounts. Standards for calls per day are set individually for different territories taking into account territorial differences as to customer density, road and traffic conditions and competitors practices.

Order Call Ratio: This ratio measures the effectiveness of sales personnel in securing orders. It is calculated by dividing the number of orders secured by the number of calls made. Order call ratio standards are set for each class of account. When a sales person's order call ratio for a particular class of account varies from the standard, the sales person needs help in working with the class of account.

Average Cost Per Call: To emphasize the importance of making profitable calls a target for average cost per call is set. When considerable variation exist in cost of calling on different size or classes of account, standards are set for each category of account. Target average cost per call standards also are used to reduce the call frequency on accounts responsible for small orders.

Average Order Size: The usual practice is to set different standards for different sizes and classes of customers. Using average order size standards along with average cost per call standards, management controls the sales person's allocation of effort among different accounts and increases order size obtained. Accomplishing this objective may require sales personnel to reduce the frequency of calls on some accounts.

Non-selling Activities: Some companies establish quantitative performance standards for such non-selling activities as obtaining dealer displays and cooperative advertising contracts, training distributor's personnel, and goodwill calls on distributor's customers. Whenever non selling activities are expressed in absolute terms, they are, in reality, quotas.

B. Qualitative Performance Criteria

Certain aspects of job performance, such as personal effectiveness in handling customer relations problems, do not lend themselves to precise measurement. So the use of some qualitative criteria is unavoidable. Qualitative criteria are used for appraising performance characteristics that affect sales result especially over the long run, but whose degree of excellence can be evaluated only subsequently. Qualitative criteria defy exact definition. Many sales executives do not define the desired qualitative characteristics with any exactitude instead, they arrive at informal conclusions regarding the extent to which each sales person possess them. Other executives consider the qualitative factors formally, and use methods to rate sales personnel against a detailed checklist of subjective factors.

Companies with merit rating systems differ on the desirability of using numerical rating. Most numerical scoring systems are used in companies that rate sales personnel primarily for detecting needed adjustment ill compensation. Companies that use merit rating primarily to improve and develop individual sales persons, usually do not use numerical scoring systems.

Executive judgement plays the major role in the qualitative performance appraisal. Each firm develops its own set of qualitative criteria, based upon the job descriptions; the manner in which these criteria are applied depends upon the needs of management.

10.3.2 Comparison of Results with Standards

In this step, actual sales and costs results are compared with the standards or budgeted figures. Significant sustained differences indicate that something is wrong either with the planning or with the operation. Consistent sales above quota or expenses below budgeted figures indicate that something is wrong with the planning and budgeting processes. On the other hand, if sales is below the quota set and the spending level is above the budgeted allocations, it is, then, certain that the process is out of control.

The causes for divergences have to be identified so that the corrective action may be taken. A detailed analysis is, therefore, necessary to reveal the true position. There may be two types of reasons for deviations: Controllable and Non-controllable. If the reason is controllable, it may be cured otherwise the management will have to revise the standards of actions.

10.3.3 Corrective Actions

Once sales manager is able to identify correct reason of over and under achievements, he has to take corrective actions. There are two options: modify the standards or alter the results. If, events are such that rendered the plan or sales budget inadequate or in other words, factors responsible for deviations are no controllable, the sales management must revise the sales plan or sales budget taking into account the changed market conditions. If, on the other hand, the factors responsible for changes are controllable, alteration of results should be done by having stricter control over sales activities.

Thus, Sales control efforts entail the evaluation of the actual performance vis-à-vis the standards so that the necessary corrective actions can be taken immediately to improve the performance level.

10.4 METHODS OF SALES CONTROL

10.4.1 Sales analysis

Through sales analysis, the management seeks insights on the sales territories where it is strong and where it is weak, the product with the most and the least sales volume, and the type of customers who provide the most satisfactory and the least satisfactory sales volume. Sales analysis, will then uncover significant details why it is so. It provides necessary information, management needs in order to allocate future sales efforts more effectively. The role of the management in sales analysis is to make a detailed analysis of the available data and use them properly to initiate action.

Data for Sales Analysis

Sales analysis is nothing but to collect, classify, compare and study the company sales data. Collection of data is not a part of analytical effort but it vitally affects the quality of sales analysis.

Sales analysis is generally based on data already available. It is called Secondary Data. Secondary data may be gathered either from internal sources such as invoice or shipping records, or from external sources such as marketing research agencies, government agencies, trade associations and trade journals. Secondary data are often readily available but should be used with caution. The management has to rearrange them according to its needs. Necessary adjustments are required if they are outdated or they are classified in a different manner. Their source and limitations should also be studied before they are used for analysis.

Some companies maintain their internal sales records in some detailed manner showing individual sales, sale by products, by classes of customers, by sizes of orders, and other pertinent break downs or sales data. Data are sometimes specifically collected for the purpose of sales analysis. This may be called Primary Data and may be collected under the control of management according to its needs.

The main purpose of sales analysis is to convert raw sales data into actionable information for sales managers. This process involves editing, tabulating and cross tabulating and also breaking them down into various ways to make them comparable. A number of comparisons are possible such as (i) current data can be compared with the past results measuring trends over the years, (ii) current results of different territories, products or class of customers can be compared with each other, or (iii) internal performance data can be compared with external performance data i.e., performance data of the company can be compared with the similar data of any other company or with that of industry. Different ratios, percentages or variances can be used for comparison purposes.

The final step in the analysis process is interpretation or drawing conclusions from the compiled data.

Sales analysis supplies management with background information for sales planning. During execution of the plan, sales analysis continually compares the actual with standards. An evaluation programme reviews both the nature and extent of sales force efforts and influence of external variables. Once the degree of influence of controllable and uncontrollable factors on results are determined, management can decide whether to take corrective actions or to revise the sales plan or both.

Principles of Application of Sales Analysis

There are two basic principles of Sales Analysis–

Iceberg Principle: This principle suggests that comparison of aggregate sales data with those of the past is not a good practice. It may be possible that total sales revenue or sales volume reaches to an acceptable level and may be higher than the previous year's level, but the breakdown shows that a number of good customers have responded a little and a number of new accounts are added, just to set off the difference. Response from old customers is a matter of concern and the management should take special care for maintaining relations by making additional efforts. Thus, analysis may reveal similar future troubles which are not clear from the aggregate data. Thus, the principle suggests that the data must be broken down in order to permit insight into the performance of individual sales segments.

