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# UTTAR PRADESH RAJARSHI TANDON OPEN UNIVERSITY

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MBA-48 2-5  
Sales Management

FIRST BLOCK

Sales Management : Basic Functions



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MBA-2.5

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**Sales  
Management**

Block

**1**

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## **BLOCK 1 SALES MANAGEMENT : BASIC FUNCTIONS**

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This is the first block of the Sales Management Course, in which, an attempt has been made to give you an over view of the Sales Management Functions. It also gives you an exposure to functions of Personal Selling and Sales Process. The Block consists of four units.

The first unit is an Introduction to Sales Management. It explains the scope of sales function, describes the linkage between sales and distribution to achieve marketing goods.

The second unit is on Personal Selling, which explains the nature and types of activities involved in the personal selling functions. It discusses the different conditions under which personal selling is specially effective.

The third unit is on selling process, in which all the stages of the Sales Process are systematically discussed.

The last unit in this block relates to the Computer Systems and Applications in the Sales Management Function to achieve effectiveness and efficiency.

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# UNIT 1 INTRODUCTION TO SALES MANAGEMENT

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## Objective

After studying this unit you should be able to:

- explain the scope of sales functions
- describe the interdependence between sales and distribution functions
- identify the components of strategy formulation in sales management
- evolve a framework of joint decision making in sales and distribution functions.

## Structure

- 1.1 Introduction
- 1.2 Sales and Distribution Strategy — Role in the Exchange Process
- 1.3 Interdependence of Sales and Distribution
- 1.4 Sales Management — Formulation of Sales Strategy
  - 1.4.1 Assessment of Competitive Situation and Corporate Goals
  - 1.4.2 Setting Sales Objectives
  - 1.4.3 Determination of Type of Sales Force Needed
  - 1.4.4 Determination of the Size of the Sales Force
  - 1.4.5 Organising the Sales Effort — Territory Design
  - 1.4.6 Establishing and Managing Channel Support and Coordination
- 1.5 Framework for Joint Decision Making in Sales and Distribution Management
- 1.6 Summary
- 1.7 Key Words
- 1.8 Self-Assessment Questions
- 1.9 Further Readings

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## 1.1 INTRODUCTION

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

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## 1.2 SALES AND DISTRIBUTION STRATEGY — ROLE IN THE EXCHANGE PROCESS

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

The exchange process i.e., the sale and delivery of goods/services from the manufacturer to the consumer can be consummated directly i.e., by the firm itself through its own sales

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

- |                                |  |
|--------------------------------|--|
| a) Contact                     | - Finding and communicating with prospective buyer   |
| b) Prospecting                 | - Bringing together the marketers offering and the prospective buyer   |
| c) Negotiation and transaction | - Reaching an agreement on price and other terms of the offer so that ownership and possession can be transferred. |
| d) Promotion                   | - Of the marketers offerings, and his satisfaction-generating potential.   |
| e) Physical Distribution       | - Actual transfer of possession i.e. timely and safe delivery  |
| f) Collection                  | - Of relevant consumers information and revenue in exchange of goods or services                                   |

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

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### 1.3 INTERDEPENDENCE OF SALES AND DISTRIBUTION

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After going through the above section you would have realised how interlinked distribution and sales management are. Apart from the important fact that in most organisations both sales management and the management of channels of distribution are the responsibility of the sales manager and should be viewed as jointly contributing to the accomplishment of the marketing task, some other pointers towards the interdependence of these two vital functions are as under:

- a) All organisations use their own sales force or distribution network to reach out to their customers. The emerging practice is to use own sales force to sell to wholesalers/semiwholesalers who in turn sell to retailers. Very few firms (unlike say Brooke Bond) use their own sales force to reach upto the retail level). As both the sales and distribution functions are simultaneously performed to accomplish the firm's sales objectives their dependence on each other for the effective attainment of overall marketing goals becomes obvious. In other words, activities of the sales organisation would have to be coordinated with channel operations if sales goals have to be effectively realised.
- b) The decision of the organisation to allocate certain responsibility in the exchange process to its channel members would define the scope of responsibility of its own sales force and thereby would determine the type of personnel and training required.
- c) Even though, an organisation may decide to deal directly with its wholesaler, semiwholesaler, retailer or consumer, it is required to decide upon the type of help it

will provide to the first and subsequent level of intermediaries. Since the requirements of each of the above types of first level contact entities are different from that of the other, the company's sales task would have to be defined in context of first level of contact chosen by it.

- d) The choice before an organisation to have direct distribution, indirect distribution or a combination of the two is of strategic importance and depends upon factors such as the degree of control, flexibility, costs and financial requirements etc.

Marketing through channels implies lower degree of control but would also mean lesser funds tied up in maintaining inventory and lower fixed and variable costs of managing the channels. Depending upon its own set of variables the organisation would try and optimise the effectiveness of the exchange process through the use of some combination of the two. Necessarily then the scope of one (i.e. distribution) would define that of the other (sales management).

- e) To implement overall marketing strategy, the manufacturers need the cooperation of distribution outlets in terms of adequate stock maintenance, in-store displays, local advertising, point of purchase promotion. Within the corporation, the sales organisation is the initiator as well as the implementor of these dealer support operations. The effective functioning of dealer-sales organisation relationship often becomes the key to successful working operations within the organisation. This would mean that the sales management has the responsibility of structuring organisational relationship within their own department and with interacting organisational entities so that the sales task can be performed and co-ordinated with the overall marketing goals.

Before understanding the framework for developing the sales distribution strategy in an integrated way let us look at some of the important aspects of the two functions.

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## 1.4 SALES MANAGEMENT — FORMULATION OF SALES STRATEGY

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

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

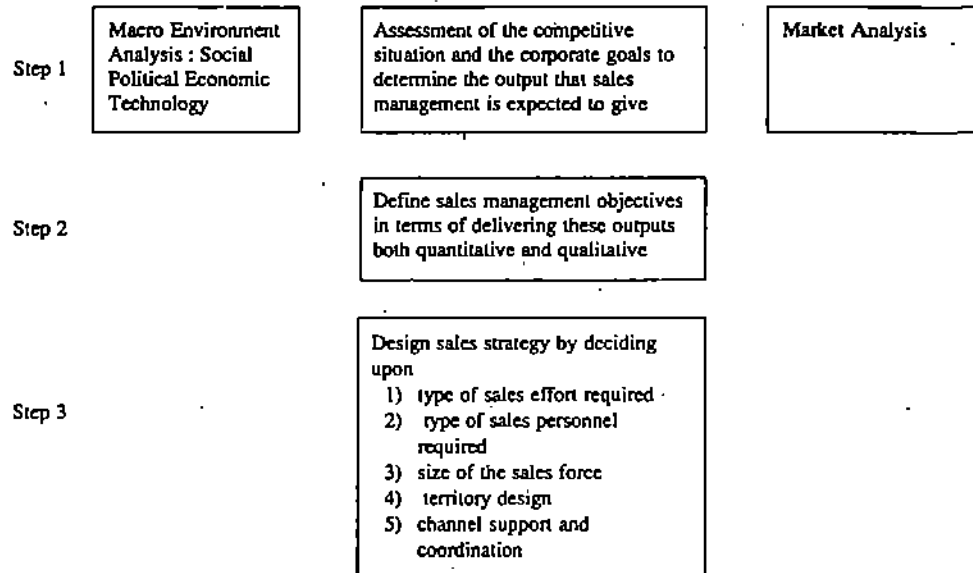
Outside the organisation, his task would include developing and maintaining channel relationships effectively so that the flow of goods and service, and also promotion and feedback is facilitated.

Embodiment of all these functions can be seen in the development of sales strategy which often proves vital to the success of the organisation. To reiterate what you have already learnt about Sales Management while going through your MS-6 course (Unit - 19 Block 6), key decision areas in sales management which are particularly relevant to strategy formulation are:

- a) Deciding upon type and quality of sales personnel required
- b) Determination of the size of the sales force
- c) Organisation and design of the sales department
- d) Territory design
- e) Recruitment and training procedures
- f) Task allocation
- g) Compensation of sales force

- h) Performance appraisal and control system
- i) Feedback mechanism to be adopted
- j) Managing channel relationship
- k) Coordination with other Marketing department

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



Let us go through the sequential stages of this process.

#### 1.4.1 Assessment of Competitive Situation and Corporate Goals

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

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

- i) Current size and growth rate of the market. In multiproduct companies this analysis would have to be made by product/market and by geographical territories covered.
- ii) Consumer needs, attitudes and trends in purchasing behaviour
- iii) Competitor analysis covering
  - current strategy
  - current performance, including market share analysis
  - their strengths and weaknesses
  - expectations as to their future actions.

It may be noted that the role and scope of the sales functions of an organisation is related to the competitive situations facing its products in each of the markets participated by it.

Under conditions of pure competition, each seller is too small to be able to influence prevailing market price. Identical undifferentiated products make it difficult to specialise sales effort. Under this sort of competitive situation, sales effort is usually limited to maintenance of adequate market supplies.

Most of the markets today are competing under varying degrees of monopolistic



competition where there are large number of sellers for a product but the offering of each seller is capable of being differentiated in a discernible manner.

However, in the Indian situation most marketers seek to differentiate their products through variation in product attributes, packaging and promotional efforts. Under these market conditions sales efforts support the promotion and maintenance of market share objective of the firm and coordinate with the distribution and customer service needs of the product. Distribution function, on its part, complements the sales efforts in so far as the regular availability of products at almost every purchasing point is concerned. The market conditions characterised by oligopoly are also characterised by aggressive competition. Selling effort here becomes an effective tool of market cultivation, building dealer relationship and maintaining them, providing vital informational feedback on competitors and their market operations.

In case of new product, where the marketer is faced with little or no direct competition, selling effort plays a very vital role in market cultivation. Missionary 'Salesmen' are used to familiarise and demonstrate the product, both to the channel members and the ultimate consumers.

These competitive situations affect the corporate goals relating to growth and profit which in turn affect the marketing goals. The sales related marketing decisions which significantly contribute to sales strategy formulation that affect both the quantitative and the qualitative sales management objectives are:

- a) decision on what to sell — i.e. what products and what specific mix of products the company has decided to sell.
- b) decisions on whom to sell — i.e. whether to sell directly to the ultimate consumer or to make the wholesaler or the retailer the first level to contact. This has vital implications for the size and type of sales force needed.
- c) decision on the price.

These decisions define the scope of the sales effort, in the total marketing effort.

## 1.4.2 Setting Sales Objectives

Sales objectives, are intended to direct the available sales resources to their most productive use. These also serve as standards against which actual performance is compared. The sales objectives are stated in quantitative and qualitative terms. The qualitative goals generally relate to strengthening dealer relationships, developing good consumer support, nullifying product misinformation, attaining desired corporate image.

The qualitative sales objectives reflect the expectations the top management regarding the contribution of sales function to the total marketing effort. They, therefore affect both the size and quality of the sales force. For example when a company selling high value, technical household products relies only upon its own sales personnel to carry out the entire sales function and take up part of promotional responsibility too, the quality and the size of the sales personnel it requires would be significantly different from that of a company where sales personnel are only required to coordinate with and service channels. Examples of the products could be the Eureka Forbes salesman selling vacuum cleaners to consumer and the Summit salesman servicing Summit dealers. In the former case the salesmen are expected to carry out the entire selling and market cultivation function while in the second case, they are mainly expected to coordinate and service the distributors. The qualitative sales objectives are relatively long term one and emanate out of the marketing policy of the company.

Quantitative objectives on the other hand relate to the operating results that the company would like to achieve. They, like the qualitative objectives are heavily dependent on a keen analysis of competitive situation and corporate goals, and obviously would vary over operating periods. Quantitative sales objectives could be in terms of sales volume, market share or number of back orders per operating period. Drawing from these quantitative objectives, goals can be set for the sales organisation in terms of

- a) Sales volume in units or rupees
- b) Sales cost
- c) Accounts receivables

- d) Inventory levels
- e) Dealer support
- f) Feedback input

It would be worth noting here that both the qualitative and quantitative sales objectives, are set in context of the competitive position of the company. As we get down to the actual task of formulating the strategy we evaluate alternative plans, against the backup of the competitive strength and weaknesses of the company at the market place and try to build up the sales effort so as to achieve the desired goals. The important decisions involved in this task are given below.

### 1.4.3 Determination of the Type of Sales Force Needed

The quality of the sales personnel needed, would depend upon the quality of contribution that top management expects the sales organisation to make as well as the actual workload that is expected to be generated. Specifically, it would depend upon the role that the salesmen are expected to perform. If the company has decided to do significant amount of preselling through its advertising the salesman's job is considerably simplified and this has implication for the type of salesmen needed. Companies like Instrumentation Ltd., Kota, manufacturing sophisticated technical equipment expect their sales engineers to carry out the entire span of activities from commissioning and installation of equipment to after sales service. You can therefore clearly envisage that the type of sales personnel would vary across organisations, depending upon the role that has been decided for them in the organisation. Some of the factors that influence the type of sales person are product characteristics, customer characteristics, competitors practices channel design and corporate marketing policy.

A strategic choice which has to be made at this stage is related to the degree and kind of specialisation needed. Should the company go in for product specialists or market specialists or both? This is often a decision which is taken along with the decision regarding segmentation strategy.

Product specialists would be required when the product or its usage is highly technical, requiring demonstration and/or advice from the sales personnel. Marketing of banking services provides a good example. Service packages like agriculture financing, short and long term institutional financing etc. have package specialisation as the product on offer is typical.

Market specialisation would be needed when different groups of target customers need specialised service or different sales approaches. In still other situations salesman may need to be knowledgeable about more than one line of company's products and deal with more than one set of customers dictating a combination of market and product expertise.

#### Activity 1

Look at the type of selling effort of the sales personnel in your organisation or any other organisation that you are familiar with and try to analyse whether the type of specialisation of the sales force is by product or by markets or by both. Also find out as to what factors necessitated this kind of specialised selling effort.

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territories provide for a more intensive market coverage yielding to higher sales and better customer relations. For the salesperson they facilitate performance evaluation and foster a far higher degree of enthusiasm and clearly defined responsibilities resulting in lower turnover and higher morale. Managerially it becomes possible to have a better degree of control, reduce expenses and evolve coordinated promotion plans. Review of call pattern territorywise and evaluation of territory performance aided by field visits may help managers in evolving effective future practices.

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

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

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

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

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

### 1.4.6 Establishing and Managing Channels Support and Coordination

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

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

#### Activity 3

Talk to one manufacturer each of

- a) auto parts
- b) food products

and their respective distributors. What are the methods that have been adopted to ensure

- i) maintenance of stocks
- ii) adequate feedback
- iii) promotional support

in each case

- a) i) .....
- ii) .....
- iii) .....

- b) i) .....
- .....
- ii) .....
- .....
- iii) .....
- .....

## 1.5 FRAMEWORK FOR JOINT DECISION MAKING IN SALES AND DISTRIBUTION MANAGEMENT

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

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

The following chart shows that the various sales and distribution tasks that facilitate the exchange transaction may need to be divided between the two functions.

- |  |   |   |
|--|---|---|
| a) Achievement of sales goals through :          | { | — distribution channels                       |
|  | : | — company's sales force                       |
| b) Personal and Prospecting through :            | { | — distribution channels                       |
|  | : | — company's sales force                       |
| c) Personal and non-personal promotion through : | { | — distribution channels                       |
|  | : | — company's sales force                       |
| d) Maintaining Inventory through :               | { | — distribution channels                       |
|  | : | — corporate organisation/<br>co-owned depots  |
| e) Accounts Receivables through :                | { | — distribution channels                       |
|  | : | — sales force/corporate<br>sales organisation |
| f) Information feedback through :                | { | — distribution channels                       |
|  | : | — company's own sales force                   |

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

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

- a) The involvement of the company's own sales organisation would be higher in case of technically sophisticated high unit value products targeted at a small number of consumers. (e.g. Eureka Forbes, Mainframe Computer System, energy system by BHEL, etc.) Intensive competition or lack of appropriate channels to distribute such products may also favour direct distribution. Conversely the distribution channels will be utilized more in case of frequently purchased low unit value standardised products (various Brands of Coffee, Bread, Butter etc.) where the geographical dispersion of the consumers is quite high.
- b) As companies grow larger in size and generate resources to make their financial position strong, the tendency is to favour direct sales.
- c) Market conditions characterised by a limited number of consumers and/or intense competition necessitate a high degree of personal prospecting and personal promotion. In case of low or medium value, relatively standardised products, a higher proportion of this task would be assigned to the channel while in case of complex high value products requiring specialised service the direct sales force is much more likely to be given the responsibility. Another trend here, specially in exclusive distribution is that the task may be performed by the dealer's staff provided the company pays for or provides for the training of the staff, e.g. Refrigerators, Water Coolers etc.
- d) A greater allocation of the non-personal promotion would have to be carried out by these two functions i.e. sales and distribution function if mass media is not available or is unsuitable for reasons of adaptation to local preferences. A higher proportion of non-personal promotion may be assigned to the distribution channels if they have easy access to local media.
- e) A higher level of inventory would need to be carried in case of highly competitive goods and seasonal goods at the point of purchase. In case of non-postponable purchases like bread, butter, channel members may be required to participate to a higher extent in the inventory carrying task. This position is modified to a certain extent when the supply logistics of the manufacturer is streamlined enough to manage replenishment at the retail outlets with a high degree of regularity.
- f) In case of industrial products, where the consumers are few and products are technically complex, the information feedback task is generally assigned to the company's own sales force or even to dealers where exclusive distribution is followed. In case of consumer products where the number and dispersion of buyers are very high a higher proportion of the feedback task is assigned to specialised agencies under the MR function.
- g) As the company has much more to lose if reliable information about market position and trends is not collected, a larger proportion of the market intelligence task should be assigned to the company's own sales force.
- h) While marketing to the rural markets, in case of both household consumption goods and low or medium value durables like electrical appliances cooking utensils etc., the middlemen, particularly the feeder town stockist becomes a vital factor in market cultivation. As the markets are far flung and the volume of consumption also varies from one rural area to another, the trend in rural marketing is towards a more extensive use of middlemen.

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## 1.6 SUMMARY

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In this unit you have learnt about the process of developing the sales and distribution strategy and the major determinants of each. As the two functions have a high degree of mutual dependence, a joint framework for decision making for both sales and distribution management has also been discussed.

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## 1.7 KEY WORDS

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**Channel of distribution:** The route that the title to a product takes from the producer to the ultimate user.

**Direct distribution:** A distribution system in which the ultimate buyer acquires the title directly from the manufacturer of the product.

**Exclusive distribution:** A distribution system that involves territorial protection for authorised dealers.

**Indirect distribution:** A distribution system that uses middlemen i.e. wholesalers and retailers to reach the ultimate buyer.

**Intensive distribution:** A distribution strategy that strives to have the firm represented in the maximum number of outlets.

**Monopolistic competition:** A market situation where many sellers offer differentiated products to a large number of customers.

**Territory:** The geographical area a sales person is assigned.

**Vertical integration:** The strategy by the manufacturer, which involves acquiring ownership rights down the channel of distribution.

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## 1.8 SELF-ASSESSMENT QUESTIONS

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- 1 Discuss the factors responsible for interdependence of sales and distribution.
- 2 How do the sales objectives affect the designing of sales strategy.
- 3 Describe the key decision areas in sales and distribution management.

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## 1.9 FURTHER READINGS

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Eugene M. Johnson, David Kurtz and Elurand Scheuberg, *Sales Management*. McGraw Hill.

G. David Hughes and Charles H. Singler, *Strategic Sales Management*. Mass Addison Wesley

Richard R. Still Adward. W. Cundiff and Norman A. P. Govoni. *Sales Management, Decisions Strategies and Cases*.

David J. Bowersox, M. Bixby Cooper, Douglas M. Lambert, Donald A. Taylor, *Management in Marketing Channels*, McGraw Hill Book Company.

Louies W. Stern and ADeI El Ansary, 1988. *Marketing Channels*. Prentice Hall International.

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## UNIT 2 PERSONAL SELLING

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### Objectives

The objectives of this unit are to help you:

- define personal selling
- evaluate the importance of personal selling under different conditions
- explain the nature and type of activities involved
- describe its complimentary role in marketing strategy
- describe the selling process

### Structure

- 2.1 Introduction
- 2.2 The Growing Importance of Personal Selling
- 2.3 Situations Conducive for Personal Selling
- 2.4 The Changing Roles of Sales Persons
- 2.5 Diversity of Selling Situations
- 2.6 Qualities of a Good Sales Personnel
- 2.7 The Scope of Activities in Sales Situations
- 2.8 Summary
- 2.9 Key Words
- 2.10 Self-assessment Questions
- 2.11 Further Readings

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### 2.1 INTRODUCTION

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The terms 'personal selling' and 'Salesmanship' are often used without distinction. However there are some vital differences between the two terms.

Salesmanship is Seller initiated effort, that provides prospective buyers with information and motivates them to make favourable decisions concerning the seller's products or services. 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers.

It takes several forms including calls by company's sales representative, assistance by a sales clerk, an informal invitation from one company executive to another.

It is employed for the purpose of creating product awareness, stimulating interest, developing brand preference, negotiating price etc.

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

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### 2.2 THE GROWING IMPORTANCE OF PERSONAL SELLING

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

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



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

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

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

On the other hand, consumer product companies use personal selling together with advertising, to influence prospect to try their brand. But personal selling in this case cannot substitute for advertising, it can only be used tactically to intensify marketing effort, mainly because it is expensive.

Personal selling is more effective during product launching stage.

For example: McDowell, used personal selling tactics during launching of soft drink "SPRINT" in Delhi.

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

During the product launching stage companies selling products like Richbru Coffee, Signal Toothpaste, Surf, Dalda etc. utilised personal selling efforts.

The importance of Personal Selling in the Indian context stands out due to the following factors:

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

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

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## 2.3 SITUATIONS CONDUCTIVE FOR PERSONAL SELLING

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In certain marketing situations, personal selling provides an effective and efficient solution to most of the selling problems. However its economic efficiency relative to other element of the marketing mix needs to be thoroughly appraised.

Now we will discuss some of the situations when personal selling in a company becomes more relevant.

### 1) Product Situation

Personal Selling is relatively more effective and economical in case :

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

#### Market Situation

Personal selling situation can be best utilised when:

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

#### Company Situation

Personal selling is relatively more effective and economical when:

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

#### Consumer Behaviour Situation

Personal selling is more effective when:

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

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## 2.4 THE CHANGING ROLES OF SALES PERSONS

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

Now before discussing the selling styles one point should be noted that only well-developed and established companies have reached to consultant stage level, every selling task does not require this. Still one or more than one strategies of personal selling discussed here are used in Indian companies. Table 1 shows the activities relevant to the use of each strategy.

Table 1

#### The Changing Roles of the Sales Representative

Strategies for Selling	Activities
Business Management	<ul style="list-style-type: none"> <li>• Manage accounts and Territory strategies as a strategic business unit</li> <li>• Invest time and expenses in the most profitable opportunities</li> <li>• Sell to meet the clients total system and long term needs. Be a consultant</li> </ul>
Client Profit-Planning Strategies	<ul style="list-style-type: none"> <li>• Become part of the clients' plan</li> <li>• Expand to other department</li> <li>• Find new uses for your product</li> <li>• Services are an important part of the offer at this point.</li> <li>• The customer become a client.</li> <li>• Perceive, classify and serve the customer's needs.</li> </ul>
Negotiation Strategies	<ul style="list-style-type: none"> <li>• The product is adjusted to meet the customer's need.</li> <li>• The representative understands the immediate and narrow needs of the customers.</li> </ul>

**Persuasion Strategies**

- The representative tries to fit the customers into the existing product mix by skillfully overcoming objections.

**Communication Strategies**

- The representative is a personal communicator, providing product and service information close to the point of the buying decision.

Adapted From : M. Haven, J. Cribben and H. Keiser, Consultative Selling American Management Association, Inc. New York, 1970 eds., G.D. Huges and C.H. Singler 'Strategic Sales Management' Addison-Wesley Publishing Co. London, 1983, Page 7.