Sales data can be organized according to products, classes of customers or geographical areas or all the three bases. Sales analysis for each such base will show strong and weak points i.e., strong and weak products, or strong and weak customers or strong and weak territories. Multiple measures are also desirable to properly judge the performance at any of these levels. However, absolute sales-data per unit i.e., sales revenue per product, account or territory are meaningful and important and should be compared to results achieved in past periods, comparison of relative performance measures are equally important. Actual sales are commonly related to sales quotas, resulting in quota attainment ratios. Many firms compare the actual sales with sales potential to obtain the degree of potential realization.

Eighty-twenty Principle: This is a common experience that a limited number of units account for a large portion of sales and vice versa. This experience is referred to as 80-20 principle, which states that 20 per cent of its products, customers and territories generates 80 per cent of its sales volume. The percentage may vary but the basic pattern holds true in most circumstances. This suggests that there is a great deal of inefficiency and wasted efforts in personal sales that could be directed to achieve higher sales volume.

Firms with a high level of dependence on a few accounts can become vulnerable or even captive. A healthy account mix includes both types of accounts i.e., small sizes and medium sized accounts. This provides stability and may represent future growth opportunities.

Low sales volume in a territory may be due to certain unavoidable reasons such as inadequate efforts by territory manager, stiff competition, lack of potential etc.

To gain meaningful insights) regarding company's selling strengths and weaknesses, sales must be analysed on the bases discussed below:

(a) Sales Analysis by Territory: In this method, sales managers scan the total sales on territory basis. It assumes that each quota assigned to sales person was based on fair and sound measurement of potential. In addition, any unusual conditions in the individual territories such' as intense competition, strike by labour union or transportation etc. which made an adverse effect on sales of the company's product was considered in order to guide further sales analysis. The following example will further throw light on the aforesaid discussion.

SALES ANALYSIS BASED ON TERRITORY

Territory	Quota	Actual Performance	Value in '000 Rupees
East	800	825	103%
West	900	900	100%
North	840	820	98%
South	830	900	108%

This example shows that almost all the territories achieved or exceeded their quota except north region which achieved 98 per cent of quota. It will thus help the sales manager to investigate the reasons for shortfall in north territory and of best performance in south territory.

***(b) Sales Analysis by Sales person*:** Concentrating on the north territory, the Sales Manager should see the sales performance of all the sales persons working in the territory. From the figure below it is clear that out of eight sales persons working in the territory, four have made or exceeded their quota, three others barely missed, only one i.e. (Gupta) fell significantly below his sales quota with a performance of only 81 per cent.

NORTH TERRITORY: SALES BY SALES PERSONS

Sales person	Quota	Actual of quota	Performance as %
Mukherjee	90	87	97
Singh	110	115	104
Sinha	107	106	99
—	105	111	106
—	106	105	99
—	108	110	102
Gupta	125	101	81
Reddy	101	101	100
Total:	852	826	97

***(c) Sales Analysis by Product Line*:** Before asking for any explanation from Gupta for his poor sales performance, the Sales Manager should see his sales performance based on product line:

SALES PERSON: GUPTA’S SALES BY PRODUCT LINE

Product Line	Quota	Actual of quota	Performance as %
Computers	12	13	108

Portable Typewriters	24	24	100
Manual Typewriters	20	6	30
Electronic Typewriters	15	15	100
Spares and Consumable	21	20	95
Total	92	78	85

It is clear from the above table that Gupta did an excellent job of reaching product quotas with the exception of manual typewriter, where he achieved only 30 per cent of quota. With total sales of manual typewriter running slight ahead of the last year in all other territories and no unusual situation in Gupta's territory, the sales manager should look into Gupta's customer wise details for detecting the causes of the shortfall.

(d) Sales Analysis by Customer**:** Customer-wise break-up of manual typewriters sales attained by Gupta showed that one important account i.e. Government department was responsible for Gupta's poor performance on that product line. Government Department was Gupta's biggest customer and has been targeted for 80 percent of his entire sales quota for manual typewriters. With an entry of another office automation company, the customer had switched over to the same. Gupta did not feel the gravity of situation, as the sales to Government department was taken for granted by him. If he had foreseen the alarming situation in time, he could have asked for assistance by the sales manager. Analysis of Gupta's sales by customer also validates the existence of 80-20 principle referred above.

Accounts	Quota	Actual of quota	Performance as %
Banks	2	2	100
Financial Institutions	1	1	100
Educational	1	1	100

Institutions			
Govt. Department	24	0	0
Industrial Undertaking	1	1	100
Private Parties	1	1	100
Total	30	6	20

The above illustration clearly brings out the importance of conducting detailed sales analysis. It also leads the sales manager to diagnose the factors responsible for variance between targeted and actual performance. Sales analysis thus makes a good beginning in the sales control function of the Sales Manager.

Limitations of Sales Analysis

The following are certain limitations of the Sales Analysis:

1. A serious drawback of Sales Analysis is the fact that sales are in no way indicative of segment's or of the entire sales functions profitability. Profitability is the result of the inter-play between revenue and costs. Sales analysis analyses only the sales aspect and cost analysis does not come under its scope.

2. Another danger of sales analysis is that as more and more sales data become available, decision makers can become wired in detail. As this analysis-paralysis sets in, the sales manager loses sight of the fact that analysis is a tool and not an end in itself. It should not be used as a substitute for but as an aid in decision making.

Thus, the tool of sales analysis should be used very cautiously and in the interest of the firm.

10.4.2 Sales audit

A sales audit a systematic in-depth scrutiny of the entire sales operation. It is a comprehensive appraisal of the total sales function. It scrutinizes all selling activities, objectives, policies, procedure, strategies etc., and reports whether they are fully carried out, implemented or achieved accordingly or not. It aims to appraise the extent of integration of the individual inputs to the personal selling effort, and it provides a way to identify and evaluate the assumptions underlying the sales operation. More specifically, a Sales Audit is a systematic, critical and unbiased review and appraisal of the basic objectives and policies of the selling function and of the organization, methods, procedures, and personnel employed to implement those policies and achieve those objectives.

Sales audit covers the following areas within its scope: (i) environment of sales management, (ii) evaluation of sales management organization, (iii) sales management planning system, and finally (iv) evaluation of sales management functions.

Proponents of sales audit are of the view that sales audit must stress the importance of focusing on overall selling strategy and the methods used for implementing it rather than examining individual components of personal selling operation in a piece-meal fashion.

The main purpose of the- sales audit is to uncover the opportunities for improving the effectiveness of the sales organization. In the auditing process strengths and weaknesses are identified and both are important for the improvement of effectiveness. Strengths or good points may be potential for further exploitation. The sales executive must make efforts to retain such positive features. Weaknesses or negative points are also potential for improvements. Sales executive must take necessary corrective actions to improve such negative features to increase the profitability by reducing selling costs.

Sales auditor should be from outside the organization. Sales manager if appointed as an sales auditor, cannot do justice because he is personally involved in planning and implementing various sales policies or programmes or strategy. Outside auditor makes an objective review of all aspects.

Procedure of Audit

Sales auditor should follow a five step sequence that proceeds from-fact finding to evaluation and report presentation:

Examination of sales objectives with respect to their precision, appropriateness, realism and challenge.

Review of the plans and policies (explicit and implicit both) whether they are appropriate from the stand point of their consistency. The auditor should also review the allocation of resources to individual segments as compared with the company’s philosophy and priorities.

Evaluation of the methods, programmes and procedures utilized in plan implementation as measured against the stated objectives.

Study of organizational structure and staffing to determine adequacy of structure, delegation, human relations and individual qualifications. He is to see whether the organization possesses the necessary capabilities for achieving the marketing objectives. Planning and control systems are appropriate for the organization, organization is properly or over or under staffed or the personnel are competent.

Prepare recommendations for improvement based on the appraisal of objectives, plans, methods and organization.

The top management and sales executives must study the report as submitted by the sales auditor and should take necessary action to improve the overall sales efficiency. Objectives, policies, methods, plans and programmes, procedures and strategies should be reviewed as in the light of audit report. The audit report should be made public so that sale personnel may come to know the weak and strong points of their working and try to improve their efficiency wherever possible and feasible. The sales executives just seek cooperation of all subordinates to make sales policies and strategies effective.

10.4.3 Cost analysis

Sales managers are responsible for proper utilization of sales resources and to monitor properly the selling costs so as to keep them within desirable limits to maintain the profitability of the concern. The continuous monitoring of sales activities in order to have a close eye on costs is called 'cost analysis'. Such monitoring is necessary to improve the efficiency and effectiveness of sales operations. Costs have to be classified and categorized in order to reveal points for improvements.

Cost analysis, sometimes known as distribution cost analysis, can be described as the gathering, classifying, comparing and studying of company cost data as they relate to the profit contribution of the sales function.

Purposes of Cost Analysis

Cost analysis serves a number of purposes and objectives:

The general purpose of cost analysis is to determine the relative profitability of particular aspects of sales operations. The specific objective is to measure the profitability of each product, territory, account order, or channel of distribution so as to make a decision which product, territory, or channel of distribution is more profitable or what minimum size of an account should be, or how smaller an order can be and still profitable.

The other purpose of cost analysis is to heighten cost-consciousness among sales and territory managers and thus to encourage profit rather than volume orientation. Cost consciousness will give an insight to reduce selling expenses by best utilization of time and resources.

Cost analysis may produce data useful in defending a company against charges of price discrimination, as costs differs ‘from territory to territory or product to product. Price discrimination may be justified with the help of data generated by cost analysis. It proves that difference in prices in two segments is not more than the difference in selling expenses required to service the customers of two segments.

Cost analysis may spot and correct unusual selling expense patterns. Necessary steps should be taken to overcome such unusual trends in selling expenses. If an upward trend in selling expenses is without a relative change in sales volume, it should be checked immediately otherwise it will adversely affect the profitability of the concern.

Cost analysis will facilitate sales control to hold segment managers accountable for optimum results.

Thus, Cost Analysis is necessary to improve and increase the profitability of the concern by utilizing the resources to the optimum level.

Classification of Costs

In making cost analysis, different types of costs are used. Depending on the perspective, they can be categorized in several ways:

(i) Costs on the Basis of Timing: On the basis of timing relative to the obtaining of orders, costs may be classified as order-getting costs and order-filling costs.

Order-getting Costs**:** Such costs are speculative in nature, since they are incurred before an order is received or in search of an order. They include direct selling expenses, such as sales person compensation, travel, training, entertainment expenses, advertising, sales meeting and sales office expenses, sales promotion techniques, marketing research and sales administrative costs.

Order-filling Costs or Logistics Costs**:** Such costs are triggered by sales orders. These costs are incurred generally to execute the order. The costs include expense like warehousing, packing, material handling, shipping, preserving, billing, credit, credit collection, bad-debts and clerical expenses etc.

(ii) Direct and Indirect Cost: The second distinction refers to how expenses traced to specific segments. On this basis, costs may be direct costs and indirect costs.

Direct Costs**:** Such sales costs are attributed directly to the sale segments that caused the sales. These are generally determined on case to case-basis. They relate either to manufacturing such as direct materials, direct wages and direct expense etc., or to selling, where they may include any number of the above expense items.

Indirect Costs**:** Indirect costs cannot relate to individual sales segments. They are totalled and distributed among all units of sales function on some reasonable and appropriate basis. In the contribution margin approach, these costs are common and remain undistributed.

(iii) Costs on the Basis of Volume Sensitivity: A third break-down is based on the basis of volume sensitivity of the cost behaviour. On this basis, costs may be fixed cost or variable costs. Fixed costs remain fixed irrespective of production or sales. They are the same at all levels of production or sales. Examples of such costs are rent or depreciation of office building, salaries to office employees etc. Variable costs, on the other hand vary with' the volume or production or sales. The higher, the sales volume, the higher, the total variable costs. If there is no production, there are no variable costs. Variable cost per unit tend to remain constant whereas fixed costs per unit decline with the increase in volume. One more category of costs on this basis emerges from the above explanation i.e., semi-variable or semi-fixed costs. Such costs are, not totally fixed or totally variable. They increase or decrease with the increase or decrease in volume but such variations are not proportionate to volume changes. Such costs increase in proportion less than increase in sales volume or decrease in proportion less than decrease in sales volume.

(iv) Costs on the Basis of Control: On the basis of control, costs may be controllable costs or uncontrollable costs. Controllable costs are influenced by the decisions of the authority or personnel. This means, the authority determines the actual expenditure level and is held responsible in case of variation. Uncontrollable costs, on the other hand, are outside the authority of territory sales manager or sales executive and managerial- decisions cannot influence such costs. Such costs are influenced by external factors which are beyond the control of management.

(v) Costs on the Basis of Function: A fifth classification relates to the function that generates and uses the cost data. On this basis; costs are classified as natural costs or functional costs. Natural costs are the expense classification found in accounting records such as salaries, wages, materials and other expenses. By contrast, functional costs are ones related to specific business activities such as selling costs, manufacturing costs, etc.

In making cost analysis, different-types of costs may be used to make the analysis more meaningful.