**Communication Strategies**

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

**Persuasion Strategies**

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

**Negotiation Strategies**

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

**Client Profit-planning Strategies**

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

**Business Management Strategies**

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

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## 1.5 DIVERSITY OF SELLING SITUATIONS

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All of us being consumers often come across variety of selling situations. Differences in marketing factors cause each company to have individualised selling styles. Each different type of selling job requires the sales person to perform a variety of different tasks and activities under different circumstances. The job of a soft drink driver salesperson who calls in routine fashion on a number of retail stores is different from that of a computer sales person who sells a system for managing information to executive of consultancy firm.

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

#### **Delivery Sales person**

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

#### **Inside Order Taker**

The retail sales person standing behind a counter is an inside order taker. The customer comes to the sales person with the intention to buy a product or service, the sales person only serves him or her.

The sales person may use suggestion selling but ordinarily cannot do much more.

#### **Outside Order Taker**

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

#### **Missionary Sales People**

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

#### **Creative Sales person of Tangible Products**

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

#### **Creative Sales person of Intangible Product**

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

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

#### **Consultative Sales**

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

#### **Technical Sales**

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

Most of the technical purchasing requires approval of several people but only one or two people with technical knowledge influence decision. If the sales representative is able to satisfy these people with product characteristics, application, installation process approval

from higher management is usually forthcoming. The technical sales persons though not strangers to the process of making a sale, are trained to utilise the rational approach; by going into details of product utility and features.

**Commercial Sales**

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

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

**Direct Sales**

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

**Activity 1**

- 1) Compare the following types of salesmen:
  - a) Missionary salesmen and Tangible product salesmen
  - b) Intangible product salesmen and Sales Engineer
  - c) Inside order taker and delivery sales person

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**2.6 QUALITIES OF A GOOD SALES PERSONNEL**

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Some people says salesmen are born salesmen, while others believe that training can help in making good salesmen.

Irrespective of these opinions, good salesman has certain qualities and abilities as a result he is able to perform better than others. In this section we would discuss qualities of a good sales person:

Philip Kotler has identified two basic qualities of a good sales person namely, empathy and persuasion. But others have listed more. Some of the qualities of a good sales person are as follows :

- 1. **Ability to estimate customer's needs and desires:** He is alert and quickly determines what the customer wants and the best way to sell.
- 2. **Ambition:** He likes to do a good job and is interested in getting ahead with your company

3. **Appearance:** Appearance's mean a lot today and the successful salesman is neat and organised. He presents himself well in-person. Also, he keeps his desk, books and manuals neat and ready for use.
4. **Business Sense:** He understands that you are in business to make a profit and quickly learns the ins- and -outs of your organisation.
5. **Courtesy:** He reveals a sincere desire to help customers and treats them as guests even when he visits their places of business.
6. **Creativeness:** Imagination, vision and the ability to create ideas make your man dynamic.
7. **Curiosity:** He wants to learn all he can about his job, his products and his customers.
8. **Enthusiasm:** There is nothing that can drain away a prospect's buying interest more than a half-dead salesman. Dullness should be left at home. A salesman must radiate enthusiasm during and after the sales call.
9. **Figure Sense:** He should have the mathematical ability to figure and fill up order form correctly and to make the necessary reports.
10. **Flexibility:** A good salesman is able to adapt himself to a variety of customers. Each contact may require a adapting the sales talk, speech habits and even appearance.
11. **Friendliness:** A salesman should be able to make people like him and he must like to meet people.
12. **Handwriting:** He must write legibly so that his paper work can be readily understood by his office people and by his customers.
13. **Health:** Good health generates energy and energy is needed to sell. Poor health prevents many salesmen from fulfilling their potentials.
14. **Integrity:** A salesman must be trusted to do his job well. He cannot help but be successful when his customers trust him.
15. **Interest in his job:** He likes selling and working for your company.
16. **Knowledge:** In some business, an applicant must also have a through knowledge of the highly specialized products or services his employer offers. In some cases, this knowledge can be gained only by years of experience.
17. **Loyalty:** He must be able to impress upon his customers the idea that his company is the best in the business.
18. **Mental abilities:** He has the intelligence to understand your products and those of your competitors. He must know how to use words, to understand and direct people and to remember names and faces. He should also be able to understand prospective customers and know how to act under varying conditions.
19. **Motivation:** He must have more than just an interest in selling. Psychologists have found certain predominant patterns in men who have become really successfully sales men. They live in the present and not in the future. They do want power over others and prefer not to work under close supervision.
20. **Originality:** He is constantly searching for new ideas to be used in selling your products and will suggest better ways of doing things.
21. **Persuasiveness:** Very few products of any type actually sell themselves. They must be sold. Your man must have the ability to get people to agree. There are situations when persuasiveness may vary keeping in view the consumer's response.
22. **Poise:** His maturity is reflected in his behaviour. He should be positive and confident, energetic and businesslike. He should be able to demonstrate to your customers that he knows what he is talking about.

23. **Self-control:** He can handle difficult people and situations calmly.
24. **Self-starter:** Your man works well without constant supervision and is able to make decisions on his own.
25. **Speech:** He can speak clearly and maturely in a natural tone. He can emphasize sales points with sincerity and friendliness.

## 2.7 THE SCOPE OF ACTIVITIES IN SALES SITUATIONS

A typical day in a sales person's life includes making certain number of calls, opening of new accounts, analysing the account lost, if any, sales presentation, closing of initiated sales preparing daily reports and keeping records of transactions. We would now discuss some of the important activities.

### **Problem Solving Activity for the Customer**

Problem solving requires substantial knowledge and decision making skill. In the case where prospective customers are not aware of utility of products or services in question, there is a problem. The sales person can contribute by identifying and suggesting best solution for it. In many sales situations, these activities make up a substantial part of the total sales effort.

### **Co-ordinating Buyers and Sellers Activities**

With the multifarious and complex system of today's business situation there is a need for a catalyst to bring together and work with the parallel departments of supplier and customer.

Most of the sales persons are in position to perform this function.

### **Attending Conventions**

In conventions organised by company, sales persons interact with their peers about work situations and problems and arrive at a consensus of opinion on issues which impinge on their work. Conventions range in nature from company convention to industry convention. They may be local, national or international in nature. These are important motivational and inspirational tools for the sales persons whose broad purposes are to:

- a) Provide strength to the sales persons identity with the company to executive.
- b) Exchange information with sales persons.
- c) Provide specialised training.
- d) Provide sales persons with a change of pace.

### **Attending Trade Show**

Trade shows are held seasonally or annually. Sales persons usually attend these trade fair not only to achieve sales, but also to understand competition's products and prices. Technological advancement in different area is also communicated to them through these trade shows. Ever since Trade Fair Authority of India has been set up various types of fairs and exhibitions including the Annual India International Trade Fair are being held more regularly.

### **Attending Educational Workshops**

Many lines of sales work afford the opportunity for continued formal education throughout a career. Many companies like NTPC, ONGC, TISCO, etc. require their sales persons to follow a continued programme of studies in addition to company training.

### **Keeping Records**

The job of sales person is not finished until the paper work is completed. A sales person has to prepare daily call reports including new accounts opening report, account closing reports etc. It is understandable that these records not only keep track of their day to day activities, but also provide past and present data to undertake any future assessment.

Activity 2

How would the selling job differ for following situation? What would be the most important activity for each Job?

- a) Indian Hotels (Taj Group) representative selling services to executive of a company.
- b) Photophone Co. (Hot Shot) sales person selling camera to photo studio.
- c) Hindustan Levers Sales representative selling soap and oil to general merchant.
- d) Readymade garment shop sales person selling to customer.
- e) Wellcome Burrough's pharmaceutical representative calling on the medical practitioner.
- f) Hindustan Computer Ltd. sales person selling computer to professionals.
- g) Snowwhite salesman selling apparels at his exclusive showroom.

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## 2.8 SUMMARY

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Today personal selling has become a challenging profession. There has been a significant change in its role from being a simple order taker to that of an order maker or consultant to the buyers. Modern sales person understand that they are the major link in the total marketing strategy for the company. If a company wants to maximize the effectiveness of its marketing programme, the personal selling effort must be effectively integrated with the other elements of the marketing mix.

More specifically this unit sought to highlight the importance of personal selling, various selling jobs, diversity of selling situations, and its relationship with marketing mix and process. With the growing complexity of products, importance of personal selling has increased. They now act as introducers, intelligent communicator as well as demand pushers and also add unique utility to product. Their role has changed drastically from being a simple communicator to business manager. In order to be successful a sales person must possess a set of personal, product related and functional qualities, as variety of analytical and administrative duties are important component of the job. Before approaching a prospect every sales person is advised to do bit of homework regarding company's name, size, authority concern and general requirement. While meeting the prospect, sales person should introduce himself, his company and the product under promotion. Product presentation and overcoming of customer objections, leads to convincing the customer and results in the closing of mutually satisfying sale.



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## 2.9 KEY WORDS

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**Stimulated Demand:** Increasing demand by ways of introducing product to consumer to reduce reluctance.

**Trade Selling:** Long-term business relationship with a stable group of customers like wholesalers or retailers.

**Missionary Selling:** When salesman pursues indirect customers to buy product. Like medical representatives pursue doctors to prescribe the product.

**Technical Selling:** Providing technical advice and assistance as part of sales job.

**New Business Selling:** Primary task is to seek out and persuade new customer to buy the product.

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## 2.10 SELF-ASSESSMENT QUESTIONS

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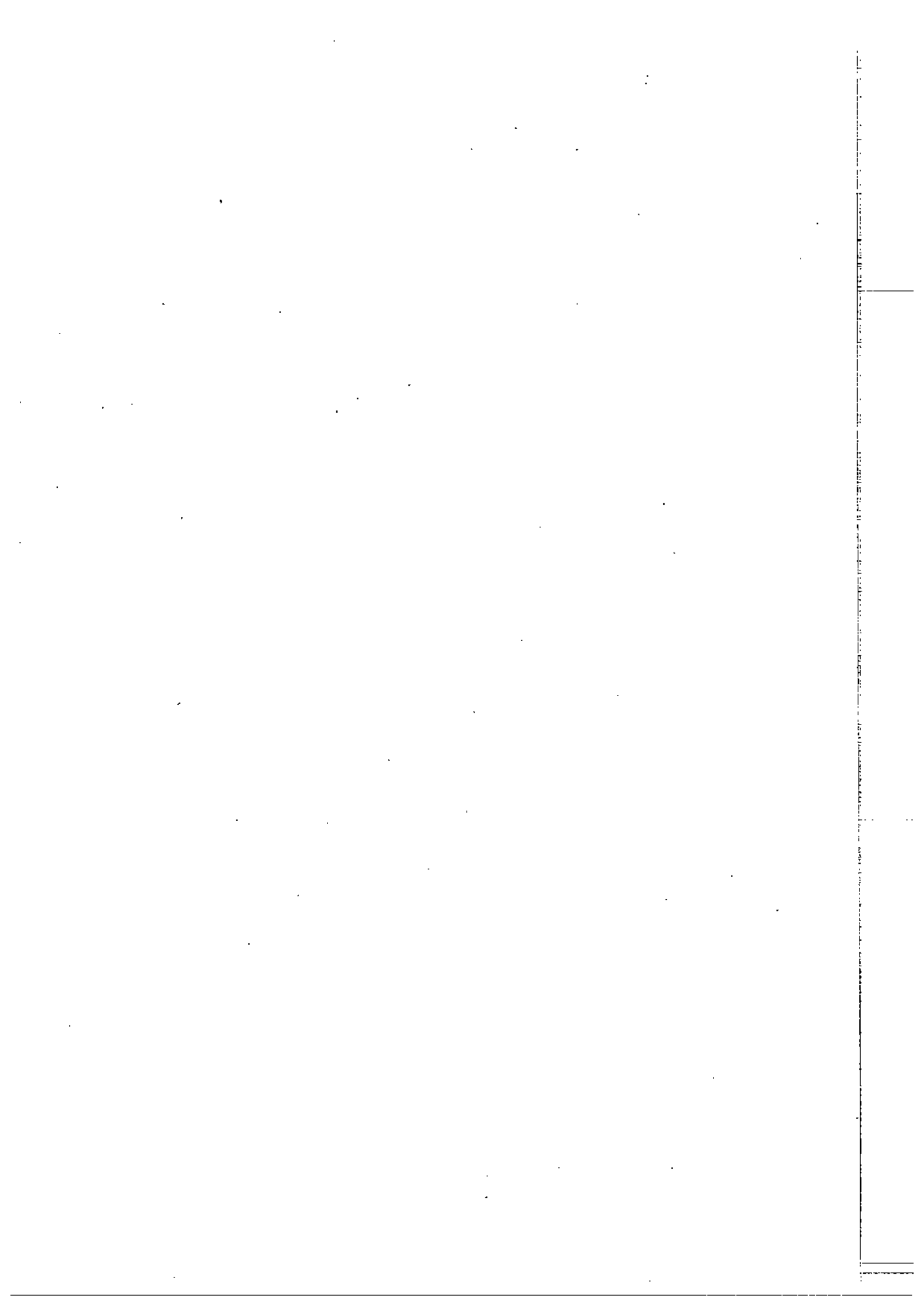
- 1 Do you agree that a sales job requires a degree of mental toughness and physical stamina rarely demanded in other types of job? Discuss.
- 2 To what extent do the nature of the product, target market, company resources influence the sales job. Explain.
- 3 Discuss the changing role of personal selling.
- 4 In the changing market situation, it is often referred to that sales persons are in better position than past. Do you agree with this statement? Justify your answer.
- 5 Personal selling is a two-way communication best suited to a company marketing consumer product with a poor brand loyalty. Discuss.

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## 2.11 FURTHER READINGS

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- Eugene M. Johnson, David L. Kurtz, Eberhard E. Scheuing, 1986. *Sales Management, Concepts, Practices, and Cases*, McGraw Hill: Inc. USA (Chapter-4).
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- S. Neelamegham, 1988. *Marketing in India Cases and Readings*, Vikas Publishing House Pvt. Ltd.: New Delhi.
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## UNIT 3 SALES PROCESS

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### Objectives

After reading this unit you should be able to :

- understand the relationship of personal selling in total scheme of marketing
- evaluate different theories of personal selling
- understand various components of personal selling to design the personal selling effort for your organisation
- understand each step of the actual sales process.

### Structure

- 3.1 Introduction
- 3.2 Personal Selling and Marketing Effort
  - 3.2.1 Difference between Advertising and Personal Selling
  - 3.2.2 Significance of Personal Selling
- 3.3 Theories of Selling
  - 3.3.1 AIDAS Theory
  - 3.3.2 Right Set of Circumstances Theory
  - 3.3.2 Buying Formula Theory
- 3.4 Personal Selling Process
  - 3.4.1 Prospecting
  - 3.4.2 Preparation to Meet Individual Prospects
  - 3.4.3 Making the Sales Presentation
  - 3.4.4 Draw Attention
  - 3.4.5 Hold Interest and Build Desire
  - 3.4.6 Sales Resistance
  - 3.4.7 Meeting the Sales Resistance
  - 3.4.8 Closing the Sales
- 3.5 Summary
- 3.6 Self-Assessment Questions
- 3.7 Key Words
- 3.8 Further Readings

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### 3.1 INTRODUCTION

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

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

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

Let us also try to discover the need of personal selling effort in organisations marketing the fast-moving consumer-goods (FMCG). In such organisations, the demand is often created

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

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

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## 3.2 PERSONAL SELLING AND MARKETING EFFORT

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

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

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

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

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

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

### 3.2.1 Difference between Advertising and Personal Selling

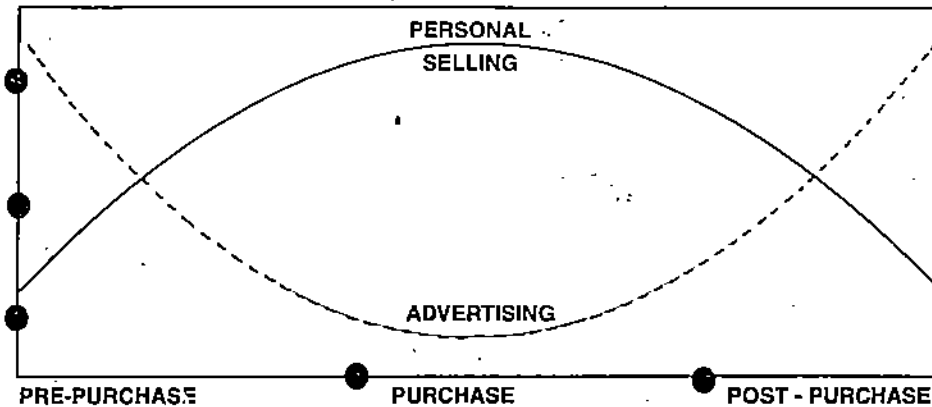
Let us try to understand the difference between advertising and personal selling also, so as to clearly distinguish between these two important components of the marketing mix.

From a broad perspective, both - the personal selling as well as the advertising - are the means to communicate with the target customers for the product or service of an organisation. To be effective, i.e., to produce results, in terms of sales or orders, both should be understandable, interesting, believable and persuasive. We shall discuss the process of designing a personal selling effort involving all these four criteria of an effective communication.

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

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

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



Advertising has a major role during the pre-purchase phase as the mass demand for product has to be generated. The advertising also plays an important role in post-purchase phase as it gives sound reassurance to the purchaser that he has taken a sound decision in buying that product. The personal selling, on the other hand, has an important role to play in all the three phases. It plays a major role in the purchase phase.

### 3.2.2 Significance of Personal Selling

It is important to understand the significance and objectives of personal selling effort in overall scheme of Marketing. More specifically it helps in the following manner:

- i) **Personal Selling Implements the Marketing Strategies**  
Whatever the Marketing Strategy of the company, it has to boil down to strategic communication, targeted at customers or prospects. The person who communicates with the prospects is the sales representative, though different companies attach different designations to them. It is the salesmanship of that sales representative which brings orders, the tangible results, to meet the marketing objectives.
- ii) **Personal Selling Brings Money to the Company**  
It is the personal selling which collects money from the customers and brings it to the company. While other components of an organisation are 'money-utilizing' components.
- iii) **Personal Selling Makes the Organisation Known**

All organisations are known to their customers through their sales staff, in every part of the market. Such companies invariably, do not advertise. For example, companies engaged in industrial products marketing or marketing pharmaceutical do not advertise much. Even in companies, which advertise, personal selling carries the same significance, as the sales representative creates goodwill for the company.

- iv) **Personal Selling Maintains and Creates Customers**  
The sales representative is the best overall manager of his territory. He has the responsibility of maintaining the current business, as well as developing it. He meets these objectives by maintaining existing customers and developing new ones at the same time.
- v) **Personal Selling is a Source of Feed back**  
A company is known at the market place through its sales representatives which the company also knows the market place through the its representatives. That is why the field sales personnel are considered to be an excellent source of market information.
- vi) **Personal Selling Makes New Products Successful**  
It is through the personal selling effort a sales-representative is able to provide adequate information on new products to prospective customers. Personal selling effort also ensures the availability of the product in the market place, widely as the sales representative has developed the relationships with the trade, i.e., retailers, wholesalers and other middlemen. The sales representative provides the information to the company on customer's response to a new product and the competitor's activities.

Thus it can rightly be said that an organisation sees and hears through the personal selling effort. Sales-representatives are the eyes and ears of an organisation.

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### 3.3 THEORIES OF SELLING

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

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

#### 3.3.1 AIDAS Theory

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

##### Attention

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

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

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

##### Interest

Once the sales person has successfully gained the prospect's attention, he/she should maintain the interest of the prospects throughout the presentation. In other words, the sales person should ensure that the prospect remains glued to his presentation throughout its length and that he does not wander away from the same. The sales person should be aware of the

interest, likes, dislikes, attitude and motivation of the prospect and should proceed with the presentation, keeping in view all these factors.

### **Desire**

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

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

### **Action**

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

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

As we have observed, the sales person tries to push us into a situation to take a decision. And he has exercised the technique of closing very skillfully. This is what is expected of a sales person in this stage.

### **Satisfaction**

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

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

## **3.3.2 Right Set of Circumstances Theory**

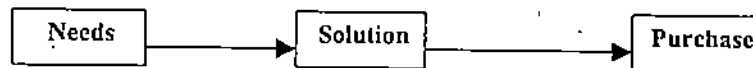
The advocates of this theory opine that all the circumstances, which led to the sales were appropriate or "right" for the sales to have taken place. In other words, if the sales person is successful in securing the prospect's attention, maintaining his interest and inducing his desire to buy the product,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

## **3.3.3 Buying – Formula Theory**

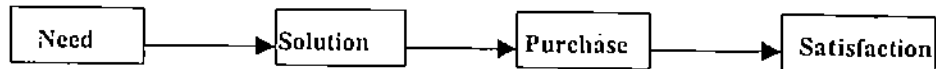
In the earlier theories, emphasis was laid on the sales person or the seller. In this theory the emphasize is on the buyer. This theory emphasises on the needs or problems of the buyer. The sales person assist the buyer in finding an appropriate solution to the problem. This solution may be in terms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

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

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



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



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

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

This sequence of events may thus be represented as :



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

### 3.4 PERSONAL SELLING PROCESS

In order to have a better grasp of the subject under discussion, we shall one by one discuss each of the following stages of the personal selling process:

- Prospecting
- Preparation to meet individual prospects
- Making the presentation
- Maintaining the interest and to arouse desire
- Fielding the objections
- After sales service

#### 3.4.1 Prospecting

Prospecting is the first and the most important component of personal selling. Prospecting consists of identification of potential customers and then to rank them in order to select the customers with the purchasing power and the authority to make the decision, to buy the product.

To be more productive, the sales personnel should plan as many of their activities as possible. In other words, they should always do the proper home work in order to utilise their time in the marketplace, more productively. Hence, they should plan their travel and call-schedules so as to spend maximum of the available time on meeting their customers. Moreover, the time available to the sales personnel should not be wasted in making an effort to convince those



people about their products, who can not buy them. Thus, the planning which involves eliminating non-productive calls, is known as prospecting.

It goes, without saying that the time available should be spent on calling-on potential buyers rather than on non-buyers. The sales person who practice 'prospecting' ultimately emerge out as more productive than others.

In a nut shell, the result-oriented prospecting is a two step process. Firstly, the identification of potential customers and secondly, the process of selecting / ranking them.

Identification of potential customers can be done with the help of Sales Manager who has earlier handled the territory or has a good knowledge about the territory. It can also be done by collecting the list of prospects from trade associations, or by looking at the directories of individual customers' associations. The response to advertising (response coupon) other companies' sales personnel, and meeting in general, the potential buyers, are some other sources of potential customers.

Ranking of the identified prospects can be achieved by contacting the customers' present relationships at the market place. For example, a car manufacturer can find out about a customer from Citibank, in case the customer is already a Citibank card member. The objective of customers ranking is to avoid these customers, with limited a requirements of the company's products.

#### Activity 2

You are the Sales Manager of a company marketing consumer appliances. Enumerate various sources that you can look for enlisting the potential prospects for your products.

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### 3.4.2 Preparation to Meet Individual Prospects

Before meeting a selected customer, the sales person should find out as much as possible about the same. In case of an organisation as a customer, the sales person should know what products the organisation is currently using and how his product is better than the one already in use. The sales person should also find out what is the purchase procedure in the organisation and what is the total budget earmarked by that organisation, for his kind of products. The sales person should also try to find out personal likes and dislikes of his prospective buyers so as to tailor make his presentation to suit the prospect. The sales person should also have a clear ideas about the questions that the prospect may ask so as to prepare himself to face them.

Now, the sales person is ready to contact the prospect and to make the presentation. It should be borne in mind that the sales person should take a prior appointment with the prospect so as to exercise a good time management. By doing so, he can save on his as well as the prospect's time.

### 3.4.3 Making the Presentation

This is a very important component of the total process of personal selling. In essence, it amounts to using all the information, knowledge and skills of the sales person, so as to actually make the sales. In this stage, a sales person draws ATTENTION of the customers, holds INTEREST in his offering, builds the DESIRE for his product and finally stimulates his customer to take a favourable ACTION towards his product, i.e., the prospect purchases his product. As discussed in the theories of selling, it involves implementing the AIDAS theory of selling.