Cost Analysis Procedure

The Cost Analysis procedure involves the four basic steps:

i) Converting Natural Costs into Functional Costs: Natural costs are traceable in accounting records. For analysis purpose, costs obtained from natural accounts are broken down distributed back to their points of origin within the sales function. In other words, natural costs as related to selling function, are grouped under various heads, each head represents a selling activity. For instance, salaries are split among selling, marketing research, advertising and the like activities.

ii) Allocating Functional Costs to Sales Segments: The second step in cost analysis is the allocation of functional costs to the individual sales segments. The basis of allocation depends upon the type of functional account in question and the type of segment (Product, Customer or Territory).

iii) Determining Efficiency and Profitability of Each Segment: The third-step in cost analysis procedure is determining efficiency and profitability of each segment. Conclusions regarding efficiency and profitability are drawn on several bases. One most important measurement of efficiency is the return on investment, earned by assets under their control. The following equation may be used for this purpose:

Return on Investment = $\frac{\text{Net Profit}}{\text{Assets employed}}$

For the purpose of territorial analysis, the management relates this equation. The Return on Assets Managed (ROAM) of an individual sales territory can be determined by employing the following formula:

ROAM = $\frac{\text{Contribution margin}}{\text{Assets managed}}$

The assets managed consists of the average accounts receivable and inventory that are needed to adequately serve the territory under consideration. This formula offers a useful measure for profitability analysis on a territory by territory level.

In order to determine a segment's efficiency, an analysis of variances has to be conducted. The purpose of such undertaking is to identify variances from norms and their causes. Both sales and cost variances can be broken down into two components:

Price variance = Price differential × actual quantity.

Quantity variance = Quantity differential × standard price.

iv) Deciding an Appropriate Action: The purpose of cost analysis will be defeated if no action is taken to improve the situation. So, the fourth and final step of cost analysis is to decide on and take appropriate action. Two possible avenues are available for dealing with weak products, customers or territories i.e., (i) eliminate them, or (ii) improve their performance. If improvement is not possible, elimination is the best exercise.

10.6 CHECK YOUR PROGRESS

1. **What is the primary purpose of sales control?**

   a) Increase advertising expenditure

   b) Keep a firm's activities on the correct line

   c) Expand product lines

   d) Minimize employee turnover

2. **What is the first step in the sales control process?**

   a) Corrective actions

   b) Comparison of results with standards

   c) Establishment of performance standards

   d) Conducting sales audits

3. **Which of the following is an example of a quantitative performance standard?**

   a) Customer relationship management

   b) Sales volume quotas

   c) Employee satisfaction survey

   d) Feedback from clients

4. **What is a significant limitation of sales analysis?**

   a) It relies on external data sources

   b) It does not account for profitability

   c) It focuses only on customer preferences

   d) It ignores sales forecasting

5. **What principle in sales analysis suggests that a limited number of units generate the majority of sales?**

   a) Iceberg Principle

   b) Pareto Principle (80-20 Rule)

   c) Selling Expense Ratio Principle

   d) Call Frequency Ratio

6. **What is the focus of a sales audit?**

   a) Increasing production output

   b) Scrutinizing sales objectives, policies, and procedures

   c) Monitoring customer feedback

   d) Reducing operational costs

7. **Which cost classification includes expenses like salaries and advertising?**

   a) Direct Costs

b) Fixed Costs

c) Order-getting Costs

d) Indirect Costs

8. **What is the primary objective of cost analysis in sales?**

   a) Increase sales volume

   b) Determine the relative profitability of sales operations

   c) Enhance marketing efforts

   d) Train new sales personnel

9. **What does the "Order Call Ratio" measure?**

   a) Sales expenses relative to profits

   b) Effectiveness of securing orders from calls

   c) Frequency of customer visits

   d) Profit contribution of products

10. Which step involves deciding on corrective actions in the sales control process?

a) Establishing performance standards

b) Conducting cost analysis

c) Comparison of results with standards

d) Identifying areas for improvement

10.5 SUMMARY

Sales control is an integral part of the sales management process, providing the follow up to planning. It involves procedure not only for review but also for the correction of a company's sales activities. Objectives of sales control are measurement of sales performance, spotting out negative performance, and identifying the emerging opportunities. There are there major tasks in sales control: establishment of performance standards, comparison of results with standards, and corrective actions. Through sales analysis, the management seeks insights on the sales territories where it is strong and where it is weak. Sales analysis will uncover significant details why it is so. A sales audit is a systematic in-depth scrutiny of the entire sales operation. It scrutinizes all selling activities, objectives, policies, procedures, strategies, etc. Cost analyses include proper utilisation of sales resources and monitor properly the selling costs so as to keep them within desirable limits to maintain the profitability.

10.7 KEYWORDS

Sales Audit- It scrutinizes all selling activities, objectives, policies, procedure, strategies etc. It is a comprehensive appraisal of total sales function.

Sales Analysis- It is to collect, classify, compare and study the company sales data.

Cost Analysis- It is gathering, classifying comparing and studying company cost data as they relate to the profit contribution of the sales function.

10.8 SELF ASSESSMENT TEST

1. What is sales control? Explain its objectives and also various steps in the sales control process.
2. Identify and explain the various cost classifications used in cost analysis.
3. Write a detailed note on 'Sales Audit'.
4. What is sales analysis? How is it done? Also explain the limitations of sales analysis.

10.9 ANSWER TO CHECK YOUR PROGRESS

1. What is the primary purpose of sales control?
   Answer: b) Keep a firm's activities on the correct line
2. What is the first step in the sales control process?
   Answer: c) Establishment of performance standards
3. Which of the following is an example of a quantitative performance standard?
   Answer: b) Sales volume quotas
4. What is a significant limitation of sales analysis?
   Answer: b) It does not account for profitability
5. What principle in sales analysis suggests that a limited number of units generate the majority of sales?
   Answer: b) Pareto Principle (80-20 Rule)

6. What is the focus of a sales audit?

   Answer: b) Scrutinizing sales objectives, policies, and procedures

7. Which cost classification includes expenses like salaries and advertising?

   Answer: c) Order-getting Costs

8. What is the primary objective of cost analysis in sales?

   Answer: b) Determine the relative profitability of sales operations

9. What does the "Order Call Ratio" measure?

   Answer: b) Effectiveness of securing orders from calls

10. Which step involves deciding on corrective actions in the sales control process?

Answer: c) Comparison of results with standards

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Subject: **SALES MANAGEMENT**	
Course Code: **BCOM 601**	Author: **Dr. Yogesh Verma**
Lesson No.: **11**	

ETHICAL ISSUES IN SALES MANAGEMENT

STRUCTURE

11.0 LEARNING OBJECTIVES

After going through this lesson, students will be able to:

- Understand ethics in sales management
- Identify ethical challenges in sales practices
- Learn data privacy and protection standards
- Explore accountability and reporting mechanisms

11.1 INTRODUCTION

Ethics are a cornerstone of effective and sustainable sales management. The success of sales activities depends not just on achieving targets but also on how those targets are achieved. Sales management is unique because it bridges the gap between a company's products or services and its customers, making ethical conduct a critical factor in building trust and credibility. This introduction explores the importance of ethics in sales, provides a framework for defining ethical standards, and examines the vital role sales managers play in fostering a culture of ethical behavior.