### 3.4.4 Draw Attention

The prospects, attention can be drawn by asking a creative question, or by pointing out a startling new fact about the product. By finding out the actual need of the customer and then

phrasing the question in such a manner that it actually tells the customer that your product can meet the prospect's needs.

For example, if a printer (customer) is looking for a printing machine, which prints at double the speed of his present machine, the sales person can ask "Are you looking for a printing machine which prints at 600 prints per minute at the cost of 300 prints per minute of the currently available machine?"

A sales person, of a company marketing medicines, can ask a lady doctor who is looking for an antibiotic which is safe during pregnancy may ask the prospect, "are you in need of an effective antibiotic which is also safe in pregnancy"?

This technique of asking questions to the prospects with the objective of drawing his/her attention to the salesman's presentation is called the technique of probing. As we have observed from the types of questions cited above that the prospect can answer such questions in 'Yes' or 'No' (one word answer). Therefore, such probes are known as CLOSED PROBES.

Though these questions help to draw the prospect's attention, these are not as effective as the questions, which give an opportunity to the prospect to come out with his real problem / needs/ requirements. Such probes are termed as OPEN PROBES.

The examples of such probes can be a sales man selling printing machines asking a prospect, "Sir, how do you feel about the printing machine which prints 300 copies per minutes?" Another example of an open probe can be a sales person from a pharmaceutical company asking a lady doctor "How would you react to the safety of currently available antibiotics, specially during pregnancy?"

As we can imagine such open probes will draw better attention of the prospects than closed probes. Not only that, the prospect will also be more interested in the salesman's offering due to an open probe, because the prospect has spent some time thinking about his/her problem while answering the salesman's probe. Thus, at times, an open probe is better than a closed probe in drawing the prospect's attention.

### 3.4.5 Hold Interest and Build Desire

After drawing attention the sales person should hold the INTEREST of the customer in his sales talk. Here there is no set pattern. Also there is no choice other than actually demonstrating the performance of the product. In such instances where the sales person can't demonstrate the performance of his product, he should creatively use various audio-video media to hold INTEREST of the customers. In a large number of cases the sales person uses various promotional inputs like literatures, gifts, visual aids, voice modulation, pitch, tone, body language, etc., to maintain the INTEREST of his customers in his presentation or the sales talk.

While making the presentation, the sales person uses various presentation inputs like brochures, literatures (as stated above). What should be emphasized here is that these inputs are just the promotional inputs, or the sales aids. Obviously they have no effect without proper use and effective handling by the sales man in presence of the prospect. Their effectiveness can be best utilised by a sales person possessing the requisite skills to use these presentation inputs, and without these skills they are mere objects.

So, what are the skills required for effective utilisation of these presentation inputs with the objective of holding the interest of the prospect? The skills are :

- excellent communication ability
- good command over language
- excellent knowledge about the product and the competitors' product
- ability to keep the presentation coherent
- good public speaking ability
- ability to win the customer by understanding his/her needs

Moreover, before he goes to make the presentation to the prospective buyer, the sales person must rehearse his complete presentation, several times at home. This will go a long way in

measuring the necessary confidence in the sales person, which in turn, will help him in clinching the deal or getting an order.

The desire of a customer can be built by emphasising on those benefits of the product, which meet a customer's present needs, and promise the customer his value for money. For example, emphasising on high mileage per litre of petrol can arouse the desire of junior level executives to buy a fuel-efficient automobile. As we know, junior executives are comparatively less paid and an economical vehicle can be one, they are looking for.

In other words, the sales person should translate the features or attributes of his product into the benefits that the prospect is going to desire. The prospect is not interested in the features or attributes of the product. He is only interested in benefits and how the product is going to make his life better. For example, the aluminium engine in Maruti Zen car is a feature of the car. It makes the car lighter in weight and hence more mileage per litre of fuel is the benefit to its owner. The use of a Super Horn speaker in Samsung colour TV is only a feature. The benefit to the owner is a better quality of sound and a stereo effect. Similarly, a medicine works 24 hours in the body, is a feature. The benefit is that the medicine has to be taken only once in 24 hours by the patient. This is much better than a medicine which works for 8 hours, and has to be taken 3 times in a day.

This is the magic that translating features into benefits can create. It is an essential aspect of a salesman's functioning in the total framework of the selling process. The objective is to creatively establish a desire in the prospect for the product.

#### Activity 2

Look for various brands of colour TV's in your area and list their attributes. Convert these attributes into potential benefits for the prospects as if you are the Sales Manager for these brands.

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### 3.4.6 Sales Resistance

This part of the selling process is also a very important part. It concerns with the resistance that the prospect exhibits during a sales call. Even after proper prospecting, preparation to meet each individual and making a winning presentation, the sales personnel can face some resistance from the prospects. Such a resistance may be exhibited, typically, in terms of objections. The objections are the sincere or insincere reasons put forth by the prospects in order to circumvent or the culmination of a sales call into the actual purchase. An objection requires a tactful handling by the sales person at its best. Otherwise, it can spoil the sales person's total effort in securing an order. The sincere objections are the real objections or real reasons put forth by the prospect for not buying the product. Insincere objections, on the other hand, are the imaginary or unreal objections.

A few examples of real objections are, "I have no surplus cash at the moment to buy your product, though I am convinced about its utility". "I have recently bought a similar product". Sincere objections can also be put by the prospects to gather more information about the product, like, "What will you guarantee about the product", or "How quickly your service network responds." or "How much time your service personnel usually take to attend complaint."

The examples of insincere objections are "Why did you go for a green colour cough medicine, had it been red. I would have purchased it," or "The weight of your printing press is a more, I do not think our floor can accommodate its weight."

### 3.4.7 Meeting the Sales Resistance

An objection indicates that the customer has attentively listened to the presentation and the sales person has been effective upto this stage. However, in order to handle objections effectively, following objection handling system can be applied:

- i) **Listen to Objections :** Usually the sales persons do not treat customers' objections as opportunities. They treat them as customer's resistance. In protecting themselves from such a resistance, the sales persons leap on an objection even before the customer has completed the same. However, the sales persons must listen to the objections very carefully. Otherwise, if he is not a good listener, he may inadvertently irritate his customer and may lose a winning sales. Moreover, a careful listening will also give an opportunity to the sales person to analyse the objection, whether it is sincere or insincere. Accordingly, then he can handle the objections.
- ii) **Ask for Details :** If the objection is not clear to the sales person, he should ask the customer to elaborate on his objection. Here the sales person must avoid sarcasm and have patience. If nothing else, this technique will give more time to a sales person to think how to utilise the opportunity.
- iii) **Answer the Objection :** More often than not the sales persons who have good knowledge on their product, competitors' products, and customers, can answer the objections, effectively. All objections are questions and only a knowledgeable sales person can provide the answers.

After having carefully listened to an objection, and having analysed it, the sales person should answer it politely but firmly. If it was a sincere objection like "I have no surplus cash to purchase your product" and if the sales person has a finance option he can answer "Sir, in that case we can provide this product to you on a deferred payment plan or an instalment plan." To a details-gathering question, like, "How quick are your service personnel to attend to a complaint", the sales person should answer "Sir, I appreciate your concern about a quick service. Sir, I may inform you that we have one of the largest fleet of mobile service controls. As soon as, your complaint is registered at our central complaint cell, it is communicated to the mobile service centre of your area, to immediately attend to your complaint."

The sales person should be sure about the truthfulness of the information being provided to the prospect in response to his sincere objection. The sales person should not give wrong information to the prospect under the lure of securing an order. If he does so, he may secure this order but he will lose a customer for future. Not only that, he will also lose his face and his organisation's name. There is a possibility that you can also be caught telling a lie or exaggerating the facts:

While answering an insincere objection, the sales person has to exercise more of tact than depending on his knowledge. To an objection on green colour of cough syrup, the sales person may answer, "I appreciate your taste for colours and I also feel that the product should have been in red colour. But our marketing executives conducted a market survey in which the same preparation was shown in various colours to various doctors and most of the doctors liked the green colour. That is why our organisation decided for this colour."

- iv) **Confirm the Answer :** An effective sales person should not leave the objection by answering it. He should confirm whether the customer has understood the answer or not. The customer may have missed the point. He might have been thinking of something else at that point of time. To confirm the answer, a sales person can ask the customer, in specific statements like: "Now that's settled entirely, isn't it?" or "That solves your problem with (my brand), isn't it?"
- iv) **Immediately go to the Next Step :** After the answer has been confirmed with the prospect, the sales person should move on to the next step of personal selling process and that is to close of the sales call.

### Activity 3

"Objections are the opportunities for a sales person to culminate his sales presentation into an order". Critically analyse this statement

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### 3.4.8 Closing the Sales

Closing a sales is nothing but helping prospects to take decisions. Unless a sales person bases his actions on this understanding he would be trying to build success on false premises.

Let us recognise the fact that usually the prospects have an innate feeling to oppose the decision to buy a product. Even after the excellent presentation, and effective handling of his objection by the sales person, the prospect may mentally try to dissociate himself from placing an order, not because of a valid and sound reason but just because of that innate feeling to oppose the decision of buying a product. Unless the sales person manages to push these prospects into taking the decision to buy his products, he can remain without getting an order. A sales person skilled in the technique of proper closing just does that. He pushes the prospect into a buying decision.

These are some well-trying and tested techniques for effectively closing the sales. Some of these are:

Alternate Close	<p>The Sales person asks the customer to choose from the two options.</p> <p>Sales person "should I send you two boxes of 50 bottles each (of a cough syrup) or one box of 100 bottles?" Customer "One box of 100 bottles would do."</p> <p>Sales person "Sir do you want the refrigerator to be delivered at your residence in the morning or in the evening." Customer: Only date in the evening.</p> <p>What has happened? The customer has actually bought your product.</p>
Summary Close	<p>In this type of a close, the sales person summarizes all his product benefits and asks for an order.</p>
Picture Close	<p>Here the sales person tries to imprint the brand name more firmly in prospect's mind and at the same time asks for an order.</p> <p>Sales person "Sir, you know, our company has products with the brand METRO But for ceiling fans. it reads in the reverse order, that is ORTEM. Isn't it interesting?"</p> <p>Customer: "Yes that is interesting. Please send me two set of fans".</p>

Apart from these types of "closes" an effective sales person should also remember two more important characteristics of the 'close'. Firstly to close with empathy and secondly to close through their eyes. A sales person should sincerely try to make his customer believe that he is making a good decision in buying your product and that he actually needs your product. As a matter of fact, an average person can not make decisions about investing in anything without help. It is this help which should be provided by the sales persons. This is the rational close with empathy.

A sales person should see the benefits and features in his product from his potential customer's viewpoint. He should also see the limitations of his product through his customer's viewpoint. He should close on the benefits, which his customer gets. This will help a sales person improve his credibility in the eyes of his customers which in turn will not only get him this sales but also get him a promise of future sales too.

## 3.5 SUMMARY

Personal-selling is an important component of overall marketing effort of an organization. The association of personal selling in total scheme of things in the overall view of marketing

is that it is an important component of 'Promotion Mix', which in turn, is one of the constituents of 'Marketing Mix'.

Its significance in total marketing effort can't be underestimated as the Personal selling implements the marketing strategies, brings money to the company, makes the organisation know, maintains & creates customers, makes new products successful and works as a feedback source.

The personal selling process is a scientific process involving the creative utilisation of various steps like prospecting, preparation to meet individual prospects, making the presentation, and meeting the objection to closing the sales. It is the creative implementation of the concepts of drawing attention, holding interest, building the desire and stimulating the action, which makes the presentation very effective.

An effective sales person should close a sales presentation when:

- The customers have mostly been listening, and suddenly start asking a lot of questions.
- When the customers favour an alternate close.
- When the customers give a positive stimulus at the right time.

This completes our discussion on the process of personal selling. It goes without saying that a sales person who practices various steps of this process, sincerely and diligently, would definitely become an ace sales person.

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### 3.6 SELF-ASSESSMENT QUESTIONS

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1. How does Personal selling relate to the marketing function of an organisation.
2. What are the various theories of personal selling. Compare and contrast them with each other.
3. What are the various steps involved in the sales process. Discuss brief, the importance of each.
4. It is said that closing a sales call is important, like the other steps of the sales interaction. Discuss.

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### 3.7 KEY WORDS

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**Prospect :** A potential customer with not only the need for the product but also the purchasing power and the authority to make the decision.

**AIDAS Theory :** It suggests that the prospect goes through five different stages of Attention, Interest, Desire, Action and Satisfied during a sales presentation.

**Buying Formula :** It emphasises the needs and problems of the buyer and suggests that the sales person must assist in finding solution to those problems.

**Probe :** A technique of asking questions to the prospects with the objectives of drawing his attention to the contents of salesman's presentation is called probing.

In response to the question the prospect can answer in specific words (like 'yes' or 'no'), such probes are called closed probes.

Those questions which give an opportunity to the prospect to come out with real problem, needs, requirements etc., are called open probe.

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### 3.8 FURTHER READINGS

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Allan L. Reid, *Modern Applied Selling* (New Jersey, Prentice Hall, 1996).

Frederic A. Russel, Frank H. Brach, Richard H. Buskirk and Bruce D. Buskirk *Selling Principle and Practices*, (New York: McGraw Hills, 1995).

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## UNIT 4 COMPUTER SYSTEMS AND APPLICATIONS IN SALES MANAGEMENT

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### Objectives

After reading this unit, you should be able to understand :

- Role of Sales Management
- What information is needed for the execution of an order
- How to obtain the needed information
- How to design a computerised system for Sales Management
- What types of analyses are possible using the Sales Management System

### Structure

- 4.1 Introduction — Role of Sales Management.
- 4.2 Organisation As an Information Processing System
- 4.3 Why Computers
- 4.4 Execution of an Order — Stages Involved
  - 4.4.1 Vetting for Technical Details
  - 4.4.2 Vetting for Commercial Details
  - 4.4.3 Information and Co-ordination for Execution
  - 4.4.4 Delivery of Goods to the Customer
  - 4.4.5 Installation of Goods and Collection of Payment
  - 4.4.6 Squaring up of Accounts
- 4.5 Information Sought from Sales Management
- 4.6 How to Obtain Information for a Sales Management System
  - 4.6.1 Factors Responsible for Incompleteness in Customer Order
  - 4.6.2 BDI — What is it
  - 4.6.3 Advantage of BDI and its Numbering
  - 4.6.4 Information Given in a BDI
  - 4.6.5 Other Informations
- 4.7 How Does a Computerised System Work
  - 4.7.1 Processing an Order (Manual)
  - 4.7.2 Processing an Order — Through Computerised System
    - 4.7.2.1 Record, File and Status
    - 4.7.2.2 Computerisation of Status
- 4.8 Uses of Computerised Sales Management System
- 4.9 Summary
- 4.10 Key Words
- 4.11 Self-Assessment Questions

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### 4.1 INTRODUCTION — ROLE OF SALES MANAGEMENT

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Functions of Sales Management in an organisation are two fold. On one hand, it acts on behalf of Management and scrutinises the orders picked up by the sales team and, on the other hand, it acts as the principal agency of the Sales team which executes the orders by co-ordinating among various departments and agencies.

Normally in an organisation, a separate department is created and is given the responsibility of vetting and executing orders and for co-ordinating with all related departments. Because of the administrative nature of these activities, this department, at times, is called "Sales Administration" as well.

Activities that come under the purview of this department are the following :

- Vetting of an order, both technically and commercially
- Obtaining the items / services that are required to be delivered to the customer.

Activities that come under the purview of this department are the following :

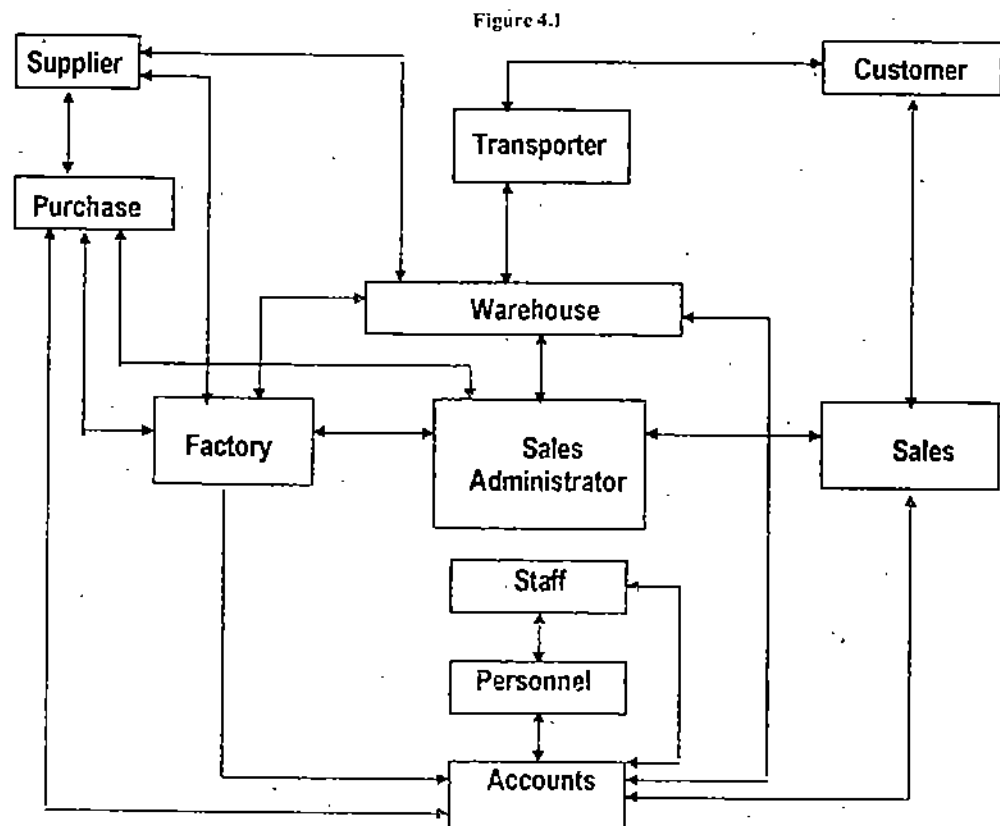
- Vetting of an order, both technically and commercially
- Obtaining the items / services that are required to be delivered to the customer.
- Delivering items / services to the customer i.e. logistic.
- Organising installation / erection / testing of the items supplied.
- Invoicing
- Controlling Bills Receivables.

Because of the central position that this department occupies in an organisation, it is given additional responsibilities of :

- information / feedback system;
- implementation of incentive schemes;
- doing various analyses like :-
  - target vs achievement analysis,
  - region-wise sales analysis,
  - sector-wise sales analysis,
  - profit analysis,
  - age analysis of outstanding / bills receivable and
  - order — shipping — billing — collection cycle analysis.

## 4.2 ORGANISATION AS AN INFORMATION PROCESSING SYSTEM

Although the overall objective of an organisation is to generate sale, all functions performed in the achievement of this objective can be viewed in the nature of informations exchanged thereby making it an information processing system. Each department of an organisation receives or seeks informations from various sources, processes the information and acts according to it and then provides the requisite informations to other relevant / connected departments. This interconnection forms a complete loop. A schematic diagram of this interconnection for exchange of information has been given in fig. 4.1





The schematic diagram of a particular organisation may vary depending upon the nature of business, size and type of organisation and the practices being followed in the organisation. Specific details of information to be exchanged between various departments would also be determined by the above mentioned factors. However, for understanding how this kind of system works, we shall take the example of fig. 4.1 and examine the kind of information that is exchanged between various departments of the organisation. Results of the examination are given below :

**Informations Exchanged Between Departments**

From	To	Information Sent/ Sought
Customer	Sales Office	<ul style="list-style-type: none"> <li>· Enquiry about a requirement</li> <li>· Decision for purchase (through Purchase Order)</li> <li>· Intimation on release of payment.(by releasing cheque)</li> <li>· Query on status of Order</li> </ul>
Sales Office	Customer	<ul style="list-style-type: none"> <li>· Price, availability &amp; terms of sale (quotation)</li> <li>· Acceptance of customer P.O.</li> <li>· Intimation of despatch of goods from godown.</li> <li>· Advise on status of the order</li> </ul>
Sales Office	Sales Adm.	<ul style="list-style-type: none"> <li>· Intimation of receipt of Order</li> <li>· Advice for execution of Order</li> <li>· Information of annual / quarterly / monthly plan</li> <li>· Any complaint from customer which is to be handled by Sales Administration</li> </ul>
Sales Adm.	Sales Office	<ul style="list-style-type: none"> <li>· Acknowledgement of receipt of an Order.</li> <li>· Acceptance or otherwise of the Order.</li> <li>· In case of non acceptance, reasons for non acceptance.</li> <li>· In case of acceptance likely date of delivery to customer.</li> <li>· Intimation of despatch to the customer.</li> <li>· Feedback on customer complaints</li> <li>· Inventory status.</li> <li>· Outstanding Bills Receivables.</li> </ul>
Sales Adm.	Warehouse	<ul style="list-style-type: none"> <li>· Advice for despatch of goods to the customer</li> <li>· Seeking information on availability of goods</li> <li>· Seeking information related to a customer complaint</li> <li>· Warehouse Sales Adm.</li> <li>· Intimation of despatches to customers</li> <li>· Advice on inventory status</li> </ul>

		· Informations related to customer complaints
Sales Adm	Factory	<ul style="list-style-type: none"> <li>· Information of annual / monthly / weekly requirement (Planning)</li> <li>· Information of additional requirement.</li> </ul>
Factory	Sales Adm.	<ul style="list-style-type: none"> <li>· Information on the projections by the factory on supply / replenishment of goods to the warehouse.</li> <li>· Information regarding any deviations from projections about supply / replenishment of goods to warehouse.</li> <li>· Information on the goods already made available to the warehouse.</li> </ul>
Warehouse	Accounts	<ul style="list-style-type: none"> <li>· Information that goods have been despatched to customer (through a copy of invoice)</li> </ul>
Factory	Warehouse	<ul style="list-style-type: none"> <li>· Programme for despatch of goods to warehouse</li> <li>· Intimation of actual despatch to the warehouse.</li> </ul>
Warehouse	Factory	<ul style="list-style-type: none"> <li>· Seeking information on status of goods expected / required from factory.</li> <li>· Acknowledgement of receipt of goods from factory.</li> </ul>
Warehouse	Transporter	<ul style="list-style-type: none"> <li>· Advising Transporter that material is available for despatch.</li> <li>· Informing Transporter details of goods &amp; destination for despatch (through invoice/challan/gate pass.</li> <li>· Advising Transporter how freight, insurance and octroi would be settled.</li> </ul>
Transporter	Warehouse	<ul style="list-style-type: none"> <li>· Advising despatch particulars ( GR no., date)</li> <li>· Advising details of actual delivery (Proof of delivery)</li> <li>· Informing on any problem faced in delivery of goods.</li> </ul>
Transporter	Customer	<ul style="list-style-type: none"> <li>· Advising details of goods that are being Delivered (through invoice / challan / gate pass etc.</li> </ul>
Customer	Transporter	<ul style="list-style-type: none"> <li>· Acknowledging that material has been received.</li> <li>· Advising details of discrepancies noticed, if any</li> </ul>
Factory	Accounts	<ul style="list-style-type: none"> <li>· Advising goods given to the warehouse.</li> <li>· Advising goods that have been received from supplier of raw material.</li> </ul>
Factory	Purchase	<ul style="list-style-type: none"> <li>· Advising requirements of material.</li> </ul>
Purchase	Supplier	<ul style="list-style-type: none"> <li>· Advising suppliers the details of material required to be supplied to the factory or warehouse.</li> </ul>

		<ul style="list-style-type: none"> <li>· Advising payments having been released against materials supplied.</li> </ul>
Supplier	Purchase	<ul style="list-style-type: none"> <li>· Advising the schedule for supply of material to factory / warehouse</li> <li>· Advising details of actual material supplied to factory / warehouse.</li> </ul>
Purchase	Factory	<ul style="list-style-type: none"> <li>· Intimation of the details of orders released on suppliers.</li> <li>· Advising the status of the supplies scheduled.</li> </ul>
Purchase	Accounts	<ul style="list-style-type: none"> <li>· Intimation of the details of orders released on suppliers</li> <li>· Intimation of the payments required for suppliers.</li> </ul>
Accounts	Purchase	<ul style="list-style-type: none"> <li>· Intimation of payments released to suppliers.</li> <li>· Intimation of why a particular payments cannot be released to the supplier.</li> </ul>
Accounts	Sales Office	<ul style="list-style-type: none"> <li>· Intimation of payments not received from customers.</li> </ul>
Sales Office	Accounts	<ul style="list-style-type: none"> <li>· Intimation of payments received from Customer</li> <li>· Intimation of expectation of receipt of payments from customers.</li> </ul>
Personnel	Staff	<ul style="list-style-type: none"> <li>· Intimation of salary accrued to them (pay slip)</li> </ul>
Personnel	Accounts	<ul style="list-style-type: none"> <li>· Advice for releasing salaries to the staff</li> </ul>
Accounts	Personnel	<ul style="list-style-type: none"> <li>· Advice that the salaries have been released to the staff</li> </ul>
Accounts	Staff	<ul style="list-style-type: none"> <li>· Advice that the salaries have been released.</li> </ul>

#### Activity 1

Develop a flow chart of sales information system in your organisation.

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### 4.3 WHY COMPUTER

Traditionally, exchange of information had been done manually and through paper - letters, purchase orders, quotations, memos, notes, reports etc. This method though, comfortable in traditional sense, has its own limitations, some of which are :

- Paper is bulky and messy.
- Paper is open to loss, abuse and damage.
- Paper is costly in itself and with respect to associated working time, equipment and furniture.

- Manual method is sequential, a paper cannot be examined simultaneously by more than one person, and making copies and distributing it is costly, time consuming and slow.
- Collection, sorting and analysis of data is time consuming and slow.
- Storage of data and retrieval subsequently is costly and time consuming.

Computers provide an alternate method of storage, exchange and analysis of data.

A single workstation computer can provide not only a cheaper and convenient method of storing data, but also simultaneous viewing, processing, sorting and analysis of data by several departments and individuals. It also brings about transparency of operations, and objectivity and uniformity in presentation of information.

But before we do that, we shall find out what "Informations" are needed for execution of an order in 4.4 and in 4.5 we shall see what kind of Informations are sought or likely to be demanded from the Sales Administration department. In 4.4 we shall see how information is collected to meet this demand and in 4.7 we shall see how information is stored, processed, transmitted and provided to the user departments using a computer system.

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#### **4.4 EXECUTION OF AN ORDER — STAGES INVOLVED**

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Execution of an order involves going through several stages. Each stage would have several activities. Who does what and therefore the exact sequence of activities would depend upon the nature of industry as well as on the type and size of organisation involved. Some of the activities may be concurrent, others are done in a predetermined sequence. Nevertheless, there are certain stages which a purchase order goes through. These stages are common to most of the industries. These would be enumerated and discussed in next sections.

##### **4.4.1 Vetting for Technical Details**

Normally, the person who front-ends with a customer, negotiates and obtains the order, is not the person who actually has to deliver the goods against the order. In such a situation, there is high probability that a sales person through genuine mistake or ignorance or enthusiasm commits to supply an item or a combination of items which may not be possible technically or possible at a very high cost. Often such mistakes are discovered too late for going back to the customer for rectification.

Such situations are frequent in I. T. industry.

Therefore, before an order is accepted for execution, it must be vetted for technical details by competent people.

In a subsequent section, we will discuss how such mistakes can be avoided.

##### **4.4.2 Vetting for Commercial Details**

Commercial reasons are the most frequent cause of delay in execution of an order. The reasons are either omission or inadequacy in the customer order of the details / informations / documents needed for execution, in the customer order. These omissions or inadequacies may also affect the profitability of the operations. Hence a careful vetting of commercial details before acceptance of an order is a must.

These details would vary depending upon the nature of business, type and size of selling organisation as well as the buying organisation. Some of the details, which are common to all purchase orders are discussed below :

ITEM	WHAT TO CHECK	WHY TO CHECK
<b>1) PRICE</b> Excise Duty Sales Tax Octroi Freight & Insurance Packing & Forwarding	1) What all are included in the negotiated price and what all are the extra. 2) Whether Excise Duty, Sales Tax have been charged correctly or not. 3) Who bears the cost of Octroi, Freights, Insurance & Packing & Forwarding, and how is it settled.	1) To calculate the part of the price that is retained by the seller, what it has to give to government agencies, transporter & insurance company so that the contribution over costs can be calculated. 2) To arrive at the value of liabilities to government in terms of excise duty, sales tax, octroi.
<b>2) PAYMENT TERMS</b> Advance Credit Mode-Cheque/ Draft/Document Through bank / LC Conditionality, if any for release of payment.	1) Whether it is as per company policy or not. 2) Are there clauses which may cause delay in receipt of payment. 3) Whether sellers interest have been Protected adequately or not. 4) If payment is by documents through bank or by L/C, whether the name and address of the bank of the customer has been provided or not. 5) Are there any documents that need to be obtained / attached along with the invoice for realising payments?	1) To assess the probability of getting the payment in time, given the terms for releasing the payment 2) To decide upon the measures to be taken to ensure that payment is not delayed.
<b>3) DESTINATION</b>	1) Which type of sales tax is applicable - CST for LST. 2) Whether any octroi has to be paid before entering the locality for delivery. 4) Whether any sales tax form is required to be furnished for entering the state. If yes, who provides the form & what is the procedure. 4) What the modes are available for reaching the destination. 5) What is the estimated cost of freight & insurance.	1) To ensure that the movement of material to the destination is smooth & all legal requirements have been taken care of. 2) To organise method of reimbursement / payment of octroi, freight, insurance and forwarding.
<b>4) TRANSPORTATION</b> Packaging Mode Freight Insurance	1) Has any special packaging been asked for by the customer. 2) What mode of transportation has been specified by the customer-Air/Rail/Road. 3) Whether the customer has specified the transporter as well or not. 4) Who bears the cost of freight. 5) Who bears the cost of insurance. 4) Has any specific agency been nominated by the customer to do insurance. 7) Is there a contact person at the destination who is to be contacted at the time of delivery or in case of a problem. Address & tele no., both office & residence. 8) If the payment is by documents through bank or L/C, & the transport does not have a godown at the destination town, where would the material be kept pending retirement of documents by the customer.	1) To decide upon the most suitable agency for the particular mode unless the customer has specified the agency as well. 2) To find out whether the packaging demanded or being provided is suitable to the mode of transport being used. 3) To assess damage / determination due to likely period for which goods may be in transit or would be kept at sending / receiving ends and in recipients godown before utilisation, and to take adequate precautionary/ preventive measures.
<b>5) BILLING ADDRESS</b>	1) What is the address at which billing is to be done. Is it different than the destination of the material. 2) How many copies of invoices are to be provided to the customer & where all.	1) To take steps for minimising delay in realising payment due to communication gap between the billing address & despatch address.
<b>6) DELIVERY PERIOD PENALTY CLAUSE LIQUIDATED DAMAGE</b>	1) What is the date by which goods are required at customer end. 2) Whether the goods are available. If not then by what date the customer would actually receive the goods. 3) What kind of additional cost would have to be incurred if the order is executed with delay. 4) What kind of additional cost would have to be incurred if emergency measures are undertaken to supply the goods within the stipulated time.	1) To assess how stringent are the delivery requirement and whether customer order is worth accepting or not on account of it.
<b>7. SPECIAL INSTRUCTIONS</b>	1) Are there any special instructions and conditions which are required to be fulfilled as contractual obligation.	1) To assess whether these conditions are acceptable or not, and how would it effect execution of order & realisation of payments.

#### 4.4.3 Information and Co-ordination for Execution

Vetting of the customer order may reveal certain aspects which render the order unexecutable / unacceptable. In such situations, efforts of Sales Administration are directed towards converting the order into an executable and acceptable one. Ways and means of doing this would depend upon what is needed to be corrected. Some of the obvious methods are :

- a) advising Sales Team to obtain from the customer amendments to the order,
- b) obtaining needed documents / informations from the customer through Sales Team,
- c) seeking clarifications from the Sales Team on points not covered by the order, and
- d) holding discussions with in-house technical people for solving technical issues.

If in spite of the efforts of the Sales Administration, the order remains unacceptable, the Sales Team is informed to convey to the customer accordingly. On the other hand if the order is or has become acceptable after the efforts of the Sales Administration, customer is sent information on the acceptance through the Sales Team, and the order is handed over to the Warehouse for execution / despatch.

Next stage is to check the availability of goods at the warehouse to meet the delivery schedule specified by the customer. In a majority of business situations, customers demand immediate delivery, and therefore finished goods are required to be stocked. Even in cases where goods are manufactured against customer order, normally there wouldn't be enough time to procure raw materials and then manufacture and still meet the delivery schedule. In such industries, it is the raw materials that are required to be stocked in advance. This means planning for material. This planning is based on the projections given by the Sales. The projections are yearly, quarterly and monthly in Indian scenario. In Europe and America, these projections, as a rule, are weekly. These projections are reviewed and raised periodically.

Sales administration follows up with factory and / or Purchase for the items that are required for stocking at the Warehouse as per the sales projections. It also gives requirements of additional goods needed for executing orders on hand which may be over and above the sales projections.

#### 4.4.4 Delivery of Goods to the Customer

The next stage after the acceptance of the customer order and the availability of goods, is that of delivery.

Normally, a transporter is engaged to pick the material from the Warehouse and deliver the goods. Most of the activities involved in this operation are derived from the terms and conditions given in the customer order, and the warehouse is expected to adhere to it. And activities are as follows :

- a) Raising the invoice for goods to be despatched.
- b) Handing over the goods as per invoice to the transporter.
- c) Giving instructions to the transporter on contact person at destination and how the freight and octroi would be settled.
- d) Obtaining the GR/RR/AWB from the transporter as acknowledged of material handed over to him.
- e) Follow up with the transporter for proof of delivery at the destination.
- f) Informing the concerned people / agencies / department about the despatch of the material.
- g) Updating the stock register and maintaining other records at the warehouse.

#### 4.4.5 Installation of Goods and Collection of Payment

Once goods have been delivered at the customer end, the next activity is that of collection of payments from the customer, which at times may be dependent upon installation or completion of certain formalities. Normally, the role of a Sales Administration department is to inform the Sales Team and the team responsible for installation about the despatch of the material and the date by which the material is expected to reach the customer, name, address and telephone number of the person that is to be contacted at customer end and the purchase order terms and conditions

according to which goods have been despatched, installations that have to be done and the payment that is to be collected, to enable them to co-ordinate amongst themselves and do their job. Sometimes this co-ordination job too is assigned to the Sales Administration. It all depends upon how the seller company has been structured and what roles have been assigned to individual departments.

#### 4.4.6 Squaring up of Accounts

Once the payment has been collected from the customer, it is sent to the Accounts Department, who in turn gives suitable credit to the customer in the books of account maintained by it, and the account of the customer is squared up accordingly. With this, transactions related to a sale are completed.

### 4.5 INFORMATIONS SOUGHT FROM SALES MANAGEMENT

It is essential to be aware, in advance, of the kind of information / analysis that would be or might be demanded from Sales Management System. It is this awareness that decides the kind of information collected and stored by Sales Administration and the way the information is organised in the computer system.

Normally following informations are sought from Sales Management System.

Dept. Seeking Information	Information Sought
	<b>A) ON AN ORDER</b>
1. Sales Executive	1) Whether a customer order has been accepted or not. 2) Reasons if the order has not been accepted. 3) When the goods against an accepted order will be despatched. 4) How the goods have been despatched - transporters name, despatch document no., date of despatch, when the material is likely to reach the destination. 5) Invoice No. invoice date. 6) In case of short supply, when the shortage would be made good.
	<b>B) GENERAL INFORMATION</b>
2. Warehouse	1) Material which is available for immediate despatch. 2) Delivery schedule of various items. 3) Orders pending for acceptance - Items, Quality, Delivery Schedule
3. Accounts	1) Invoices which have been raised 2) Time when payment against invoices may be received. 3) Sales Tax liabilities of the company.

4. Factory

- 1) Schedule of goods required - yearly / quarterly / monthly
- 2) Orders pending - Item, Qty., Delivery Schedule.
- 3) Inventory at warehouse

5. Top Management

- 1) Target Vs Achievement-Total Region wise, Sector wise, Item wise.
- 2) Target Vs Achievement - for individuals.
- 3) Bills Receivable, Age Analysis --- Region-wise, Individual-wise.
- 4) Pending Orders --- Item-wise, Value-wise, Age-wise.
- 5) Inventory in Warehouse - slow moving, dead stock and total inventory.

6. Additional Analysis Required

- 1) Percentage of orders accepted without any amendment.
- 2) Time Analysis of various segments of the cycle : "Dates of Customer Order, Receipt of Order, Acceptance of the Order and Despatch of goods".
- 3) Distribution of delay in delivery vis-a-vis customer requirement.

Activity 2

What specific information is obtained from better sales management, in your organisation.

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## 4.6 HOW TO OBTAIN INFORMATIONS FOR SALES ADMINISTRATION

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We have seen that the functions of Sales Management, essentially, are :

- a) execution of customer order;
- b) dissemination of informations on "order execution" related activities; and
- c) analysis of sale related activities.

A customer order is executed on the basis of the instructions given in the order. However, often, customer orders, do not provide complete instructions or informations. Besides, there are informations needed by the Sales Administrations, which are, anyway, not part of a customer order. Hence a method is to be found whereby Sales Administration can obtain complete informations required by it. We shall examine what this method is, and how it helps in obtaining complete information.

### 4.6.1 Factors Responsible for Incompleteness in Customer Order

- a) **Lack of knowledge / information** : This can occur both at customer end as well as sales executive end. Examples are, incomplete specification of the goods under purchase, sales executive not being aware of octroi applicable on goods being delivered at the destination, cess applicable on sales tax etc.
- b) **Invalid assumptions** : Examples are customary assuming that goods sold are always under one year warranty; negotiated prices are inclusive of sales tax etc.



c) **Information kept vague on purpose** : Normally this is resorted by the customer who negotiates price on "all inclusive" basis taking advantage of the ignorance of the sales executive about the octroi or entry less that are imposed by municipal authorities of the area where the goods are required to be delivered. This kind of information is local in nature and is generally not available with the sales person who is based at a location far away from the place where material is to be delivered.

d) **Lack of infrastructure at customer end** : When there is no format is available at customer and for releasing purchase orders, the orders are released on a letter-head. In such cases details are invariably missed out. Such instances are common with individual customers or organisations of small size.

e) **Details irrelevant to the customer** : Some details such as name of the sales executive who negotiated the order, who all will get the credit for booking the order, the market segment to which the customer belongs, item code of the goods ordered etc. are of no relevance to the customer, whereas these details are needed by the Sales Administration for analysis of sales activities.

#### 4.6.2 BDI— What is it ?

To overcome the shortcomings, enumerated in 4.4 and 4.4.1, organisations generally resort to a format that is required to be filled in by the sales executive for each and every order picked by him. This format becomes an integral part of customer order for the purpose of order execution. This format is variously called BDI (Billing and Despatch Instruction), BDA (Billing and Despatch Advice), OADF (Order Acceptance and Despatch Format) etc. In this lesson we shall use the term B.D.I.

Every BDI is assigned a unique number. As a rule, there can be more than one BDI corresponding to a customer order (e.g. where customer order stipulates staggered delivery, separate BDI's may be raised corresponding to each delivery), but one BDI must not correspond to more than one purchase order.

The numbers are assigned as per a defined system so that some information is built into the number. For example, let us assume that the numbering system stipulates an eight digit number.

**AA B C D EEE**

where AA : represent the last two digits of the year which the order has been booked  
 B : represents one digit defining the zonal office which booked the order.  
 C : represents one digit defining regional office which booked the order.  
 D : represents one digit defining the area office which booked the order  
 EEE : defines the serial number of order booked by the area office in the year AA by B.

#### 4.6.3 Advantage of BDI and its Numbering

1. BDI numbering system helps keeping track of an order by providing a unique reference number across the organisation.
2. In a computerised system, one can sort the orders received from customers using the intelligence built into the numbering system.
3. Since one has to fill in all the rows / columns and boxes of the format, no information is missed out.
4. It helps the sales executive to detect the information that he has missed and therefore need to be obtained and filled in.
5. It ensures uniformity in presentation of information.

#### 4.6.4 Information Given in a BDI

In this part of the lesson, we shall examine the informations generally asked for in a BDI.

BDI Number	:	Discussed in 4.6.2
BDI Date	:	Helps in determining the month in which the customer order has been booked. Also helps in doing analysis like target Vs achievement, time analysis of order processing cycle
Customer's Name	:	Identifies the customer
Billing Address	:	Discuss at 4.4.2
Pin Code Of	:	Helps in sorting and analysing the orders as per geographic location of the customers
Billing Address	:	Identifies the customer
Despatch Address	:	Discussed at 4.4.2
Pin Code Of	:	Helps in finding the distribution of the goods as per geographical location.
Despatch Address	:	
Purchase Order No.	:	Helps in correlating the BDI with customer order. This reference no. is reproduced in the invoice to help the customer to correlate the material received by it with his order.
Purchase Order Date	:	Helps in doing time analysis of the order processing cycle.
Item Description	:	Helps in determining the specifications of the goods to be supplied.
Item Code	:	Helps in ensuring that wrong item is not despatched because of incorrect reading or understanding of the specification.
Quantity	:	Informs the quantity of the items required to be supplied.
Price (Rate)	:	Discussed at 4.4.2
Excise Duty	:	Discussed at 4.4.2
Sales Tax	:	Discussed at 4.4.2
Value	:	Informs the value of the order.
Customer CST No.	:	For the satisfaction of Sales Tax authorities
Customer LST No.	:	For the satisfaction of Sales Tax authorities
Forwarding	:	Discussed at 4.4.2
Packing	:	Discussed at 4.4.2
Freight	:	Discussed at 4.4.2
Insurance	:	Discussed at 4.4.2
Transport Mode	:	Discussed at 4.4.2
Delivery Date	:	Discussed at 4.4.2
Payment Terms	:	Discussed at 4.4.2
Penalty Clause	:	Discussed at 4.4.2
Warranty	:	Discussed at 4.4.2
Sales Executive Code	:	To enable to do target Vs achievement analysis.
Area Code	:	To enable to do target Vs achievement analysis
Zone Code	:	To enable to do target Vs achievement analysis
Special Remarks	:	To provide special instructions and informations which have not been covered by other columns of the BDI.

#### 4.6.5 Other Informations

There are informations which are not the part of a BDI and have to be obtained from other sources. Some of such informations are given below :

Required Date of Despatch	:	This is to indicate to warehouse the date by which goods must be despatched from warehouse. This is calculated by Sales administration from the Delivery Date & the transiting for the
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Expected Date Of Despatch	:	This date is provided by warehouse for the information of the Sales team
Invoice Number	:	For the information of Accounts and Sales, obtained from warehouse
Invoice Date	:	For the information of Accounts and Sales, obtained from warehouse
Invoice Value	:	For the information of Accounts and Sales, obtained from warehouse
Transporter	:	For the information of Sales, obtained from transporter
GR/RR/AWB No.	:	For the information of Sales, obtained from transporter
Despatch Date	:	For the information of Sales, obtained from transporter
No. of Boxes	:	For the information of Sales, obtained from transporter
Actual Date of Delivery	:	For information of Sales and for doing time analysis of order execution cycle, obtained from transporter

## 4.7 HOW DOES A COMPUTERISED SYSTEM WORK

Having understood the informations required by Sales Administration, next stage is to understand how this information is stored and processed and disseminated by Sales Administration.

We have already said that Sales Administration function can be done manually as well as by using a computer. We shall first see how a manual system works and then would understand how the activities of the manual system can be computerised.

### 4.7.1 Processing An Order (Manual)

Depending on the system being followed in an organisation, a customer order has to go through various stages till it is fully executed. Fully executed is the stage when customer is satisfied with the goods supplied and has released the payment. Broadly speaking, the stages through which a custom order goes are receipt of customer order at the works, verification of the order, acceptance of order, obtaining the goods as per order, despatch to the customer, and realisation of payment. Each stage involves several activities, which can be organised sequentially.

Let us look at a typical manual order processing system and its activities as given below :

Sl. No.	Performer	Activity
1.	Sales Executive	Receipt of the customer order
2.	Sales Executive	Vetting the customer order and if found in order then sending it to Sales Administration for execution.
3.	Sales Administration	1) Receipt of the customer order and the advise for executing it. 2) Acknowledging to the sales executive the receipt of the order. 3) Vetting the customer order technically and commercially. If found okay, then advising the warehouse to execute the order.

If not found okay then taking up the matter to appropriate person / authority. These are three :

- a) If everything is okay except the contribution, and if the contribution is above 10%, then obtaining the decision of the VP for acceptance.

Sl. No.	Performer	Activity
		If it is accepted, then to advise the warehouse, & if not, inform the sales executive.
	b)	If everything is okay, except the contribution, & if the contribution is below 10%, then obtaining the decision of the M.D. for acceptance. If it is accepted, then to advise the warehouse, and if not, then inform the sales executive.
	c)	If there is problem with the commercial terms or there is a deficiency or if there is a query, then to write to the sales executive explaining the problem and seeking feedback and wait.
4)		The feedback from the sales executive, once received on 3(a), 3(b), or 3(c) of the activity no. 3, a decision is taken on the acceptability of the order. If the order is accepted, then an instruction is sent to warehouse to execute the order through a note giving all the details needed for despatch of the goods. If case the order is still not acceptable then the concerned sales executive is informed accordingly and the case is closed.
5)		Once warehouse has received the intimation for execution of an order along with the needed documents, & the goods are available with it, it calls the suitable transporter, raises the requisite gate pass & invoice and hands over the goods to the transporter. The warehouse informs the Sales Executive, the Sales Administration & Accounts the details of despatch.
6)		The Sales Executive informs the customer about the despatch & awaits the arrival of material at the customer end. The Accounts Dept. makes a debit entry in the books of the company against the name of the customer for the value of the goods despatched to it.
7)		Transporter in turn gives a copy of Good Receipt to the warehouse in token of the receipt of the material, carries it to the delivery destination, delivers the goods to the customer, obtains the acknowledgement of the receipt of goods from the customer and in turn hand over the acknowledgement to the warehouse.
8)		The warehouse informs the Sales Administration, accounts and the Sales Executive that the goods have been delivered to the customer.
9)		The sales executive collects payment from the customer against the goods delivered, as per the purchase order terms and sends the payment to accounts. Alternatively, if the payment has not been received, then Accounts follows up with the Sales Executive to collect the payment.
10)		Once the payment is received, the Accounts Dept. makes the appropriate Credit entry against the name of the customer and the invoice for which the payment has been received. If payment is received in full, the transactions of the sale are considered closed.

## 4.7.2 Processing an order through Computerised System

Now let us see how the order processing can be done by using a computer.

This is done in the two stages. First, the information contained in the customer order and the BDI are keyed into the computer and stored as data in "records" and "files". In the second stage, these records are processed by affecting changes in the field "status" of the records.

Even though creating a computerised system and organising data storage and processing, is a specialised job of I.T. professionals like programmers, system analysts etc., it helps to know what these terms "file", "record" and "status" mean, and how information is stored in a computer.

### 4.7.2.1 Record, File and Status

#### Record

A record is a group of related details / informations / facts stored in separate fields as a unit, say a particular transaction. An example of this is the particular transaction of despatch against an invoice. The record of this transaction would probably contain, as related items, the customer's code no., invoice no., GR No., GR Date, Transporter's name, No. of boxes, Destination.

#### File

A collection of similar records constitutes a file, in this case records of despatch details. The records are organised in such a way that specific items of data or records can be retrieved and accommodated in main storage when required for processing.