Importance of Ethics in Sales: Ethics are fundamental to the credibility of any sales organization. Ethical conduct ensures that customer interactions are based on trust, fairness, and mutual respect. In a competitive marketplace, organizations often rely on their sales teams to drive revenue, but unethical practices can quickly erode customer trust, leading to reputational damage and financial losses. Customers are more likely to return to and recommend businesses that treat them fairly and honestly, making ethics a key factor in customer loyalty and retention. In addition to enhancing customer relationships, ethical practices help businesses avoid legal and regulatory pitfalls. For instance, false advertising, deceptive pricing, or breaching data privacy laws can result in hefty fines, lawsuits, and loss of goodwill. Moreover, unethical behavior can also have an internal impact, leading to decreased employee morale and higher turnover. Employees who feel pressured to act unethically may experience dissatisfaction, disengagement, or burnout.

Ethics in sales management are not just about preventing harm; they also create opportunities for differentiation. Companies that prioritize ethical practices can position themselves as trusted industry leaders. In an era where customers are increasingly conscious of social responsibility and corporate ethics, this can be a powerful competitive advantage.

Ethical Standards in the Context of Sales Management: Ethical standards in sales management provide a clear framework for acceptable and unacceptable behavior, ensuring that all team members align with the organization’s values. Defining these standards requires an understanding of the unique challenges and pressures that sales teams face.

Honesty and Transparency: Sales professionals often serve as the face of an organization, making honesty and transparency indispensable. Misleading advertising, exaggerating product benefits, or concealing terms of service can lead to short-term gains but undermine trust in the long term. Transparency includes being upfront about costs, product limitations, and delivery timelines, allowing customers to make informed decisions.

Respect for Customers: Ethical sales management emphasizes the importance of understanding and meeting customer needs rather than simply closing deals. This requires active listening, empathy, and a commitment to solving problems rather than creating them. Respect also extends to honoring customer preferences, such as their desire for privacy or their reluctance to engage in high-pressure sales tactics.

Accountability: Accountability is a cornerstone of ethical behavior. Sales professionals must take responsibility for their promises and actions. This includes promptly addressing errors, rectifying customer complaints, and delivering on commitments. A culture of accountability not only builds trust with customers but also fosters professionalism within the sales team.

Fair Competition: In a competitive sales environment, the temptation to undermine competitors can be strong. However, ethical standards discourage practices like spreading false information, undercutting prices unethically, or stealing trade secrets. Instead, sales teams should focus on their unique value propositions and engage in healthy, fair competition.

Confidentiality and Data Protection: In an age where customer data drives decision-making, protecting that data is a non-negotiable ethical standard. Ethical sales teams ensure compliance with data protection laws, use customer information responsibly, and secure sensitive data against unauthorized access.

Defining these standards is only the first step. Organizations must also implement mechanisms for monitoring compliance, addressing violations, and adapting policies to changing market conditions or legal requirements.

The Role of Sales Managers in Fostering Ethical Behavior: Sales managers are instrumental in embedding ethics into the fabric of sales operations. As leaders, they influence the behavior of their teams through their actions, policies, and communication. Ethical leadership involves setting expectations, providing guidance, and creating an environment where integrity is valued.

Leading by Example: Sales managers must demonstrate ethical behavior in all aspects of their work. When managers model integrity—whether by being truthful in their interactions, taking accountability for mistakes, or respecting competitors—they establish a standard for their teams to emulate. This form of leadership, often called "walking the talk," is one of the most effective ways to promote ethical conduct.

Providing Training and Education: Ethical dilemmas in sales are often complex and may not have clear solutions. Training programs can prepare sales teams to navigate these challenges by exploring real-world scenarios, discussing the consequences of unethical actions, and reinforcing the importance of integrity. Sales managers can also offer guidance on understanding relevant laws, such as anti-bribery regulations, consumer protection laws, and data privacy legislation.

Establishing Clear Policies and Guidelines: To ensure consistent behavior across the organization, sales managers must work with leadership to create clear policies and guidelines. These policies should define acceptable practices, outline the consequences of violations, and provide a roadmap for handling ethical dilemmas. Clear communication of these guidelines helps create a shared understanding and minimizes ambiguity.

Encouraging Open Communication: Sales managers should foster an open-door policy where employees feel safe discussing ethical concerns or reporting misconduct. Fear of retaliation often prevents employees from speaking out, so it's crucial to create a supportive environment. Implementing anonymous reporting systems can further encourage transparency and accountability.

Recognizing and Rewarding Ethical Behavior: Recognizing and celebrating ethical behavior sends a strong message about the organization's priorities. Sales managers can include ethical considerations in performance evaluations and reward employees who demonstrate integrity, even in challenging circumstances. These incentives reinforce the importance of ethics and encourage others to follow suit.

Balancing Targets and Ethics: One of the biggest challenges in sales management is reconciling the need to achieve targets with the imperative to act ethically. Sales managers should avoid setting unrealistic goals that may tempt employees to compromise their values. Instead, they should emphasize long-term customer relationships and the quality of interactions over sheer numbers.

Monitoring and Addressing Ethical Risks: Sales managers must proactively identify and address potential ethical risks. Regular audits, feedback sessions, and reviews of sales practices can help uncover issues before they escalate. When violations occur, addressing them promptly and fairly demonstrates the organization's commitment to ethics.

Ethics in sales management are more than just a set of rules; they are the foundation of sustainable success. By understanding the importance of ethics, defining clear standards, and fostering a culture of integrity, sales managers can ensure that their teams operate with professionalism and fairness. In doing so, they build trust with customers, create a positive workplace culture, and contribute to the long-term growth and success of the organization. Ethical sales management is not only about avoiding pitfalls; it is about setting a standard of excellence that benefits employees, customers, and society at large.

11.2 MISLEADING ADVERTISING AND SALES PRACTICES

Misleading advertising and unethical sales practices are significant ethical challenges in sales management. They encompass a range of behaviors and tactics designed to deceive customers for short-term gains, often at the expense of long-term trust and loyalty. Such practices not only jeopardize a company's reputation but also expose it to legal and financial risks. To fully understand these issues, it is essential to examine the types of misleading practices, their implications, and strategies to foster ethical behavior.