#### Status of an Order

Status of an order denotes the stage at which the order is in the order processing procedure. By implication, it also indicates the stages that have been passed through and the kind of processing / examination / activity related to execution of the order is being done. The status is indicated by a symbol which can be numeric, alpha or alpha numeric. For the purpose of this lesson, we would choose alpha symbols. Now let us go back to section 4.7.1 and try to identify some of the status and then assign symbols to individual status.

The first status is that of customer order having been received at the Sale Executive end. Let us indicate this status by letter O.

While the status is O, the customer order is under vetting at Sales Executed end and if found O.K. a B.D.I is raised and the order along with the BDI is sent to Sales Administration. Let us assign to this status of "order having been sent to the Sales Administration by letter "S".

The first activity that Sales Administration has to do is to acknowledge receipt of the order. Let this acknowledgement be denoted by letter A. Letter A, by implication, can also act as information to all concerned, be it Warehouse, Factory, Accounts, that an order for particular items, quantities and value has been received for execution.

Next stage is that of verification of the order by Sales Administration. Let us call this as status B.

The order is either acceptable or not acceptable. If it is acceptable, then we say that the order has reached status C. If not acceptable, then it could be because of technical reason or commercial reasons. When the reason for non acceptance is technical, we assign it status D. When the reason is commercial, the status assigned is E. And so on so forth.

### 4.7.2.2 Computerisation of Status

How assigning these status help in computerisation of the order processing ? The answer is

- first entering the details of the order in respective fields in a computer,
- then creating a record for status, and the,
- by providing option for entering the status of the order in the field "status", and then
- by providing an option for amending the content of the field "status" as per a logical sequence or as per requirement of a decision.

Let us see, with an example, how the above operates in actual practice.

The order details are keyed in the record say "BDI". As soon as the complete details of the order is keyed in, another record is created for status where there are only two field – BDI no and order status. The record "status" corresponding to a BDI number is activated, and letter "O" is keyed in the field "status". If the customer order is found O.K. by the sales executive, he prepares the manual B.D.I. and send the customer order along with the B.D.I to the Sales Administration and simultaneously he changes the status of the order, by activating the record "status" corresponding to the BDI reference no. to S.

From now onwards, Sales Administration takes over.

A typical list of various status, is given below :

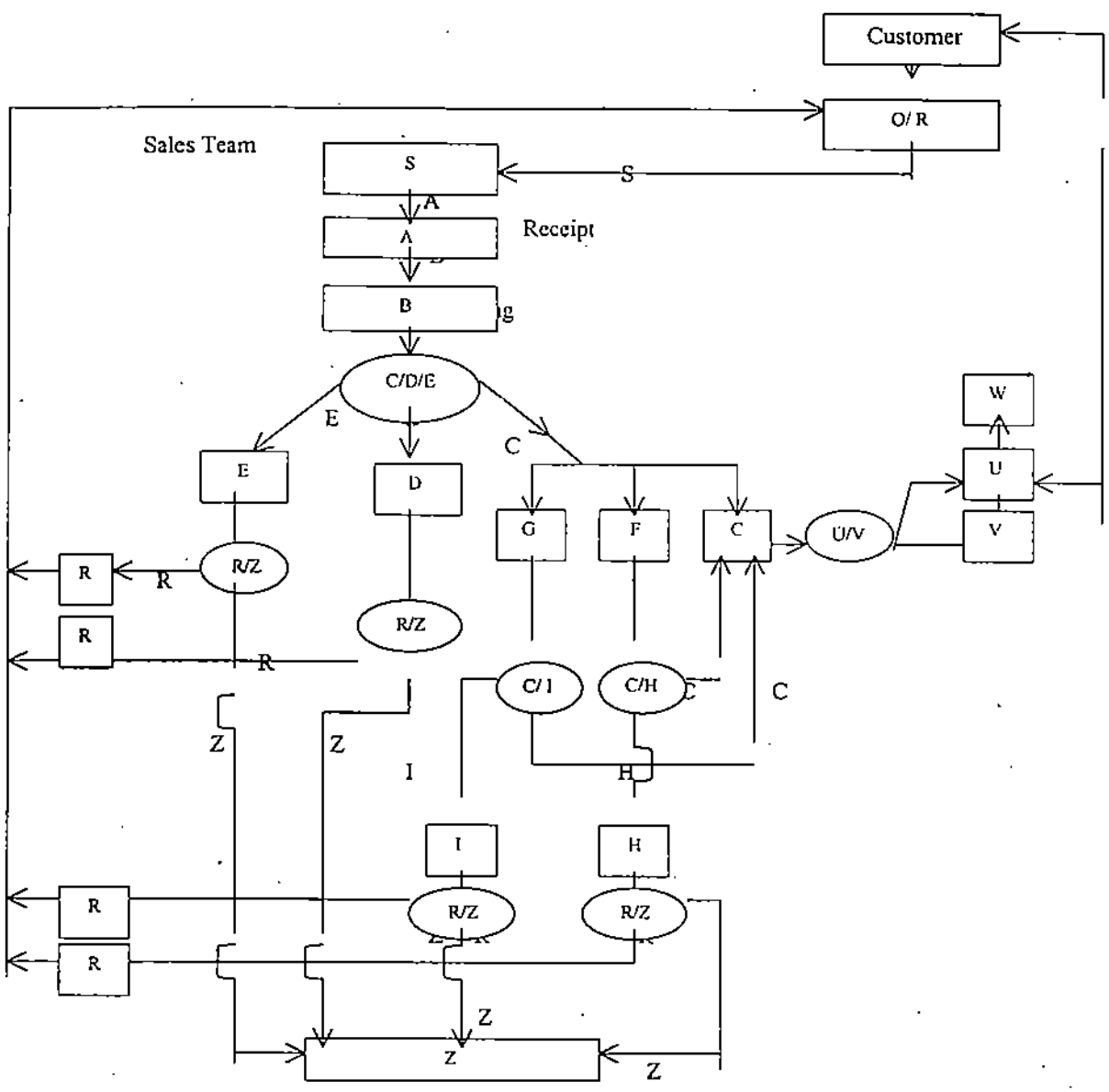
Letter	Status
A	Order received at Sales Administration.
B	Order under verification at Sales Administration.
C	Accepted by Sales Administration for execution.
D	Not accepted by Sales Administration for technical reasons.
E	Not accepted by Sales Administration for commercial reason.
F	Contribution is low, between 20% to 10% approval of G.M Sales is required for acceptance.
G	Contribution is low, below 10%, approval of MD required for acceptance.
H	Rejected by GM Sales.
I	Rejected by MD
J	-----
K	-----
L	-----
M	-----
N	-----
O	Customer order details keyed in by Sales Executive order under verification by him.
P	-----
Q	-----
R	Returned to Sales Team as unacceptable order, Sales team to rework on order to remove deficiency.
S	Order accepted by Sales Team, sent to Sales Administration, along with BDI.
T	-----
U	Material despatched to the customer.
V	Order has been received, material not available.
W	Customer has received material, proof of delivery obtained from transporter.
X	-----
Y	-----
Z	Order rejected, not executed, order closed.

It would be noticed that not all letters of the alphabets have been used. Also assigning a letter to a particular status is arbitrary. For a system to work, it is not necessary that the alphabets for indicating status be chosen in any logical order, all that is required is that a letter defines a

significant and unambiguous status. What is significant and what is unambiguous would depend upon the nature of the things being handled.

A logical sequence, based upon the definition of status given above has been illustrated graphically in fig. 4:2.

Fig : 4.2



The letters in rectangular box  indicates the status obtained or reached at a stage, the letter (s) in  indicate the options available for status changes from the previous status, the letter over a path line indicates the option exercised for the status change ( this indicates the decision taken ).

It would be noticed that there are three options available for change at status B which are B to C, B to D, B to E. While B to D and B to E, the resultant status is the same which was intended, when B is being changed to C, the status can change either to G or to F or to the intended C. This is because, it is assumed that while vetting at status B, the executive has all informations necessary for his decision making except one, and that is of contribution, with him. So while the

decision of acceptance of the order is taken by the executive on the basis of informations. Available with him, the outcome what is dependent on "contribution" which is calculated by the computer based on informations and the decision logic already stored in it and changes the status to C or F or G accordingly. This kind of sophistication of computer operations is very useful where the item ordered by the customer can be viewed as all agglomeration or integration or assembly of various elements, and the number of such elements are large and cost of individual elements changes frequently. In such cases it may not be humanly possible in terms of efforts and time required to keep track of such changes and to do the calculations for each and every customer order manually.

## 4.8 USES OF COMPUTERISED SALES MANAGEMENT SYSTEM

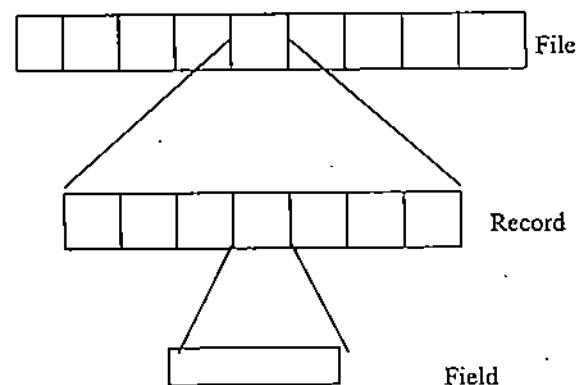
We have seen how order processing can be done using a computerised system. However, if the system is used only for order processing, it can only be termed as gross under-utilisation of the capabilities of the system. In fact, order processing is only a part of the reason for computerisation of systems by the management, the real incentive is the ease with which information can be stored, viewed, exchanged and analysed for taking day to day decision. The system can also provides quickly the data base and do analysis for taking strategic decisions. In fact, computers have made it possible, for the first time to take decisions on the basis of actual data, because of its ability to handle volume quickly.

### 4.8.1 What Informations are Stored in Data Base

Basically the informations, stored in a computerised system have been listed in section 4.4.4 and 4.4.5. Apart form these, the system maintains the list of items that an organisation can supply and costs and prices thereof, list of customers – past and present, the list of employees and the targets given to them month wise, quarter wise, year wise or any other practice that the company follows in this respect, list of approved transporters, customers credit ratings, stocks available at various warehoused, excise and tax structures for various items being supplied by the organisation and archival informations about orders received in past.

### 4.8.2 How the Information is Stored

The information is stored in terms of fields, records and files. The hierarchical arrangement of these are shown below :



Field is the smallest unit of information like Date, Month, Year, GR no., Transporters Code, Employee Code, Item Code, Cost, Customer Code, Invoice no. etc.

A collection of relevant fields make a record such as despatch particulars which may consist of Invoice no. Transporters code, GR no., GR Date, GR Month, GR Year, Destination.



A collection of relevant records constitutes a file, such as file for Employees which would have records of each employee, with fields for employee code, employee name, target for various months, his present location etc.

Files are categorised depending upon the purpose of creating the file and their volatility, which is a measure of the extent to which the contents of the file change with time. Broadly there categories are :

- Master file
- Transaction file
- Work file
- Security file
- Audit file

No system can be created without the first two files, namely master file and transaction file, Creation of other three would depend upon the software being used and the way the elements of the system have been defined, designed and integrated.

As designing the system is a highly skilled and specialised job of a system designer and, is beyond the scope of present curriculum, we shall see, briefly what these five types of files are :

#### Master File :

It is a permanent file and contains details which are of permanent or semi permanent nature such as products, customers, employees, prices, costs, customer orders.

There are two types of master files :

- Static master file ( at times called reference file ) contains details which are rarely attended.
- Dynamic master file where details which are of transitory importance are stored.

#### Transaction files :

This is the file where data is stored awaiting processing. The processing may be updating the master file or archiving the data for future reference.

#### Work File :

This file is for storing data created by one transaction before being used for a subsequent transaction. One example is "print" file where data is stored and further processing on the data is done for producing the output in a specified format.

#### Security File :

Theses files are used to provide back up copies in case of loss or damage of data.

#### Audit File :

These are the file where final data are stored for archival purpose.

### 4.8.3 How the Data is Accessed or Viewed

Normally the Sales Management System is made available to each and every possible user of the data bank of the system through LAN. The users are provided the login code, and the system is designed in such a way that it is menu driven. The word menu driven means that at every stage, the computer offers to the user various options to choose from in a logical sequence. System designer, normally provides a users manual which describe step wise procedures for login and subsequent progress into the system. Software for most of the analysis that the users may have to do, too are part of the system, and the user has only to choose the report that needs from the

menu options and the computer software does the analysis and make the result available in a formatted form.

#### 4.8.4 Informations Sought from Computerised System

The informations sought from the system would, off course, depend upon the nature of the, business as well as on the type and size of organisation and the practices followed in the organisation. Here is a list of some of the informations that most of the organisation, would seek or would do the analysis, form time to time.

A. For pending orders :

1. Details of an order.
2. Status of an order.
3. Details of all pending orders – status wise / area wise / region wise / company wise
4. Details of orders under a particular status.
5. Total quantities of various items.
6. Details of orders required to be executed today / tomorrow / in next six days / next month / next quarter etc.

B. For analysis and Monitoring :

1. Target Vs Booking – area wise / region wise / individual wise / company wise
2. Bills Receivable Age Analysis – area wise / region wise / individual wise / total
3. Todays Collection / Todays Billing / Todays Booking
4. Analysis of Time Gap between Date of Order and Receipt of Goods by Customer, between Date of BDI and Acceptance, between Date of Acceptance and Date of Despatch etc.
5. Delay Analysis between Required Date of Despatch and Actual Date of Despatch.
6. Market Segment wise analysis of booking
7. Population Distribution of a product.
3. Daily MIS for Sales.

#### 4.8.5 How to Set up a Sales Management System

There are three persons who have to interact amongst themselves for implementing a useful and efficient Sales Management Systems. They are :

1. initiator and controller;
2. users; and
3. system analyst and programmers.

Head of the Sales Administration is normally the person who acts as Initiator and the ownership of the data in the system is his and therefore in that sense is the controller of the System.

Users are all those departments and specific individuals who need access to the data in the system for doing their jobs. This would mean all the people in the Sales Administration, some people in Accounts, some people in Factory, almost all people at the Warehouses, and practically every member of Sales Team.

System Administrator is the person who is responsible for deciding and providing the hardware and software for establishing the LAN and who designs the system on computer.

In this lesson, we are concerned with only the Sales Administration, and would therefore confine ourselves to steps that he has to take for fulfilling his role in establishing the system. These are :

1. Contact all users of the proposed system and find out what type of informations they would like to have and what type of analysis they would do. Compile it.

2. Contact the System Analysts and explain to him the purpose of establishing the system and the informations and analysis that are expected out of the system. Find out what inputs he needs to establish and run the system.
3. Design a format for BDI and other systems for collecting informations accordingly.
4. Give a copy of the BDI to the System Analysts to enable him to understand the data that would be entered in the system. Give additional sheet for the data that would be entered but are not part of BDI such as details of despatch, targets for individual executives / area / region, credit ratings of customers etc.
5. Explain to the System Analyst(s) the decision making process – all the status and the logical relationship among them.
6. Give in writing to System Analysts who all will have access to the system, what operations they would perform, their authority and who have to be denied access to which informations.
7. Tell the System Analysts the average volume of data that is expected to be entered per week and frequency of various reports that would be taken out.
8. Give an idea of the usage of various terminals in terms of hours per day and the time of the day when the system would be under use.
9. Tell specifically which informations are only for “view” and which are for both “view” and “print”.
10. Once the system has been installed, run both the manual and computerised system parallelly for some time and once people develop confidence in the computerised system, discontinue manual systems one by one gradually.

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## 4.9 SUMMARY

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Role of Sales Management in an organisation is to execute the orders received, to provide information to all connected with order execution and to prepare reports and analysis for management control, decisions making and planning. This involves handling of massive data at speed. Manual handling of this function is slow, cumbersome and costly. Computerisation of Sales Management System helps not only in speedy handling of data but also provides transparency of operations, simultaneous processing of the data by various users at a considerably lower cost.

Computerisation of the system involves setting up a LAN system, entering all relevant data into the main processor ( workstation ), allowing access to various users to the LAN for viewing and processing. The key factors in successful working of the system are two. First one is gathering of informations which are relevant, accurate and complete and entering these into the system. The second factor is designing the system in a user friendly manner. The first is achieved by designing formats like BDI and second is ensured by detailing the expectations of users to the System Analysts and designing a menu driven system.

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## 4.10 KEY WORDS

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BDI	:	A format which is required to be filled by sales executives for ensuring that the informations made available on a customer order is relevant, accurate and complete.
STATUS	:	Status of an order denotes the stage of order processing.
RECORD	:	A record is a group of relevant details / informations / facts stored in separate fixed fields, as a unit.
FILE	:	A collection of similar records.

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## 4.11 SELF ASSESSMENT QUESTIONS

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1. Do you think computerisation in the sales function can be used as a distinct competitive advantage ? Discuss.
2. In case the items supplied to a customer, against an order are found to be defective, how such information would be communicated to that sales executive, who booked the order.
3. What is BDI ? What are its specific advantages?

NOTES



Uttar Pradesh  
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MBA-2.5  
Sales  
Management

5.

Block

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**SELLING SKILLS**

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**UNIT 5**

**Communication Skills**

**5**

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**UNIT 6**

**Sales Presentation**

**25**

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**UNIT 7**

**Negotiation Skills**

**42**

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**UNIT 8**

**Retail Communication: Sales Displays**

**53**

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## **BLOCK 2    SELLING SKILLS**

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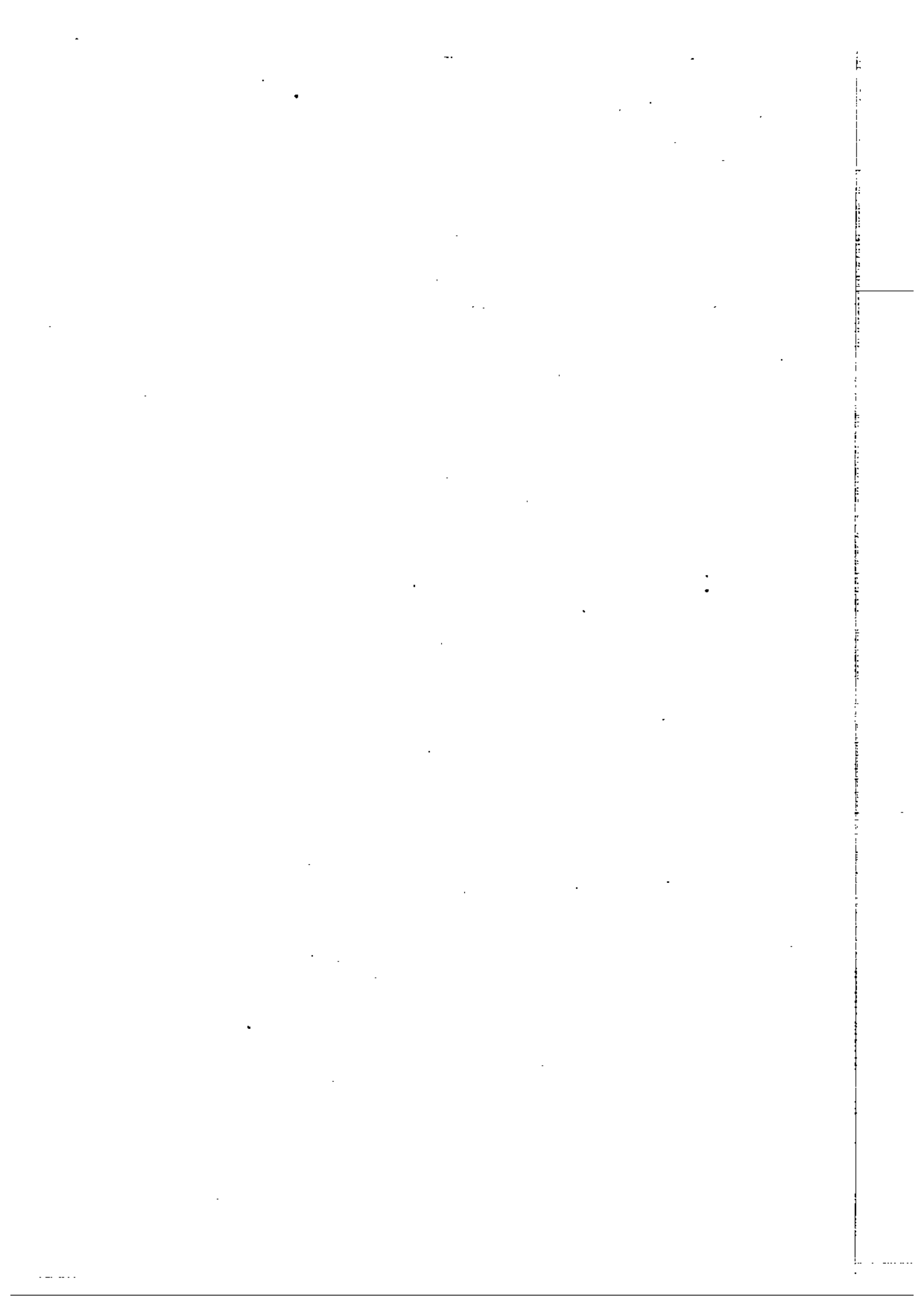
The second block of the Sales Management course is on "Selling Skills". For all field sales staff, the most important aspect of their job is to sell. The skill required for this is also discussed in this block. The block has four units, each with a clear focus.

The first unit in this block is on 'Communication Skills', since most sales interactions are interpersonal interactions, basics of interpersonal interactions are the foundation of sales communications. Further, in all interpersonal interactions we communicate with body language and other non-verbal forms. In this unit, some specific dimensions of non-verbal communication are taken up, both from the point of sales person as well as the prospective customer. Writing sales letters and other sales material has also been discussed in this unit.

The second unit is on "Presentation Skills". Some specific guidelines on how to prepare and deliver effective presentations in the sales jobs have been discussed in detail.

The third unit is on 'Negotiation Skills'. In this unit, very systematically, the negotiation process has also been discussed. Some specific recommendations have been made, for you to observe at each stage of the negotiations.

The last unit in this block is on 'Sales Display'. In fact, at retail levels such displays are important and constitute a vital component of non-verbal communication. Field sales persons are expected to ensure proper shelf space for their merchandise. Managing Retail displays to communicate effectively in the market place, is the focus of this unit.



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## UNIT 5 COMMUNICATION SKILLS

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### Objectives

After completing this unit you will be able to:

- outline the process of marketing communication, which is also relevant in sales communication
- identify the various communication objectives, media and types
- discuss the factors that influence a firm's choice of the media
- relate the non-verbal to interpersonal transactions
- understand how to write effective sales letters.

### Structure

- 5.1 Introduction
- 5.2 How Communication Works
- 5.3 Communication Objectives
- 5.4 Communication Media and their Characteristics
- 5.5 Selecting Media Options
- 5.6 Non-Verbal Communication (NVC)
- 5.7 Oral Communication
- 5.8 Interpersonal Communication
- 5.9 Non-Verbal Behaviour in Interpersonal Interactions
- 5.10 Written Communication
- 5.11 Writing Sales Letters and Other Materials
- 5.12 Summary
- 5.13 Key Words
- 5.14 Self-Assessment Questions
- 5.15 Further Readings

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## 5.1 INTRODUCTION

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The word 'communication' is based on the Latin word meaning 'common'. Thus the term communication has come to mean sharing something of common use.

In marketing, communication has a very important place. It is that function of marketing which is charged with the task of informing the target customer about the nature and type of the firm's products and services, their unique benefits, uses and features as well as the price and place at which those would be available in the market place. Since marketing communication aim at influencing the consumer behaviour in favour of the firm's offerings, these are persuasive in nature. These persuasive communications are more commonly called 'Promotion' and constitute one of the Ps of the marketing mix.

A study of marketing communication, therefore, is a study of the promotion function of marketing. Notwithstanding the continuing debate whether promotion is the first element of the marketing mix or the last, the fact remains that sound management of the marketing function is dependant on the effective management of its promotion function. Similarly, the examples of the products which misfired due to faulty management of the promotion function are not to seek. As stated above communication will be complete only when the receiver understands in the same sense what the sender wished to convey. The effectiveness of the communication process, therefore, is dependent upon the level of congruity and compatibility obtaining among the various elements of the communication process, i.e., between the sender and the message, the message and the media, the media and the receiver, and so on. Incongruity and/or incompatibility between the various elements of the communication process might make the promotion function, and in turn the marketing function, ineffective.

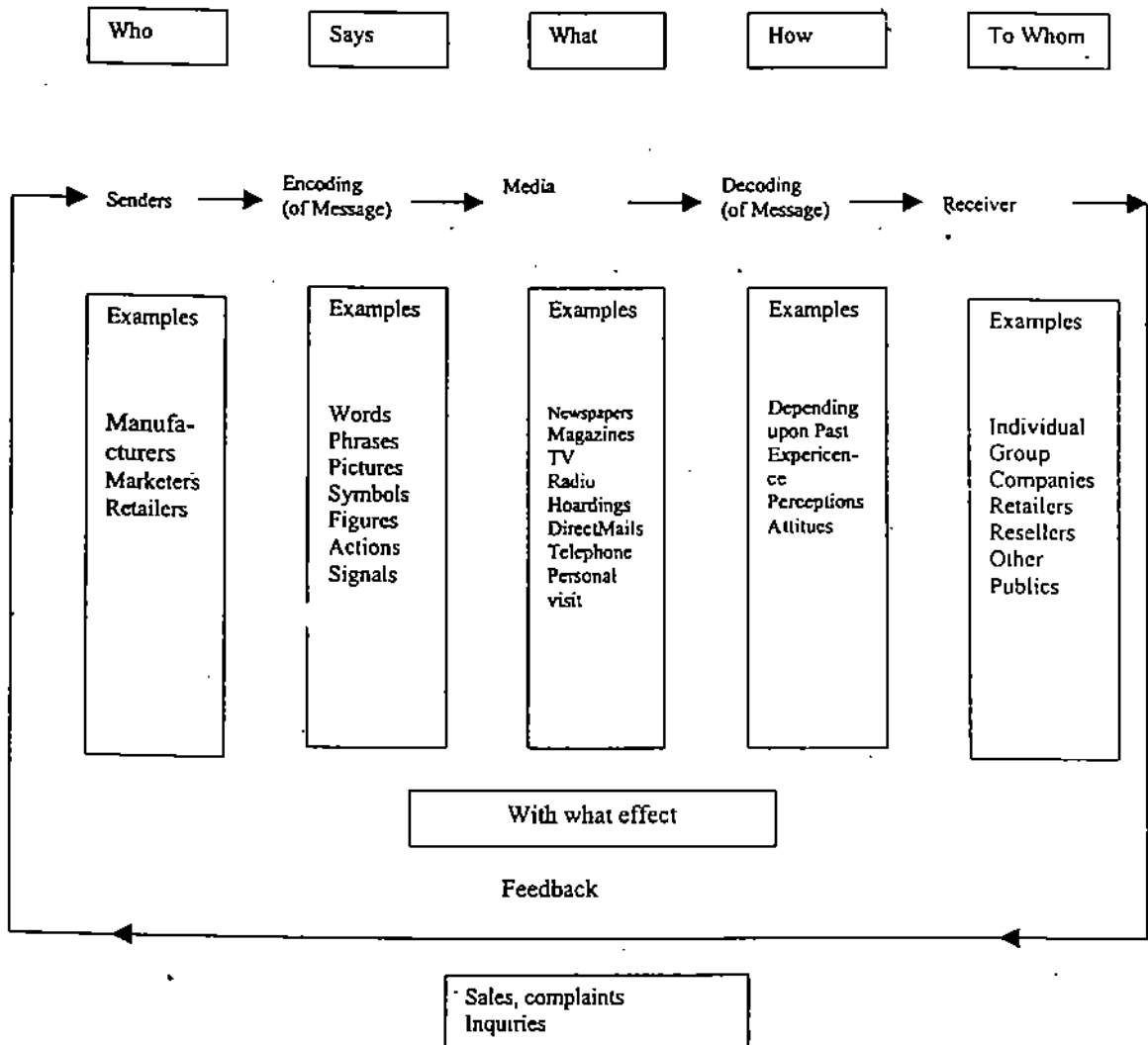


With growing competition in the market place, as well as the customers becoming better informed and more choosy it is imperative now that marketing communications, of the right kind only are made to the right group of target buyers. In order to understand how the promotion function can be managed effectively let us begin by first taking a look at how communications work.

## 5.2 HOW COMMUNICATION WORKS

We know by now that communication, simply speaking, is sharing of information between the two parties. Such an exchange could be oral or written, personal or public using words, figure, symbols or a communication thereof. The process of communication beings when one party (called source, sender or communicator) wishes to communicate with another party (the receiver). Communication is complete when the receiver understands in the same sense what the sender wished to communicate. The various elements of a typical communication process are given in Figure 1.

Figures 1: Elements of the Communication Process



The various elements are (a) the source; (b) the target; (c) the message (transmitted); (d) the message (received); (e) the goal of the message; (f) the medium.

### The Source

The source of communication contributes to its effectiveness. A lot of research has been done on source credibility. One source may be more credible than others, and communication from such a source may produce more effective results. For some messages a senior manager may be a more credible source, whereas for other types of messages a union leader may have higher credibility. It may be useful to determine the credibility level of the various sources for different categories of messages.

Some studies have been done on key communicators – the effective sources of communication. Key communicators in villages, influencing adoption of improved agricultural practices, were found to have higher social preference, greater contacts with change agents, higher communication skills, and higher adoption behaviour compared with low communicators.

### The Target

If the target of communication is receptive, the communication is likely to be effective. It may, therefore, be useful to assess a target's readiness and receptivity, and take necessary action to ensure a minimum level before sending the message. Communication should meet the target's needs. Receptivity may be determined by the perception of the source, his own needs, and the instrumentality of communication (that the act of communication will satisfy his felt need).

### The Message and its Goal

The message may be one of three types: information, a feeling, or a request for action. Communication of ideas and knowledge are communication of information. Communication of concerns, reactions, pleasant or unpleasant feelings, attitudes, likes and dislikes relate to the second category of message (feeling). In addition to these two types of messages, a message may relate to orders or requests to do certain things.

### The Media

The media used in communication can be classified in several ways. Media may be verbal or non-verbal. Non-verbal communication is an important as, and in some cases even more important than verbal communication. Non-verbal communication includes such a variety of behaviour that these cannot be enumerated. Even silence may be eloquent and may communicate a message. In attitudes and values, non-verbal communication is much more influential. Researches have shown that one of the most effective way of developing social skills and attitudes is modeling, living the values and attitudes you want to others to practice. People learn more from what they experience than what they hear. In an organisation the message of a General Manager orally delivered about the importance of technical people may have no effect if he himself does not have respect for them, and may often overrule the decision recommended by them on the basis of analysis of technical data.

A verbal medium can either be in written or oral form, and either in a face-to-face or distance situation. Letters and telephones are the distance media.

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## 5.3 COMMUNICATION OBJECTIVES

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Mutually satisfying exchange being the ultimate goal of marketing, the role of promotion, therefore, is to encourage such an exchange through linking communications with the product adoption process of the buyer. Motivating the adoption of the promoted product as well as effecting the desired change in the consumer behaviour then are the goals of the promotion function. The attainment of these goals presupposes that product purchase process be understood by the marketers before marketing communications are designed. While there are many models that help to conceptualise the buying process, two very specific models that aid in understanding the buying process as well as in framing communication are; 'AIDAS' and 'Hierarchy-of-effects' models.

The AIDA acronym stands for : Attention (also called awareness), Interest, Desire and Action. According to AIDA model, a marketer should begin by winning attention or gaining awareness, creating interest, inspiring desire and precipitating the action for purchase, in the prospects in order to enable its product to be adopted by the target public.

Under the hierarchy-of-effects model, the buyers purchase decision is preceded by steps such as conviction about the product benefits, preference for the brand, liking for the brand, knowledge relating to the benefits and features of the product, after an awareness of the product has been gained.

The basic implication of these models is that the function of persuasive communication or promotion should be handled deftly at every stage of the buyer's adoption process. Based on Lavidge and Steiner research, Gaedeke and Tootelian illustrate the various promotional tools that might be relevant to each stage of the hierarchy-of-effects model which is given in Figure 2. This Figure also brings out the variety of promotional tools that are available to marketers for making marketing communications.

Figure 2 : Promotion and the Hierarchy-of-effects Model

Hierarchy-of-effects stage (movement toward purchase)	promotion that might be relevant to various stage
Awareness ↓ Knowledge ↓ Liking ↓ Preference ↓ Conviction ↓ Purchase	Teaser Campaigns Jingles and slogans classified ads Point-of-purchase displays Publicity
	Informative or descriptive ads Status or glamour appeals Demonstration Image ads Comparison ads
	Testimonials Coupons, discounts, other incentives Point-of-purchase displays Retail Store ads Reminder ads

**Activity 1**

If your company is launching a product in a new product category in which there is no competitors, what would be your promotional objectives ? Why ?

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.....

.....

.....

**5.4 COMMUNICATION MEDIA AND THEIR CHARACTERISTICS**

For marketing communication, or in the sales function we use a variety of communication media, both written and oral. It is, therefore, important that before we start discussion on sales communications, let us first see the differences between any written and oral

communication. These differences are summarised in Figure 3. It is important to understand these differences clearly before we plan our sales communication.

Figure 3 : Differences between Written and Oral Communication

Communication Mix	Written	Oral
PURPOSE	Analytical & Reasoning	Assimilative & Emotive
AUDIENCE	Non-Interactive	Interactive
MEDIUM	Frozen (Verbal) Seeing	Fluid (Verbal & Non-verbal, Hearing)
MESSAGE	Complicated/Long	Simple/Short
FEEDBACK	None or Delayed	Quick & Immediate
TIME	Long/Flexible	Short/Inflexible
PLACE	Non-restrictive	Restrictive
COST	High	Low

Source : Srinivas Rao "Purpose Presentation Mix, copyright © 1979 by the Indian Institute of Management, Ahmedabad.

- i) **Purpose** : Any document is written with a purpose to analyse the situation and to give reasoning for the recommendations which were being made. Whereas an oral presentation is assimilative and emotive. Speaker has to make his/her presentation impactful by involving himself/herself with the topic or subject. Speaker is an integral part of the message, and therefore the challenge is in selecting the right combinations of facial expressions, tone of voice, gestures, postures etc.
- ii) **Audience** : The other difference is that in an oral presentation the audience are interactive, i.e., you can read the audience's reaction in their body language and you may accordingly adjust your message if desired. While in a written communication the audience are non-interactive as you write down a message to send across and you may not have any interaction with the receiver.
- iii) **Medium** : In a written communication, whatever you write or illustrate is frozen in words and visuals. While in the case of oral presentation the medium is fluid. The audio-visual aids, their synchronisation with verbal, body language, atmosphere, etc., can make a sales presentation successful.  
  
The non-verbal, particularly in oral presentation is of extreme importance. Your facial expressions, tone of voice, gestures etc. help to make spoken words clear, meaningful, convincing and effective.
- iv) **Message** : In a written communication the message is invariably long and complex, whereas an oral presentation has to be short and simple. For example, if you are making a presentation on a report you have written, you can make your presentation in the form of paper reading. Imagine how much time you would require to read a fifty page report and do you think that the audience will have patience to listen to you for that long? Therefore, you have to tailor your message which should appeal to your audience and for this reason it should be small and simple.
- v) **Feedback** : The chief advantage of oral communication is the opportunity for an instant feedback. This channel or medium can be effectively used when you don't require a permanent record of feedback. In a written communication invariably the feedback is delayed or it doesn't exist at all.
- vi) **Time, Place, Cost** : These are the other three points of differentiation between oral and written communication. A presentation has to be made at an allotted place, on a predecided date and time, while in written communication the place is non-restrictive and time is flexible. As far as the cost aspects are concerned, in general, cost of an oral presentation is low as compared to written communication, unless one is using sophisticated high-tech. equipment.

After noticing the difference between oral presentation and written report you should be now clear that an oral presentation is just not reading a prepared text; rather it is an interactive situation with the audience, where your non-verbal matters and the challenge is in putting across your message in a simple and short form, which your audience can comprehend and retain. You also use body language to influence clarity.

## 5.5 SELECTING MEDIA OPTIONS

There are no hard and fast rules about which channel of communication to choose. Whether you should speak or whether you should write depends on the context. Decisions about communicating, either individually to a group, may depend on the personalities of the people involved. Nevertheless, it's possible to establish some guidelines, based on common sense.

You write when:

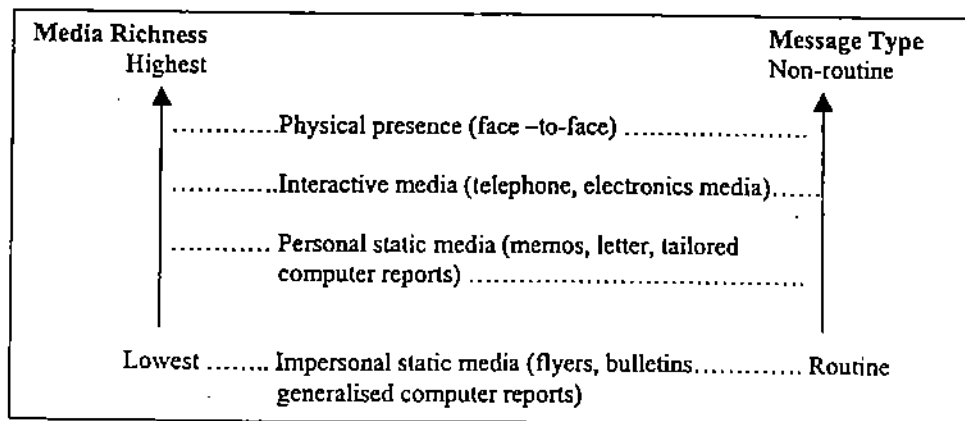
- you or the reader wants a record of the communication;
- you don't need an answer but are simply supplying information;
- the receiver is preoccupied with other pressing matters;
- the information is complicated or detailed;
- costs of telephoning are excessive.

You talk when:

- you want to encourage discussion;
- you need a quick response;
- you want to foster a personal relationship;
- you want to build group rapport;
- You are dealing with a personal or sensitive matter.

Aside from whether you write or speak the particular medium you choose can affect the reception of your message. The term medium overlaps the term channel but usually has a more specific meaning, referring to the vehicle or mechanism you choose to communicate, whether a meeting, the telephone, a memo, or sophisticated technology. When Marshal McLuhan said, "The medium is the message," he may have overstated the case, but there's no doubt that the choice of medium influences how messages are interpreted.

Figure 4 : Choosing the Best Medium



Source: Adapted from R. Lengel and R. Datt "The Selection of Communication Media as an Executive Skill," *Executive*, 2:3 (1988), 225-232.

One way of attacking the problem of choice is to think about the "richness" of the medium; that is, the number of different ways a message can be inferred or reinforced. For example, a telephone is a richer medium than a newsletter, because the receiver can listen to tone as well as to the words, and can question the sender. Similarly, television is richer than radio, because it permits seeing as well as hearing. Lengel and Daft have suggested that the more

complicated or controversial the information, the richer the medium you should use. As Figure 4 shows, a memo works well for a routine message, but for news about plant layoffs, a face-to-face meeting would be better.

## 5.6 NON-VERBAL COMMUNICATION (NVC)

Non-verbal means of communication include all communication forms that involves neither written nor spoken words, but occur without the use of words. Some of the types are as follows:

- Body Movements : Kinesics
- Space : Proxemics
- Voice Patterns : Paralanguage
- Time : Chronemics
- Touch
- Colour
- Layout/Design/Graphics
- Objects

### Kinesics

When communicating with others in a face-to-face situation our entire body participates in communication, which is called body language, like

- Facial Expression
- Eye Contact
- Gestures
- Posture, movements etc.

Like all other forms of communication, non-verbal message should be sincerely planned otherwise gesture & body movements usually appear to be just that faked. Use gestures naturally to reinforce the meaning you are expressing through words. Too much shuffling of gestures, postures is distracting & annoying.

### Space : Proxemics

Special change gives tone to a communication. It accents it and at times even overrides the spoken words. Proxemics involves how we arrange personal space and what we arrange in it. It is said that each one of us have four space circles around us, which are as follows:

First, consider the one & half feet circle around you. Only special but a few people are permitted here – Intimate Space

Second, inspect the four feet, beyond the first circle, friendly conversations and spontaneous communications normally occur here – Personal Space

Third, examine the personal space 4-12 feet around you. It is used more formally – i.e., for business or social situations

Last, observe the space beyond 12-16 feet things of least significance occur here – Public Space

A "Superior" can, by placing himself physically extremely close to a subordinate create a certain type of atmosphere or otherwise.

### Voice & Non-Verbal Vocalisation – Paralanguage

When we speak apart from the spoken words, the manner in which a word was spoken, relates to paralanguage. In paralanguage we consider two aspects. First is the voice set which

includes various measurements of voice in terms of intensity, rate, pitch. Rhythm and resonance. These can be measured through some physical instruments used for measuring sound.

The second is the Non-Verbal Vocalisation which includes laughing, crying, verbal pause & interludes of silence like : "AH's," "OH's" ..... etc.....

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## 5.7 ORAL COMMUNICATION

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Communication to most of us means writing something for someone. When it comes to improving communication skills we are only concerned with improving written communication skills and we don't pay any attention to improving our oral communication skills. We even think that there is no scope for improvement and we therefore don't even attempt.

According to a research, an average manager in general spends only 9% of his/her time in writing, 16% in reading, 30% in speaking and 45% in listening, as shown in the following figure 1:

Oral Communication doesn't mean speaking only i.e., public speaking, making business presentations, participating or conducting meetings, interviews, etc, but it also includes listening.

It is said that communication begins with listening and the fact is that you can't be an effective speaker unless you are a good listener – one can't speak unless one listens.

### Significance of Oral Communication

Oral Communication, which is face to face communication with others, has its own benefits. Not only does it provides the opportunity for feedback but when people communicate orally they are able to interact, they can ask questions and even test their understanding of the message. In addition people can also relate and comprehend the non-verbal, that serves far more than words. By observing facial expressions, eye contact, tone of voice, gestures, postures etc., one can understand the message better. Oral communication also makes people feel good as it satisfies one of our deepest needs of being part of a community, group identity and high morale.

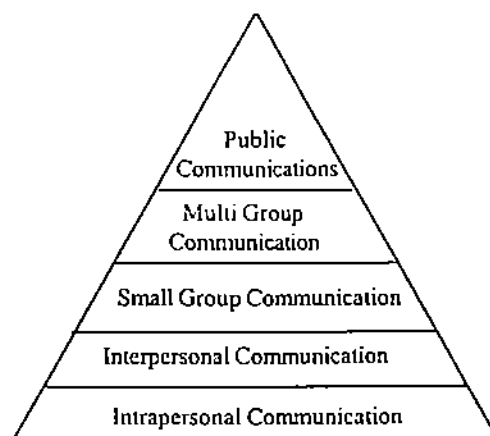
The only shortcoming of oral communication is that more often than not it is spontaneous and if you communicate incorrectly your message will not get understood.

It is primarily due to this reason one needs to develop effective oral communication skills as a message, if not understood at appropriate time, can lead to disaster.

### Levels of Oral Communication

The hierarchical nature of the five basic levels and corresponding types of oral communication are shown in the given figure5.

Figure 5 : Levels of Sales Communication



### **Intrapersonal Communication**

This is most basic form of communication relating to listening, observing and interpreting. We all process the information which we receive. Each one of us observe things and draw meaning out of it. When we talk to someone we listen. The degree of attention we are able to give to the speaker, would determine our understanding. We also observe body language, the manner in which a word is spoken, facial expressions, etc., and we reassure ourselves that the meaning we have drawn out of this information which we received is correct.

### **Interpersonal Communication**

Interpersonal Communication builds on the intrapersonal level, by adding another person to the communication situation and introducing a dyadic relationship. A dyad is defined as two persons who seek to exchange information, which could be a situation like interviewing, telephoning or dictating. In each of these situations also one has to decide what to say, when to say, how to say etc.

### **Group Communication**

The group communication is further divided into two levels – small group and multi-group. Small group communications in turn builds on dimensions of group dynamics and multiple interpersonal relationships to the communication situation. Multi-group communication exists through the combination of three other levels (Intrapersonal, Interpersonal and Small group) involving coordination with a large number of people involved in the shared accomplishment of complex goods. It is therefore important to recognise group communication at the small group and multi-group levels. Various types of meetings, training situations, committees, etc. fall in this category. And in such cases the group communication has to be effective, otherwise it may not help to meet the objectives for which the group is meeting.

### **Public or Mass Communication**

In addition to the above levels of communication, there are other forms of communication also. These additional forms of communication are public communication or mass communication. Public communication takes place when one person or a small number of people address a larger group of people. Although the speaker assumes the major responsibility for public communication and sends the preponderance of verbal messages, the speaker is not the only person engaging in communication. The audience sends messages to the speaker, primarily through nonverbal channels. Speeches, lectures, oral reports and dramatic performances are the different form of public communication.

In a situation of public or mass communication one should be very selective and specific. A number of times an unclear statement made orally to a large group might be interpreted differently by different people who can further complicate a situation, rather than solving it.

In sum, as a corporate manager when you communicate, you communicate at different levels, at each level you spend your time differently. However, all these five levels namely; intrapersonal, interpersonal, small group, multi group and public communication are important. To be successful as a manager, therefore, you need to develop skills to communicate effectively all the levels of communication.

## **5.8 INTERPERSONAL COMMUNICATION PROCESS**

Interpersonal communication is the basis of most interactions in organisation. Persons in organisations interact with the others within their own groups, across groups, and across levels. The effectiveness of these communication may contribute a great deal to the smooth functioning of organisations.

Interpersonal communication can be defined as the process of sharing of goal-oriented messages between two or more sources through a medium or media. Communication is a process. It consists of several units. The basic unit of communication can be called a communication act. This can be defined as follows: A communication act is the



transmission, through a medium or media, of a goal-oriented message from source to, and its reception by, a target.

Most of the time in a day is spent in some sort of interpersonal situation rather than all by oneself without being a member of a group. Most of the daily experience was based on interaction with other human beings. Some experiences in these relationships are joyful and others may be upsetting or remained stagnant or have even been abandoned. Understanding these relationships will help you develop and improve relationships. This leads to Interpersonal competence 'Interpersonal Competence' refers to the degree to which one is accurately aware of impact on others and to the impact of others on you.

A person in an organisation is surrounded by three other types of persons: Superiors, colleagues and subordinates. Besides these three types of role one has to interact with a lot of other people from different positions. Consumers, suppliers, people from regulatory agencies, general public, etc.

The determinants of interpersonal behaviour are :

**Self-concept:** Self-concept is a reflection of all the past experiences one has with others and includes characteristics with differentiates from others. Once self-concept is established and certain specific patterns of behaviour are adopted, it tends to resist change. In order to maintain interpersonal environment and to maximise congruence of harmony, certain mechanisms are used.

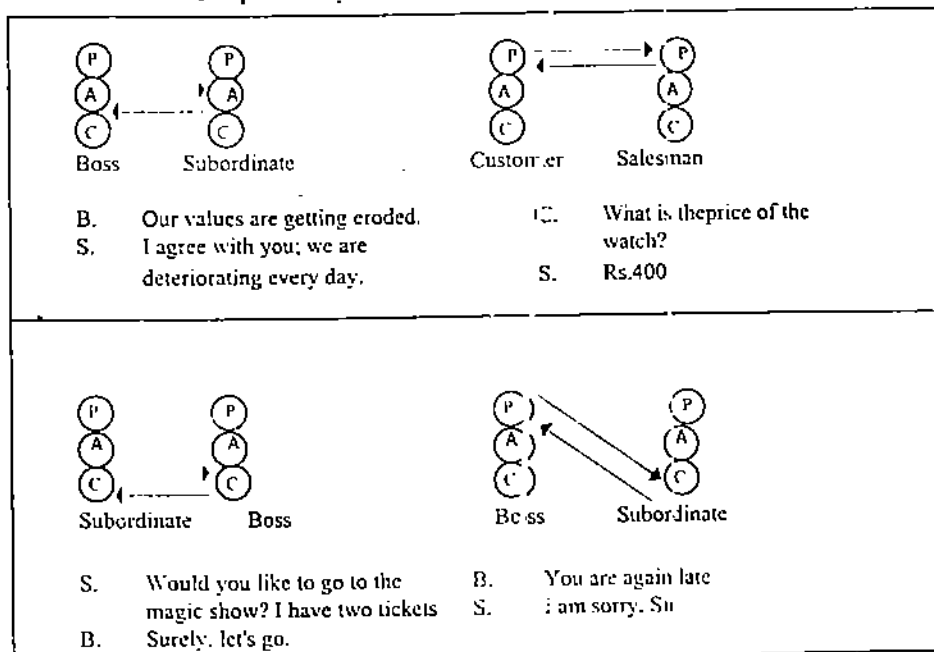
1. Misperception: Misperceiving how others look at you.
2. Selective Interaction: Interact with those persons who can establish a congruent state
3. Selective Evaluation of the other person
4. Selective Evaluation of self
5. Response Evocation: Behave in a way that results in others behaving towards you in an amicable manner.