False Claims and Exaggerations in Product Descriptions

One of the most common forms of misleading sales practices involves making false claims or exaggerating product features. This unethical behavior misrepresents the product's true nature, leaving customers with unmet expectations. A product might be marketed as offering "instant results," "guaranteed satisfaction," or "exclusive features," only for customers to discover that these promises are either overstated or entirely false.

For example, a home appliance might be advertised as energy-efficient, but when tested, it consumes more power than stated. Similarly, a dietary supplement may claim miraculous health benefits without any scientific evidence to back up such assertions. These falsehoods not only mislead customers but also create significant dissatisfaction, leading to complaints, returns, and negative reviews. The use of ambiguous language or technical jargon in product descriptions can also mislead customers who may not fully understand the implications of what is being presented. For instance, labeling a product as "all-natural" might suggest safety or health benefits, even if the product contains harmful or unregulated ingredients. In many cases, sales teams may unintentionally perpetuate these claims due to insufficient training or pressure to achieve sales targets. Beyond customer dissatisfaction, false claims can result in regulatory actions. Governments and consumer protection agencies worldwide enforce strict laws to prevent deceptive practices. Companies found guilty of such behavior face penalties, lawsuits, and reputational damage that can take years to repair.

Deceptive Pricing Strategies

Pricing is a critical component of the sales process, and deceptive pricing strategies can significantly undermine customer trust. One common tactic is advertising products or services at a low price but concealing additional costs that inflate the final amount. Customers might discover these hidden fees only after they have already committed to the purchase, creating feelings of betrayal and frustration. The "bait-and-switch" strategy is another deceptive practice where customers are drawn in by advertisements for low-priced products, only to be informed that the advertised item is unavailable. They are then directed toward higher-priced alternatives, often under pressure from sales staff. While this tactic may result in short-term sales, it alienates customers who feel manipulated. Another unethical pricing tactic is the use of false discounts. Businesses may inflate the original price of an item to make a discount seem more substantial than it actually is. For instance, a product may be labeled as "50% off" when the so-called original price was never charged in the first place. Such strategies exploit customers' desire for bargains but can lead to distrust when the truth is uncovered. Confusing or overly complex pricing structures are also a common issue, particularly in industries such as telecommunications or subscription services. Customers may struggle to understand the true cost of a product or service due to convoluted terms, hidden charges, or vague explanations. This lack of transparency can create a negative customer experience and damage a company's credibility.

Impact of Misleading Practices on Customer Trust and Loyalty

The relationship between a business and its customers is built on trust, and misleading practices can quickly erode this foundation. When customers realize they have been deceived, the consequences are often severe and long-lasting. Trust is one of the most valuable assets a company can cultivate. It is earned through consistent honesty, transparency, and reliability. Misleading practices, such as false claims or deceptive pricing, betray this trust, leaving customers feeling disrespected and undervalued. This sense of betrayal often leads to a decline in customer satisfaction and a loss of repeat business. Loyalty, another cornerstone of customer relationships, is closely tied to trust. Misleading practices can drive even the most loyal customers away, as they may feel that the company no longer prioritizes their best interests. This erosion of loyalty not only reduces repeat purchases but also impacts word-of-mouth recommendations. Customers who feel deceived are likely to share their negative experiences with others, further amplifying the damage. Reputational harm is another significant consequence of misleading practices. In the digital age, customer feedback travels fast. Negative reviews on platforms such as Google, Yelp, or social media can tarnish a company's image within hours, discouraging potential customers from engaging with the brand. Rebuilding a damaged reputation is a costly and time-consuming process that often requires significant investment in public relations and marketing. Legal repercussions are also a major risk. Many countries have consumer protection laws aimed at preventing deceptive practices. Regulatory agencies can impose hefty fines, demand corrective actions, or even suspend a company's operations in severe cases. Beyond the financial impact, such actions serve as a public acknowledgment of unethical behavior, further eroding trust. The internal impact on the organization is equally important. Employees who are asked to participate in or justify misleading practices may experience moral conflict, leading to decreased job satisfaction and increased turnover. High employee turnover, in turn, disrupts operations and increases recruitment and training costs, creating a ripple effect throughout the company.

Misleading advertising and sales practices are not only unethical but also counterproductive in the long run. While they may offer immediate benefits, the damage they cause to customer trust, loyalty, and organizational reputation far outweighs any short-term gains. Ethical sales management requires a commitment to honesty, transparency, and customer satisfaction. By addressing and preventing misleading practices, organizations can build stronger relationships with their customers, enhance their reputation, and achieve sustainable success in an increasingly competitive marketplace.

11.3 CUSTOMER PRIVACY AND DATA PROTECTION

In today's digital age, where data drives decision-making and customer engagement, the importance of safeguarding customer privacy and ensuring data protection has become paramount in sales management. Sales teams, often at the forefront of customer interactions, handle sensitive information that ranges from personal details to purchasing behaviors. Mishandling this data, whether intentionally or inadvertently, can have severe ethical, legal, and reputational repercussions. This discussion explores the significance of customer privacy, the challenges of maintaining data protection, and the role of sales management in fostering ethical data practices.

Customer privacy refers to the right of individuals to control the collection, use, and sharing of their personal information. In the context of sales, this includes data such as names, contact details, purchase histories, preferences, and, increasingly, behavioral data collected from online interactions. Protecting customer privacy is not only an ethical obligation but also a key factor in building and maintaining trust. Customers are more aware than ever of how their data is being used. Companies that fail to respect privacy can quickly lose customer trust and loyalty. Conversely, organizations that prioritize privacy often differentiate themselves in the marketplace, as customers feel valued and secure in their interactions. Trust in how a company handles data can influence purchasing decisions, brand loyalty, and recommendations to others. The importance of privacy extends beyond the customer relationship. Many countries have enacted strict data protection laws, such as the General Data Protection Regulation (GDPR) in the European Union and the California Consumer Privacy Act (CCPA) in the United States. These regulations require companies to be transparent about their data practices, obtain consent for data collection, and ensure robust security measures to prevent breaches.

Challenges of Data Protection in Sales Management

Sales teams face unique challenges in maintaining data protection due to the nature of their role. The pressure to meet targets, the complexity of modern sales technologies, and the increasing volume of customer data can create significant risks. One major challenge is the sheer amount of data collected during the sales process. From CRM (Customer Relationship Management) systems to marketing automation tools, sales professionals have access to vast amounts of customer information. While this data is essential for personalized sales strategies, it also increases the risk of misuse or accidental exposure. Another challenge is ensuring compliance with data protection laws. Sales teams must navigate a complex web of regulations, which may vary by region or industry. Non-compliance, whether due to ignorance or negligence, can result in hefty fines, lawsuits, and reputational damage. The use of third-party tools and platforms adds another layer of complexity. Many sales processes involve integrations with email marketing platforms, social media channels, and analytics tools.