People need people for three main interpersonal needs:

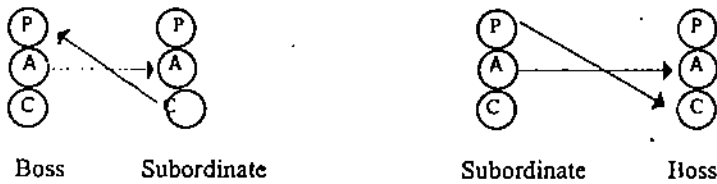
1. Inclusion – the need for interaction and association
2. Control – the need for control and power
3. Affection – the need of love and affection.

When a group begins to interact and acquire information of others views and attitudes bonds of attraction form most strongly between those who hold similar views towards things that are important and relevant to both. A person likes others who have the same feeling towards him or her as that person has toward himself or herself. This reinforces one's self-concept and facilitates interpersonal relations. People interact more frequently with those who are perceived as confirming their self-concept to the greatest extent.

Figure: 6  
Complimentary Transactions



**Figure: 7**  
**Crossed Transactions**



B.	Is the report ready?	S.	I want to discuss the resources
S.	Do you think I have no other work to do?		I shall need to complete the assignment.
		B.	You are always complaining.

**Figure: 8**  
**Ulterior Transactions**



There are four stages of developing interpersonal relationship:

- 1) Forming first impressions
- 2) Developing mutual expectations
- 3) Honouring Psychological contracts
- 4) Developing trusts and influence.

First impressions though often not right are lasting impressions. First impressions are lasting because they influence the way in which people see subsequent data about the perceived object or person. When people are mutually impressed, they are more likely to enter into a long-term relationship. When this happens, they develop certain expectations about each other. An effective inter or work relationship cannot develop and be maintained unless the participants are willing to honour their psychological contracts. The results of the meeting the psychological contract is an increased level of trust and influence. When the parties to the contract are able to meet their mutual expectations, the relationship produces mutual trust and favourable sentiment.

In 'developing interpersonal skills', interpersonal competence can be greatly enhanced by enlarging 'Arena' with the help of feedback and self-disclosure. Arena represents the 'public Self' that is known to the self and others. Development of cooperative relationships is facilitated when there are shared goals, mutually perceived power and the minimum level of distrust. Thus, it shows that interpersonal relations cannot flourish unless the parties are prepared to take certain interpersonal risks.

Good work has been done in Transactional Analysis on messages. One part of the message exchanged between two persons is called a transaction. When A sends a message, B receives it; B responds and this is received by that is one transaction. A person can send a prescriptive or admonishing message (from what is called the Parent ego state); or an information messages (from the Adult ego state); or a feeling message (from the Child ego state). Any of these message may be sent to (and received by) one of the three ego states of the other person (Parent, Adult, or Child). If the response is by the same ego state as through which the message was received, it is called a complimentary or parallel transaction. Such transactions are very satisfying. These are shown in Figure 6. The response however, may not originate from the ego state which has received the message. Then it is a crossed transaction. Figure 7 give examples of crossed transactions.

A message sent may not be simple one. To use Transactional Analysis (TA) terminology a message sent may have two targets (of ego states). There may be an overt message (open and expressed). But it may also contain a covert message (a hidden one). Transactions with such messages are called ulterior transactions. Figure 8 shows these transactions.

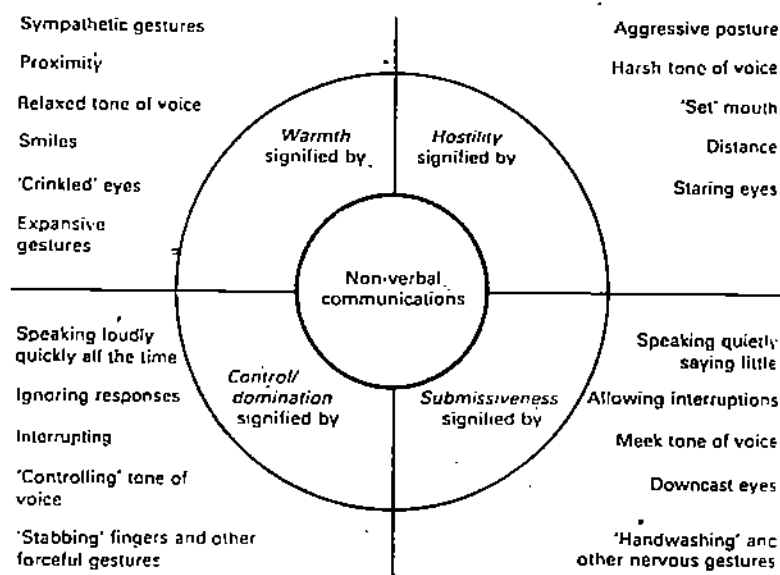
In the definition of communication a distraction is made between the transmitted message and the received message. The received message (the interpretation) may not be the same as the transmitted message. For example, a message of feelings may be transmitted by an employee when he narrates an experience to his boss, but the latter may receive only the information message, and not the feeling message. Or, a boss may transmit a message of negative feelings (he may receive a message of sarcasm when the boss may actually be expressing appreciation). There is no guarantee that the transmitted and received messages will be the same. In many cases these turn out to be different, and this distortion causes problems.

## 5.9 NON-VERBAL BEHAVIOUR IN INTER-PERSONAL INTERACTIONS

Having discussed the various forms of non-verbal communication and also the interpersonal communication, let us now relate the two. This will help you to understand the relevance of observing the non-verbal during a sales interactions, which is the most common interpersonal communication situation, a sales person face.

Most human feelings, a emotional and thoughts can be communicated through a mix of non verbal forms of communication. Let us take some typical examples, as shown in figure 9.

Figure 9 : Non-verbal Communication



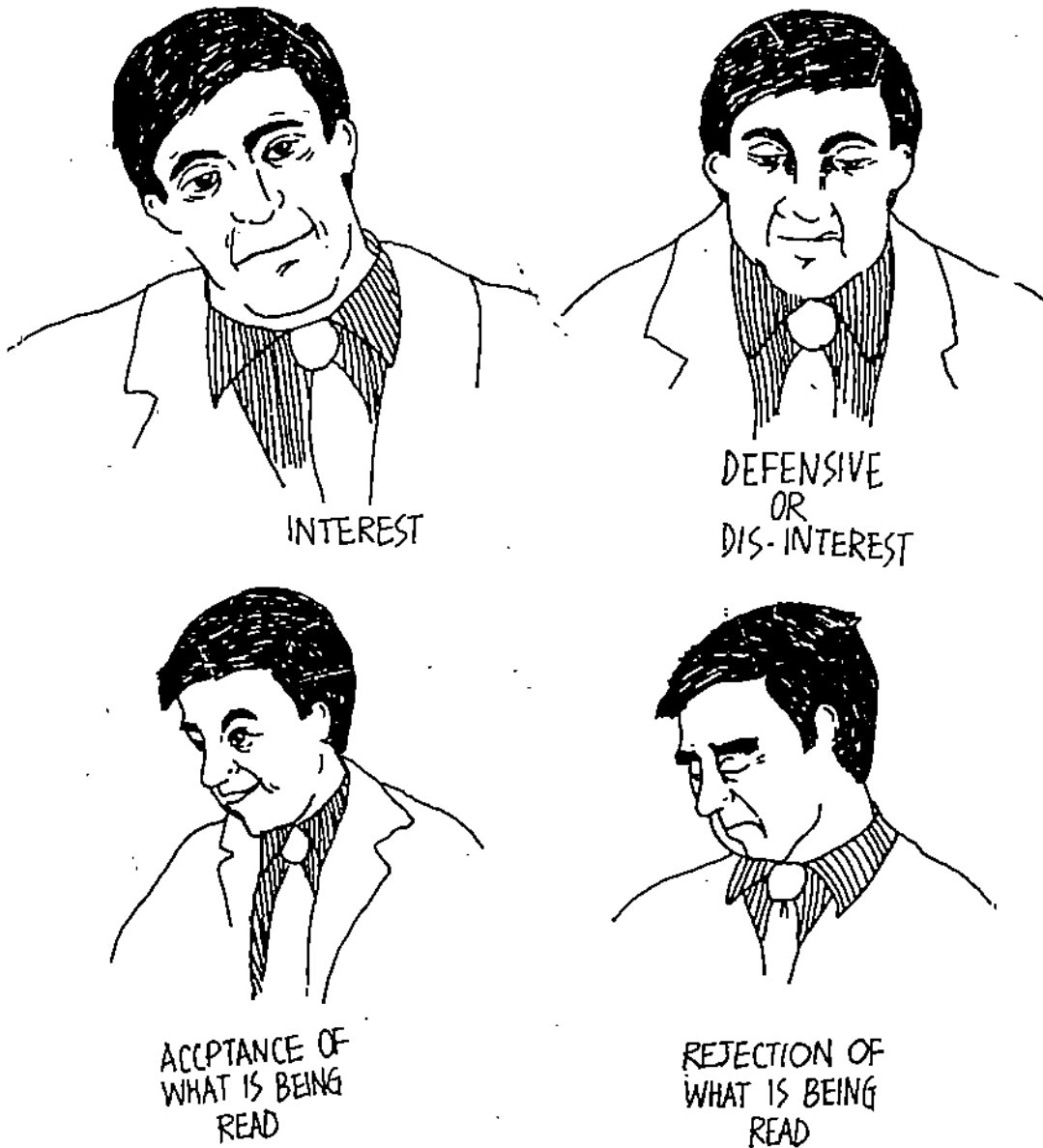
You would appreciate that facial expressions, gestures and postures can convey quite a few feelings and emotional responses.

For example, crinkled eyes convey warmth, staring eyes convey hostility and downcast eyes suggest submissiveness.

**Facial Expressions :**

Similarly, a smile on the face conveys a liking for the other; as against a 'serious' facial expressions. In figure 10, types of facial expressions have been shown, to further illustrate the point.

Figure 10 : Facial Expressions Conveying Acceptance – Rejection and Interest – Disinterest



**Gestures**

Gestures can also convey various emotional responses. In the figure 11 we have taken six examples to illustrate the point. You may notice from these illustrations that the way you position your hand against the face, would change the meaning. For example, hands on chin with pointing up figure held to the cheek, might suggest critical comparison. The same hand when shifts to the nose would convey reluctance and when it is held against the lips, it conveys, disbelief.

Further, hand movements i.e., gestures, can also help in supplementing your message or describe things clearly, during a sales presentation. (Detailed discussion on the gestures in relation to a presentation has been given in Unit 6.

**Figure 11 : Position of the hand and its gestures : Placement on the face**



Postures, i.e., body position can also convey messages or responses.

Assume that in a sales presentation your prospect holds his face between his hands and bends forward to place elbows on the legs, near the knees. You would obviously draw a meaning that the person got bored with your propositions.

Similarly postures can convey to you whether your prospect is defensive, resentful, enthusiastic or open-minded about your proposals, as shown in the figure 12.



RESENTFUL



DEFENSIVE



CONFIDENCE



BORED OR DEJECTED  
BY YOUR PROPOSITION



READINESS TO GET GOING



ENTHUSIASTIC OPEN MIND  
ABOUT YOUR PROPOSITION

To win a customer, in all sales interactions, it is important to take the feedback, continuously. The feedback can help you to re-adjust your message, clarify the doubts, or supplement the sales talk with more information. This feedback invariably, can be taken by observing the body language of your prospective customer. You may observe the facial expressions, gestures or postures.

Each of these forms of non-verbal communication, can give you a feedback about the response of your customer which can help you in effectively adopting your message to win a sales or a customer.

## 5.10 WRITTEN COMMUNICATION

A good salesperson has strong written communication skills very often as a salesperson you are required to write to your customers. Also a salesperson has to communicate with different people within the organization.

The purpose of writing is to communicate a thought, an idea, feeling or fact. The more concrete and concise these elements in a communication, the more easy it is for a reader to respond to your communication. Also make sure that when you are writing you don't miss out on some essential detail e.g. you are informing your key customers about the launch of a new product, but forget to write to them where and whom to contact for the product. How irritated your customer will feel.

**Good letter writing**

Whenever writing to your customers be as specific as possible, giving all the pertinent information as accurately as possible. Keep only the required information in your letter as no customer has spare time these days to go through unnecessary information. As a guideline you can divide your letter into three parts: -

The basic patterns of a routine or good-news letter is :

- Write most important points first,
- give supporting details,
- end with a good-will statement.

Let us take an example of structuring a letter.

Poor	Thank you for your order. We at Top packaging are happy to do business with companies such as yours and look forward to future orders.
Better	The corrugated cartons you ordered have been shipped, and you should receive them in 15 days. They were sent this morning by train.

The corrugated cartons you ordered were shipped by train this morning. You should receive them in 15 days. At Top packaging we are happy to do business with companies such as yours.

Often the first sentence of a letter or a memo is weakened by an unneeded opening phrase such as I would like to inform you..., This is to tell you....etc. For most business correspondence avoid such openings and start right with the main point. On some occasions, it may be useful to refer to the date of previous correspondence.

**Structuring refusals or bad news correspondence**

It is always difficult to say no, especially in writing. You can use two approaches, the direct approach and the indirect approach.

**The Direct Approach:** If you know the receiver well, or when the bad news is expected and not very important say informing a colleague that your report will be completed later than scheduled or telling your boss details of a known problem. When using this approach it is suggested that you should:

- state the bad news simply and directly,
- give the reasons, and
- close with a good-will statement.

Let us take an example of structuring a bad news correspondence using the direct approach.

We have not been able to locate the quotation you requested. We have searched our records and haven't been able to find anything similar to one you mentioned.

You may have better luck by looking in the Times Directory on the above subject.

We hope your search is soon successful.

**The Indirect Approach:** In this approach it is suggested that you should:

- begin with a neutral opening statement,
- give reasons or circumstances leading to bad news,
- state the bad news in as positive terms as possible,
- give a helpful suggestion or alternative, and
- close with a good will statement.

Let us take an example of a letter using indirect approach to turn down a request for conference sponsorship.

Every year in February our conference committee meets to discuss the sponsorships from our company, such as your request for Annual Conference. Your proposal arrived in March, after we had already committed our funds for this year. Hence we are unable to help you this year. If your annual conference is going to be a regular event every year, do send us the details by January next year so that we can add this to our list. In the meantime, I wish you every success with your conference.

Activity 2

Take two sales letter you have been written to you clients. One letter should be on prospecting for business and other a reminder letter for the outstanding. Compare their writing styles

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## 5.11 WRITING SALES LETTERS AND OTHER MATERIALS

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A good sales approach would definitely involve the application of the basic principles of communication. In addition, you have the responsibility of establishing trust and belief with your prospects, through your correspondences. All sales communications should resist the use of "Hard selling" approach as its neither creditable nor useful.

The suggestions, therefore are all sales communications must convince the prospect that their purchase will meet their needs, better than the rest and he see a good 'value-for-money' in your brand. In other words, the seller should present their product in terms of what it will do for the buyer. If, as a seller, you think your brand has nothing worthwhile to offer, you would find that your sales message doesn't became convincing. To make your sales message convincing, it is therefore important to identify such distinctive features, which in communication we call as 'central selling points'.

In addition, there are other special characteristics of sales letters and sales materials. Some are of these points are as follows, which have been discussed in relation to a sales. Letter shown in Exhibit 1.

Firstly, the general approach centered around four approach. This approach is typically followed to suggest how the receiver will benefit from the purchase. For example, in the letter shown in exhibit 1. It is mentioned that the receiver would have better career opportunities in the Information Technology industry, after doing the course.

Secondly, sales letters emphasise on the overall message, by using specific forceful words and phrases. For example, in the exhibit 1. Word and expression like, unmatched, unique blank semester advantage, state of the act', most qualified, ' etc are used.

Thirdly all sales letters use mechanical means of emphasising on the contents. These mechanical means reange from the use capital letters, underlining specific lines or parts of line, use of colour in the text if it is a printed letter, specific arrangement/placement, box item, etc. For example in the letter shown in Exhibit 1, a few things are written in bold and in capitals.



## Exhibit 1

**TULEC**  
**COMPUTER**  
**EDUCATION**

Dear Mr. \_\_\_\_\_

We would like to introduce ourself as a premier Software training Organisation in India with an ISO 9001 Certification for conduction of course, courseware design & development.

As you are aware that Information Technology (IT) industry which is taking giant leap and growing at fastest pace. So, is the career opportunities in IT also.

At TULEC the courseware is designed in such a way that it suits the requirements of future IT ASPIRANTS. As, being A Div. Of Tata Infotech Ltd, the quality of courseware academics and services are unmatched. To pace with the future IT industry, TULEC has designed its courseware with a unique blank semester advantage, with its well equipped library, state of art lab, diligent placement cell and above all, most qualified and NTCC faculty, TULEC has made its stand in foremost IT services organisation. That is what TULEC assures in

**'WALK IN WITH A DREAM  
WALK OUT WITH A FUTURE'**

We at TULEC convert every dream into brightening future.

For further details of courseware we offer, and various prospects in IT, may we request you to give us an appointment at your convenient hour and day to inform you more about us or you are most welcome at our centre.

Hope to hear from you soon

Yours friend at TULEC

PS:

Special packages for \*Students, \*Housewives \* Working Ladies \* Senior Citizens \*  
School Kids

Lastly, in general, all sales letters have an informal style of writing. You may observe it in Exhibit 1 also. For example normally in one business letters we invariably write 'sincerely' in the signature block. But in the signature block of this letter in place of 'sincerely', your friends at TULEC is written.

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## 5.12 SUMMARY

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The basic purpose of communication is to develop understanding with your audience. In a sales situations your customers are your audience. To be successful in all communication situations, it is important to take feedback form, both, verbal and non-verbal forms. If you are able to take correct feedback you can successful adapt your message to match with the information requirements of your customers.

In this unit all communication related principles were discussed to prepare you to gain the maximum from the next two units, which are on sales negotiations and sales presentations.

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## 5.13 KEY WORDS

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**Non-verbal communication :** All forms of communication, without the use of words, both written and spoken.

**Kinesics :** It is another word for body-language.

**Paralanguage :** It relates to voice modulation. Sometimes the way you speak a particular word, can affect its meaning

**Good News v/s Bad News Message :** Typically all messages can be divided into two categories, depending on their impact on the receiver

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## 5.14 SELF-ASSESSMENT QUESTIONS

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1. Do you think setting objectives for any sales related communication task are important ? Why ?
2. What do you understand from non-verbal communications. How does it help in sales interactions.
3. From the following letter of 'India Today' identify the four special characteristics of a sales letter.



**INDIA  
TODAY**

Dear Friend,

When it comes to keeping an eye on the nation's pulse, no one does it better than INDIA TODAY. Providing you with news, views and analysis of issues ranging from national politics, sports and entertainment to human interest stories, INDIA TODAY has always given you journalism that is bold, incisive and credible. No wonder then, that INDIA TODAY is the most widely read news magazine in the country.

Now INDIA TODAY brings you the Super Subscription Offer.

Subscribe to INDIA TODAY for 5 years and get a pair of the original 24K gold bonded, impact resistant, distortion free Ray Ban Aviator sunglasses (Arista RB-3 model), absolutely free! Besides, of course, saving a hefty 31% on the cover price.

If you subscribe for 3 years, you get a set of three Parker Vector pens, crafted exclusively for INDIA TODAY subscribers, absolutely free in addition to saving 29% on the cover price.

And even if you subscribe for one year, you get the original recordings of six of India's greatest music maestros, in an exclusive gift box, free! Plus a saving of 23% on the cover price.

To subscribe to INDIA TODAY and get your free gift, simply complete the enclosed reply coupon and mail it with your remittance today. A prepaid business envelope has been provided for your convenience.

We look forward to welcoming you amidst our family of 33.43 lakh readers of INDIA TODAY.

Yours sincerely,

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## 5.15 FURTHER READINGS

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1. A. Pease, *Body Language* (London, Sheldon Press, 1981).
2. Harta A. Murphy, Herbert W. Hidbrandt, *Effective Business Communications*, (New York : McGraw Hill Inc., 1991).
3. Herschell Gorden Lewis, *Sales letters that Sizzle*, (Illinois : NTC Business Books, 1995).

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# UNIT 6 SALES PRESENTATION

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## Objectives

The objectives of the unit are to:

- define what is a presentation and describe types of sales presentations,
- describe the structure of a presentation,
- identify in detail each of the variables affecting effective presentation strategy and
- elaborate how to develop appropriate presentation skills.

## Structure

- 6.1 Introduction
- 6.2 What is a Presentation
- 6.3 Types of Sales Presentations
- 6.4 Typical Structure of a Presentation
  - 6.4.1 Opening or Introduction of a Presentation
  - 6.4.2 Body of Presentation
  - 6.4.3 Ending of Presentation
  - 6.4.4 Question and Answer Period
- 6.5 Planning the Presentation Strategy
  - 6.5.1 Define the Purpose
  - 6.5.2 Analysing the Audience
  - 6.5.3 Developing Message
  - 6.5.4 Determination of Presentation Method
  - 6.5.5 Deciding the Presentation Media
- 6.6 Presentation Skills
  - 6.6.1 Personal Aspects
  - 6.6.2 Non-Verbal Behaviour
  - 6.6.3 Oral Delivery
- 6.7 Principles of Effective Presentation
- 6.8 Summary
- 6.9 Key Words
- 6.10 Self Assessment Questions
- 6.11 Further Readings

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## 6.1 INTRODUCTION

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"You can have excellent content with good presentation technique and win the business. You can have good content with excellent presentation technique and win. But you may not have ever heard of a poor presentation skills and good or excellent contents winning anything".

Poor presentations are consistently losers irrespective of purpose or the business for which a presentation is made. We will draw some lessons from winning presentations and some from losers to help you to plan your business presentation successfully.

In our daily routine we speak more often than write. A majority of us still have not overcome the fear of a speaking to a group. Each one of us have stage-fright. It is a matter of degrees that it varies amongst individuals. Yet an oral presentation is an important part of the business routine and each one has to deal with such challenges successfully. There are industries in which sales presentations are the most important marketing tools. Pharmaceutical industry, information technology industry, advertising agencies, insurance sector are some examples of the same where success in business depends on the success in presentation.

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## 6.2 WHAT IS A PRESENTATION

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A presentation is a commitment by the presenter to help the audience to do something for solving a problem. An interesting thing to note is that in a presentation commitments are made by the presenter and the audiences are making judgement, simultaneously. The presenter advocates and audience evaluate, to render a verdict. In terms of content and structure, presentations and speeches have a good deal in common with formal reports - many of them are oral version of a written document.

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## 6.3 TYPES OF SALES PRESENTATIONS

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Typically, all sales people use one of the following types of sales presentations.

### **Canned Presentation**

Canned presentations are those presentations where text of the presentation is carefully worded, tested and finally written down. Each sales person is expected to memorise it and strictly follow the contents in the defined order, while making a presentation.

This presentation method is most commonly used in non-technical product selling, like, Pharmaceuticals, telephone selling, door to door selling, etc.