Ensuring that these tools comply with privacy standards and secure customer data is critical but often overlooked. Human error is a common risk factor in data protection. Employees may accidentally share sensitive information, fall victim to phishing attacks, or mishandle data due to inadequate training. Without proper safeguards and awareness, even well-intentioned sales professionals can compromise customer privacy.

Customer privacy and data protection are integral to ethical sales management in today's data-driven world. By addressing the challenges of data handling, adhering to privacy regulations, and fostering a culture of accountability, sales managers can safeguard customer trust and ensure compliance. Ethical data practices not only protect customers but also strengthen the organization's reputation, enhance operational efficiency, and foster long-term success. In an era where privacy is increasingly valued, prioritizing data protection is not just a legal requirement but a strategic imperative for every sales organization.

11.4 ETHICAL CONSIDERATIONS IN SALES TECHNOLOGY

As technology continues to transform the sales industry, it brings both opportunities and challenges. Tools such as Customer Relationship Management (CRM) systems, Artificial Intelligence (AI), and sales automation software have revolutionized how businesses interact with customers and achieve their objectives. However, the use of these technologies also raises significant ethical concerns. Sales managers and teams must navigate issues such as data privacy, algorithmic bias, transparency, and the potential for misuse of technology. This discussion explores the ethical considerations in sales technology and how organizations can integrate ethical principles into their technological strategies.

Data Privacy and Security

One of the most pressing ethical issues in sales technology is the collection, use, and protection of customer data. Sales technologies often rely on large volumes of data to drive decision-making and personalization. For instance, CRM systems store extensive customer information, including contact details, purchasing history, and behavioral data. The ethical challenge arises in ensuring that this data is collected transparently and used responsibly. Customers often share their information with the expectation that it will be used solely to enhance their experience. However, unethical practices such as collecting data without consent, failing to inform customers about its use, or selling data to third parties without permission can severely damage trust. Sales technology must also prioritize robust data security. Breaches can expose sensitive customer information, leading to identity theft, financial loss, and reputational damage. Ethical sales management requires implementing strong security measures, such as encryption, access controls, and regular audits, to safeguard customer data against unauthorized access.

The rise of AI and machine learning in sales has enabled businesses to analyze customer behavior, predict trends, and automate decision-making. While these tools can enhance efficiency and personalization, they also introduce the risk of algorithmic bias. AI systems are trained on historical data, which may reflect societal biases or incomplete information. This can lead to unfair outcomes, such as discriminatory pricing, unequal treatment of customers, or exclusion of certain demographics. For example, an AI-powered recommendation system might favor high-income customers over others, perpetuating inequalities. Similarly, an algorithm designed to rank sales leads could unintentionally prioritize leads from certain geographic areas or demographics, excluding others without justification.

Ethical considerations require businesses to regularly evaluate and test their AI systems to identify and mitigate biases. Transparency in how algorithms operate is also essential. Customers and employees should have a clear understanding of how decisions are made and the factors influencing them.

Sales technology often operates behind the scenes, making it easy for customers to be unaware of how their data is being collected and used. This lack of transparency can lead to ethical concerns, particularly when customers feel manipulated or deceived. For example, personalized advertising or dynamic pricing strategies can create the impression of unfair treatment if customers realize they are being charged different prices or targeted with specific ads based on their behavior. Similarly, chatbots or virtual assistants that simulate human interactions may mislead customers into thinking they are communicating with a real person. Building trust requires businesses to be transparent about their use of technology. Customers should be informed about data collection practices, pricing algorithms, and the role of automation in sales processes. Providing clear privacy policies, offering opt-out options, and labeling interactions with AI systems can help foster trust and reduce the risk of ethical breaches.

Sales technology has revolutionized the industry, offering new ways to engage with customers and optimize performance. However, with great power comes great responsibility. Ethical considerations in sales technology, such as data privacy, algorithmic fairness, transparency, and the balance between automation and human interaction, must be addressed to ensure trust, compliance, and long-term success. By adopting ethical practices and prioritizing customer and employee well-being, organizations can harness the benefits of technology while minimizing its risks and fostering a culture of integrity.

11.5 ACCOUNTABILITY AND REPORTING OF UNETHICAL PRACTICES

Accountability and the ability to report unethical practices are foundational to fostering an ethical organizational culture. In the context of sales management, these principles ensure that individuals and teams act with integrity and transparency while providing mechanisms to address misconduct. By prioritizing accountability and establishing clear reporting systems, organizations can not only mitigate ethical risks but also build trust with employees, customers, and stakeholders.

Accountability in sales management involves taking responsibility for actions, decisions, and outcomes, whether they pertain to individual sales representatives, teams, or leadership. It ensures that ethical standards are upheld consistently across all levels of the organization. In sales, where the pressure to meet targets is high, accountability plays a critical role in discouraging unethical practices such as false claims, deceptive pricing, or manipulation of customer data. An accountable sales environment promotes transparency, where employees are encouraged to act ethically and own their decisions. This culture helps prevent behaviors like cutting corners to achieve short-term gains or ignoring company policies to close deals. When accountability is ingrained, it encourages employees to align their actions with the organization’s values and fosters trust within the team and with customers. Accountability also extends to leadership. Sales managers and executives must lead by example, demonstrating ethical behavior in their interactions and decision-making. They are responsible for creating an environment where ethics are prioritized over short-term performance and ensuring that the systems and policies in place support ethical conduct.

Challenges in Reporting Unethical Practices

Despite its importance, reporting unethical practices often faces significant challenges. Employees may fear retaliation, such as losing their job, facing demotion, or being ostracized by colleagues, which can discourage them from speaking up. Additionally, a lack of trust in the reporting system can lead employees to believe that their concerns will not be addressed or that the process is biased in favor of management. Cultural factors within the organization can also hinder reporting. If unethical behavior is normalized or tolerated, employees may feel that their concerns are insignificant or that they will not lead to meaningful change. Similarly, in high-pressure sales environments, employees may perceive ethical breaches as necessary to achieve targets and may hesitate to report misconduct that is implicitly encouraged. Another challenge is the lack of clear, accessible reporting channels. Without proper systems in place, employees may be unsure about how or where to report unethical behavior, leading to underreporting or ignoring issues altogether.

Establishing Effective Reporting Mechanisms

Establishing effective reporting mechanisms is essential for fostering a culture of ethics and accountability within sales management. Organizations should implement clear policies that define unethical behavior and outline reporting procedures, ensuring all employees understand their rights and responsibilities. Providing anonymous reporting channels, such as hotlines or secure digital platforms, helps alleviate fears of retaliation, while an open-door policy encourages direct communication between employees and management. Strong whistleblower protections are critical to ensuring employees feel safe coming forward with concerns, and an independent oversight body, such as an ethics committee or compliance officer, can ensure impartial handling of reports. Prompt investigation and resolution of reported issues, coupled with regular communication about outcomes while maintaining confidentiality, build trust in the process. These mechanisms not only address ethical risks but also reinforce an organizational culture where integrity and transparency are prioritized.

Accountability and the ability to report unethical practices are integral to fostering a culture of ethics in sales management. By establishing clear policies, offering safe and accessible reporting channels, and holding individuals and leaders accountable for their actions, organizations can address misconduct effectively and build trust with employees and customers alike. These practices not only protect the organization from ethical risks but also contribute to a positive and sustainable work environment where integrity is valued and rewarded.

11.6 Check your progress

1. **What is a cornerstone of effective and sustainable sales management?**
   a) Achieving high sales targets
   b) Fostering competition

c) Ethics

d) Automation

2. **What does ethical sales management primarily focus on?**

a) Short-term profit maximization

b) Building trust and credibility

c) Increasing product pricing

d) Reducing workforce

3. **Which of the following is an example of misleading advertising?**

a) Offering accurate product information

b) Providing fair discounts

c) Exaggerating product benefits

d) Displaying transparent pricing

4. **What is a critical ethical concern related to customer data in sales?**

a) Collecting data with customer consent

b) Misusing or sharing customer data without permission

c) Storing customer data securely

d) Using data for personalized marketing

5. **What role does transparency play in sales management?**

a) Encourages misleading practices

b) Reduces the need for customer interaction

c) Builds trust and ensures informed customer decisions

d) Focuses only on internal compliance

6. **What is a key component of effective reporting mechanisms in sales management?**

a) Ambiguous policies

b) Whistleblower protections

c) High sales targets

d) Exclusive reliance on automation

7. **Which of the following challenges is associated with sales technology?**
   a) Reduced customer engagement
   b) Algorithmic bias
   c) Low sales team efficiency
   d) Inability to track performance
8. **What is the purpose of ethical sales technology?**
   a) To exploit customer behavior for profit
   b) To reduce transparency in decision-making
   c) To ensure compliance, trust, and long-term success
   d) To minimize customer interaction
9. **Which action demonstrates accountability in sales management?**
   a) Avoiding customer complaints
   b) Taking responsibility for actions and decisions
   c) Prioritizing aggressive sales tactics
   d) Ignoring ethical violations in the team

10. What is the main objective of balancing targets and ethics in sales?
a) Achieving maximum sales regardless of the method
b) Avoiding accountability for team performance
c) Prioritizing long-term customer relationships over short-term gains
d) Eliminating ethical guidelines to boost performance

11.7 Summary

The chapter explores the critical role of ethics in sales management, emphasizing how ethical practices are foundational to building trust, credibility, and long-term success. It begins by highlighting the importance of maintaining ethical conduct to foster customer loyalty, avoid legal pitfalls, and enhance employee morale. Ethical standards, such as honesty, transparency, respect for customers, accountability, and fair competition, are discussed as essential frameworks for guiding sales activities. Key ethical challenges include misleading advertising, where exaggerated claims or deceptive pricing strategies erode customer trust and loyalty, and the increasing importance of safeguarding customer privacy and data protection in a digital age. Sales teams must navigate regulatory requirements and ensure robust security measures to maintain trust. The chapter also addresses the ethical considerations of using advanced sales technologies like AI and CRM systems, emphasizing the need to mitigate algorithmic bias, ensure transparency, and balance automation with human interaction.

Accountability is positioned as a cornerstone of ethical behavior, with mechanisms for reporting unethical practices being crucial to fostering a culture of integrity. Clear policies, anonymous reporting channels, whistleblower protections, and independent oversight are highlighted as tools to encourage transparency and address misconduct. Sales managers play a pivotal role in embedding ethics within the organization by leading by example, providing training, and recognizing ethical behavior. The chapter concludes that ethical sales management is not only about avoiding misconduct but also about creating a competitive advantage and sustaining trust with customers, employees, and stakeholders. Ethics in sales are shown to be a strategic imperative for organizational growth and success.

11.8 KEYWORDS

- **Ethics in Sales Management**: The principles and standards guiding behavior in sales activities, focusing on fairness, honesty, and respect for customers to build trust and ensure sustainable success.
- **Misleading Advertising**: Practices that involve providing false, exaggerated, or deceptive information about products or services to achieve short-term sales goals, often at the cost of customer trust and loyalty.
- **Data Privacy and Protection**: The ethical and legal responsibility to collect, store, and use customer data securely and transparently, ensuring compliance with regulations and maintaining customer trust.

11.9 SELF ASSESSMENT TEST

1. What is the primary role of ethics in sales management, and how does it contribute to long-term organizational success?
2. What are the key ethical challenges associated with misleading advertising, and how can they impact customer trust and loyalty?

3. Why is data privacy and protection critical in sales management, and what measures can organizations take to ensure compliance with regulations?
4. What mechanisms can be implemented to encourage the reporting of unethical practices within a sales team?
5. How can sales technology, such as AI and CRM systems, be used ethically to enhance customer engagement while avoiding misuse or bias?

11.10 ANSWER TO CHECK YOUR PROGRESS

1. What is a cornerstone of effective and sustainable sales management?

Answer: c) Ethics

2. What does ethical sales management primarily focus on?

Answer: b) Building trust and credibility

3. Which of the following is an example of misleading advertising?

Answer: c) Exaggerating product benefits

4. What is a critical ethical concern related to customer data in sales?

Answer: b) Misusing or sharing customer data without permission

5. What role does transparency play in sales management?

Answer: c) Builds trust and ensures informed customer decisions

6. What is a key component of effective reporting mechanisms in sales management?

Answer: b) Whistleblower protections

7. Which of the following challenges is associated with sales technology?

Answer: b) Algorithmic bias

8. What is the purpose of ethical sales technology?

Answer: c) To ensure compliance, trust, and long-term success

9. Which action demonstrates accountability in sales management?

Answer: b) Taking responsibility for actions and decisions

10. What is the main objective of balancing targets and ethics in sales?

Answer: c) Prioritizing long-term customer relationships over short-term gains

11.11 REFERENCES/SUGGESTED READINGS

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