The specific advantages of this technique are that one can finish the presentation in a short-time and still have a successful close. The other advantage of this method is that it requires lesser time in training the field sales personnel.

The disadvantage of such technique is that the prospect has limited participation. He might view it, as a high pressure selling and defer taking a purchase decision.

### **Planned Presentation**

It is, no doubt carefully planned and organised but still it has a personal touch of the individual making the presentation. In this method, the training department provides just a format and the individual sales person then writes explanations, descriptions and illustrations.

The advantage of this presentation method is that it appears more conversational and less formal, as the sales person is using his own wordings. As a result, in this presentation method the prospect also gets involved and his doubts and questions can be carefully handled.

### **Audio-Visual Presentation**

For such presentation the sales persons heavily depend on the AV aids. These aids range from charts, slides, video films, prototypes, computer based presentations to the use of actual product. In advertising industry, computer software industry, such presentation methods are used. In these presentations the speaker or the sales person takes the back seat and the prospect's attention remains centred around the AV aids.

Such aids are typically used, not only to gain the attention but in the absence of these it might be difficult to explain or demonstrate.

Take for example, in door-to-door selling of vacuum-cleaners or photocopying machines, where the actual product is used as an integral or central 'character' of the presentation. In the absence of which the sales person might find it difficult to sell.

### **Problem Solving Presentation**

This is a two-step presentation method. The first stage is to study the individual prospect's needs and the second is suggesting a proposition. Thus helping the prospect to solve the problem. Such method is commonly used in insurance sector where the insurance agent asks the prospect about the requirements and accordingly, he proposes a specific policy, its advantages and benefits.

Similar methods are also used in management consultancy assignments relating to all functions or high-tech customised products.

Having understood the various types of presentation methods being following in different product categories, we appreciate the relevance of it in the sales job. Let us now systematically discuss the structure of a typical presentation, presentation strategy and the skills required at the end of each speaker.

## 6.4 TYPICAL STRUCTURE OF A PRESENTATION

It is a problem for a person to structure the presentation appropriately so as to clearly decide from where to start and where to end. A presentation has four parts: opening, body, closing and question and answer. It is suggested that in a presentation first, tell what you will tell, secondly, actually tell them and thirdly, tell the audience what you have told them.

### 6.4.1 Opening or Introduction of a Presentation

The opening of a presentation is very important. It is in the first a few minutes you gain or lose the audience. The major purpose of the introduction are:

- To catch the audience attention and arouse their interest
- To relate the speakers' purpose with the audience interest
- To build the focus for the contents

Although these points appear so simple, but spending say ten per cent time of your presentation on this phase of the presentation would help you considerably in providing clarity to your audience.

### 6.4.2 Body of Presentation

The body of the presentation should relate to the selected important points (3-4) you want to make. You want the structure of your presentation to be clear and you don't want to lose the audience's attention.

At Times, during your presentation you realise that you have started loosing audience. From their body-language you an able to make out that they are not with you. Some of body positions suggesting their lack of interest are shown in figure 1

Figure 1: Audience Lack of Interest Reflected In Their Body Language



SECRETIVE GLANCE AT NEIGHBOUR'S WATCH  
- ASSUMES THAT IT WILL NOT  
BE NOTICED - SHY, SNEAKY ATTITUDE.



PRETENDED YAWN  
ATTEMPT TO DISGUISE A LOOK AT  
WATCH.



FIDDLING WITH WATCH OR MOVING HAND OVER  
WATCH FACE REVEALS PREOCCUPATION WITH TIME  
OR ANOTHER APPOINTMENT BUT RELUCTANCE TO  
OFFEND BY LOOKING BLATANTLY AT WATCH.



OPENLY LOOKS AT WATCH  
UNCONCERNED ABOUT IMPACT OF ACTION  
ON OTHERS

These situations are, infact, difficult to handle. Because, in such situations, there is no point to keep the presentation continued. You have to adopt a strategy to gain their attention. Some of the suggestions for gaining audience attention are as follows:

- Emphasising structure and help the audience follow your presentation by summarising your remarks as you go along and by Emphasising the transition (links) from one idea to the next.
- Holding the audience's attention not only by relating the subject to the audience's needs or by using clear language but by introducing variety in your speech or presentation.
- You may pause for questions and comments as it shifts the audience from listening to participating.
- Visual aids can be used to provide clarification and stimulation.
- Variety in your tone and gestures will help in breaking the monotony of your voice.
- Consider the use of humour . Sometimes humour helps in steering through difficult situations.

It is interesting to observe that when you are going deeper into the subject, the audience start drifting away from you. It is rather difficult to retain the audience attention through-out the presentation, unless you make deliberate efforts. The above stated points are some of the suggestions which can help you in retaining your audience or customers.

### 6.4.3 Ending a Presentation

As the audience's attention peaks at this stage it helps in further clarity. The final summing is not a place to introduce new ideas. It is suggested that you should begin your conclusions by telling listeners that you are about to finish . They will make one final effort to listen to you, intently. It is also suggested that during the concluding stage restate the next step. Some presentations require the audience to reach a decision or to take specific action. In these cases the summing must cover the specific action to occur and who would be responsible for doing what. Take for example, in a sales presentation sales person may be required to ensure on-time delivery and installation. Thereafter, the final installment of the payment will be made by the customer.

Your final words should round up the presentation. You want to leave the audience with a satisfied feeling, feeling of completeness. It is, therefore, important that you should always end on a positive note. Your final remarks should be enthusiastic and memorable.

Irrespective of whether you accept questions, as you go along or you defer them till the end, this phase of a presentation is most important. It is only helps in providing better clarity but also in removing some misconceptions, if any, among you audience, about your product or company.

### 6.4.4 Question and Answer Period

Majority of the speakers avoid or discourage this period, without realising that providing opportunity for questions and answers, facilitates interactions. The thumb rule is to encourage questions throughout, in a smaller group and ask a large audience to defer questions until later. But do provide time for this stage as it shifts the audience from listening to participating.

Some tips for Handling Questions:

Given below are some categories of questions. You may decide in which category the question falls and then take action accordingly. Although it is not possible to remember these tips, but by practice you learn to handle critical situations:

Sr.No.	Type of Question	How to Handle
1.	Confused Question	Reformulate/Paraphrase the question. Ask the questioner to restate the question. It also gives you time to think and it can be followed by all. Be clear, a confused question can never be answered.
2.	Hostile Question	Don't be defensive or hostile. Rephrase it and unload emotions from it to understand the message.
3.	Two-part Question	Separate the parts and prioritise them before answering.
4.	Off Topic Question	Suggest the audience that you would not handle an off topic question.
5.	Can't Answer Question	Admit it and say that you would answer it later. You may not be authorised to take a decision about the question. Take time from the audience, check with your superior, and get-back.

### Activity 1

Try to recollect a presentation you heard or you made yourself. Identify the contents of that presentation, under opening, body and closing. Check, if they were appropriately arranged or not.

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## 6.5 PLANNING THE PRESENTATION STRATEGY

Developing a strategy for delivering an oral message is just as crucial as developing a strategy for a written message. You have to put information in an easily understandable form. For maximum impact, therefore, it is important that one must define the purpose, analyse the audience, construct or develop the message with due estimate of time and appropriate length, decide on the most appropriate style and media for presentation. These are some of the important variables, which one has to keep in mind to develop an appropriate strategy for a presentation.

### 6.5.1 Define the Purpose

The first reason of failure in a presentation is not thinking through the purpose of the presentation and focussing it sharply. The amount of audience interaction varies from presentation to presentation, depending on the speaker's purpose. Often a speaker accomplishes more than one purpose simultaneously. The purpose of a presentation could vary from informing, persuading, exploring to changing behaviour/attitude etc. The specific purposes for a presentation are:

- a) To motivate : you do most of the talking and the audience essentially plays a passive role. You control the content of the message and the audience listen. Here the challenge is not to giving information but giving in a manner for a response.
- b) To inform or analyse: A group of people meet to hear the oral equivalent of a written report, then members of the audience offer comments or ask questions. Typically when a medical representative meets a doctor, the purpose is to inform about the new formulation his company has launched in the market.
- c) To persuade or collaborate: The most interaction occurs when you aim to persuade people to take a particular action or to collaborate with them to solve a problem or reach a decision. You generally begin to provide facts to increase the audience's understanding of the subject. You offer arguments in defence during discussion and



you invite audience to express their needs. In this audience interaction process, therefore you have little control, so one has to be flexible to adjust to an unexpected reaction. Most sales persons, involved in door-to-door selling (like, Eureka Forbes etc. ) must have this purpose when they call on a household.

### 6.5.2 Analysing the Audience

Your choice of a strategy for composition your purpose must take into account those who will be attending it. The nature of the audience affects your strategy for achieving your purpose. You should know your audience and size them up in advance. You must look for characteristics that will affect your speech e.g., audience size, sex, age, education and knowledge. More specially, consider the followings in as much detail as possible.

- a) First consider the size and composition of the audience. A small group may be drawn into a decision making process. A homogenous group benefits from a focussed presentation; a diverse group requires a more generalised approach. So be sure of the size of the group to which you are going to address.
- b) Consider likely reactions to your speech or presentation. The reactions to your speech could be hostile, receptive, indifferent. It is easy to talk to a receptive group. It is also possible to convert indifference into interest. It is quite challenging to convert hostility into support. But be clear that whether the audience care about the issues you will discuss and how much they already know about your subject.
- c) Finally, you need to take a cold hard look at their relationship with you. Do they already know you? Do they respect your judgement?

The answer to these points would help deciding the best way to organize your material.

#### Activity 2

Assume that you are working for an organisation in "Information Technology". You think that a particular medium size company might have the requirements of your company's hardware, software and maintenance services. What specific information you would require about this company to develop an appropriate sales presentation.

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### 6.5.3 Developing Message

A message should be carefully developed with a view to generating a desired response. It is, therefore, important that while developing messages one should define the main idea, construct an outline and estimate the appropriate length. A number of times a speaker is required to carefully choose the words, particularly while handling sensitive subjects. In such situations if you loose control on what you speak, your message will not be understood in the right spirit. It is, therefore, important that we define the main idea and construct a concrete outline around the identified idea. Then collect sufficient information which should be adequate for the available time you have to make the presentation.

At times, you collect a whole lot of information but you fail to put it together in an appropriate order. There are specific guidelines available to arrange the material in suitable order. It is suggested to follow the "Inverted Pyramid" structure. The suggestion is that you should start with the most important point and then go down to the least or, start with conclusion and go down to back-up information or start with a general statement and go down to specifics. Any one of these options would guide you in sequencing the information.

Although it appears simple but actually it is not. One has to decide and compartmentalise information in various groups, sequence them and then present.

Having decided the sequencing of information for developing an appropriate message, the next step is how to deliver it. Knowing your abilities, time available for preparation, audience size, etc., would influence your presentation method.

#### 6.5.4 Determination of Presentation Method

We may follow any of the following presentation methods depending on our own abilities, subject, purpose, etc.

1.	Extemporaneous	Extemporaneous presentation is that which is prepared in advance and delivered afresh. The exact wordings are figured out, as the speaker goes along. It combines prior organisation and spontaneity. The audience prepare an outline, may write down, at best, full opening and closing sentences, and prepare visual aids to promote a set sequence of thoughts and contents.
2.	Impromptu	Impromptu is that when you are given no time to think and organise. You never know when your superior will ask you for a two minute update on your field experiences of the previous day.
3.	Memorising	Memorised is a presentation which is learnt by heart. If a link is broken while speaking the whole presentation gets affected. Typically in Pharma-selling canned presentation are used.
4.	Reading	Reading is yet another method. In paper reading it is said that even the speaker looks at his notes for 35% of time and for the remaining 65% to the audience, it is still a paper-reading. In business this method is followed least.
5.	Speaking from Notes	Speaking from notes is similar to the first method with a difference that the speaker has his points, with explanations written down and he speaks from the notes. To prepare these notes normally reference cards are used which the speaker can hold in one hand.

There is no hard and fast rule suggesting in which situation what method should be used. As a speaker it is up to you to decide which method is the best suited for you in the given situations. But you must practice it in advance before making a presentation.

#### 6.5.5 Deciding the Presentation Media

In an oral presentation which is an interactive medium, you can choose from a wide range of audio-visual (AV) materials. Here also you require carefully planning. A number of times, a presentation gets killed because of over emphasis on AV material. Always keep in mind while selecting any AV material that to what extent the selected media would help supplementing or reinforcing your message. You can select audio-visual material out of a large variety, ranging from, brochures, leaflets, slides, prototypes, actual product, audio tapes, video material, computer based aids, etc. Preparing or it is suggested to follow the following guidelines for selecting the best suited media:

- Do not cram information if you have too much to say, may be you should write it out, separately.
- Keep only relevant material as irrelevancies create distractions, and confusions.
- Organise and break up your material into small modules. Dis-organised compels the audience to concentrate on finding the structure of your presenting, rather than listening to you.
- Visualise your ideas as much as possible. Understanding, remembrance and clarity are the highest in the picture form.

- Use as few words as possible. Use only those points which the audience can understand, and don't write complete sentences.
- Make the pictures and letters bright enough to be visible from a distance. Make the letters bright enough and think enough to be read by all. Use light colour for background. Use dark or bright colours for pictures or letters to improve visibility.
- Make the sound material audible, pleasing in tone, varied and synchronised with visuals.
- Finally, before the presentation check particularly the audibility, visibility and readability of your AV material, if possible, in the actual place of presentation.

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## 6.6 PRESENTATION SKILLS

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All preparations on the 'structure' and 'strategy' of your presentation will have limited impact on your customers or audience if you don't have the right presentation skills. For example, it is very important that you should be able to have control on yourself. The moment you rise to speak you convey some signals to yourself, which might decide ultimately the success or failure of your presentation.

### 6.6.1 Personal Aspects

A logical step in preparing a presentation is to analyse yourself. You are an integral part of the message. You should seek following characteristics:

- i) Sincerity is vital. Project an image of sincerity by being sincere to yourself, to your subject and to your audiences.
- ii) Thoroughness - giving the listeners all they need.
- iii) Confidence in yourself is important so as to gain your audience's confidence. You must earn the confidence of your audiences. Project the right image, and talk in a strong, clear voice.
- iv) Friendliness - help your communication effort by creating the right environment.

Although these four points appear as four different things. But they do relate to each other. For example, if you are 'sincere' you would do a 'thorough' preparation for your presentation. If you are 'thorough' you would feel confident. And if you are confident, you would be more open and friendly with your prospects or audiences. Therefore, these personal aspects should be well taken care.

### 6.6.2 Non-Verbal Behaviour

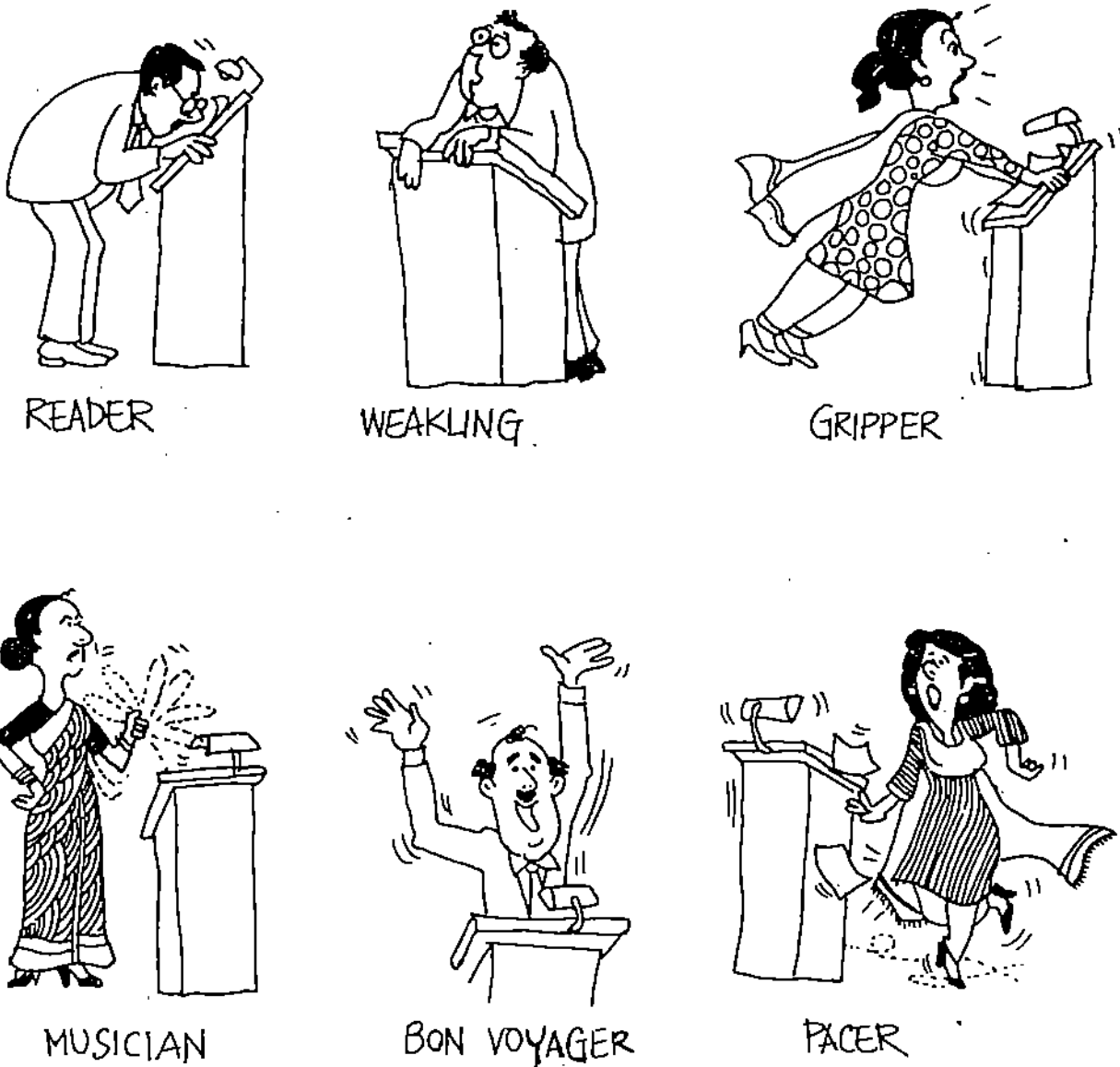
In any presentation non-verbal also plays a major role to supplement your message. Let us take up some typical examples to identify the variables elements of non verbal communication.

Although, it is not all that easy to suggest a definite set of 'Do's' about your body language during presentations, however, one can easily identify some 'Don'ts'. If you carefully notice the six body language shown in figure , you may realise that, typically, most speakers make some of these mistakes. Let us analyse each of the six situations in some detail, for better clarity about them.

- i) **Reader** is a person who does not make eye contact with the audience and only concerned about his material. Such speakers fail to establish any wave-length with the audience.
- ii) **Weakling** is a speaker who does not know the utility of Lactorn, which is fact is the support for the speaker's materials and not the speaker himself.
- iii) **Gripper** is a speaker who does not make any attempt to supplement the message, rather he/she is only bothered about the verbal part of the message.

- iv) **Musician** is a speaker who does not adapt the gestures to the contents of the presentation but continuously relaying these, which does not relate. The suggestion is that one should bring some variation in the gestures.
- v) **Bon-Voyager** is a speaker who is overdoing the gestures, as a result the presentation becomes more theatrical. The suggestion is that in a typical business presentation the hands should not go above the shoulder level.
- iv) **Pacer** is a speaker who is, although relaxed but still not too sure about movements, postures and gestures. The suggestion is that think before hand, about how to stand, where stand, where to move to, how often to move, etc.

Figure 2: Non-Verbal in Presentations



The above illustrations must have given you some idea about the importance of non-verbal forms, including body language. Let us now examine each element of the non-verbal communication in the context of a presentation.

#### Posture

Sagging shoulders, dropped head forward and sloppy casualness are indicative of depression, while standing upright with square shoulders and head held high are indicative of the confidence. Your outward appearance mirrors your inner mood.

Posture may also be adopted to the size of the audience. An informative talk to a group of 50+ size would demand more formality, postural variety, particularly during transitions, to suggest a change in topic. An address to a group of 10-12 managers working under you, could be given while sitting in the edge of the chair. However, all formal presentations in advertising industry or I.T. industry are typically given while standing.

To avoid side-to-side rock some women even prefer low heels for longer duration presentations. Choice of a comfortable pair of shoes helps avoiding conveying a negative, all-at-ease impressions because your shoes are bothering you. Giving thought to such minor details can help you in making a winning presentation.

**Movements**

While presenting a topic, your physical movements can help you in the following ways:

- To hold attention: Lectern restricts movement. Rather than moving back and forth it is suggested to move left to right to gain attention of the audience, sitting on both sides. However, don't move continuously, like a caged lion.
- To get rid of nervousness: Movement helps decreasing stage fright in the beginning of your talk and the way you walk upto lectern or podium, tells something about you non-verbally to the audiences. Do you move with assurance, determination and enthusiasm? However, over-enthusiasm is also not productive.
- To suggest transitions: In writing, the cues for transition are headings, words, numerical hints. In speaking, the cues are physical moving yourself, a directional shift in the posture helps, the audience to follow the transition.
- To increase emphasis: In writing we underline, we use italics, capitals, exclamation etc. While in speaking a movement towards the audience, accompanied by a gesture, can imply your stressing a point.

The above discussion clearly suggests that plan your movements and don't just walk around when you make a presentation.

**Gestures**

Gestures relate to movements of fingers, palm, wrist, arm, elbow and shoulder. Here are some examples of situations where gestures can help you.

1.	To emphasise	Clenched fist of one hand hitting the palm of the other hand, emphasises the point you want to make.
2.	To point	The index finger calls attention of the audience
3.	To reject	Hand may go on a side in an act of rejection.
4.	To describe	You may communicate and describe everything through hands. Even an approximation of the verbal message through gestures is worthwhile than non.

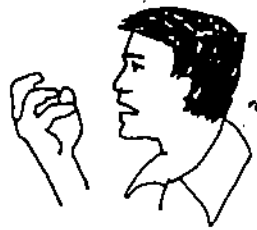
From the last three illustrations, in figure 1 it can be inferred that planning of gestures, apart from postures, movements, are all important. If gestures are important, as you donot want to look like the 'gripper' or the 'weakling' there are some suggestions.

The first suggestion is that start involving only one hand but with variations. In the figure 3 options have been illustrated. Each gestures have specific meaning to convey. For example. 'the air pulse' can be used when you are about to open the various issues relating to a problem. 'the raised forefinger' can be used to emphasise. 'the air grasp' can be used for summarisation, etc.

Figure 3: Gesture With One Hand



AIRHOLD



AIR GRASP



RAISDFOREFINGURE  
BATON



HAND PURSE



HANDBEND



AIRPUNCH

The second suggestion is to use both the hand to supplement your message. For example, 'the hand scissors' can be used when you are rejecting a point, 'the palm side' can be used to suggest the magnitude of the problem, 'the palm in front' can be used to explain. 'the palm up' for opening of the discussions and 'the palm down' for closing, as shown in figure 4

Figure 4: Gestures With Both Hands



HAND SCISSORS



HAND CHOP



PALMFRONT



PALMUP



PALMDOWN



PALMSIDE

### Eye Contact

It is suggested that you should have eye contact with your audience. Although, it is not possible to have eye contact with each and every person sitting amongst the audience but it is suggested that you may identify, select persons sitting spread across amongst the audience and establish eye contact with them. Don't look at one person all the time. Eye contact helps you in gaining confidence in yourself and it also conveys to the audience that whatever you are saying, you are very sure of it.

### Facial Expressions

It is said that rather having a "cheese" smile all the time, your facial expressions should be natural. It is also said that the smile which comes on your face actually originates in your brain on recollecting something pleasant. You can easily build rapport with your audience using good, natural pleasant facial expressions.

From the above illustrations let us now refer to some common observations, as shown in figure 5.

You must have experienced yourself, if you are nervous, the gestures don't flow out of you and you try to bring control to yourself. Here the facial expression also reflects seriousness.

If you are confident your facial expressions correspond with the contents, gestures are natural and illustrative and you maintain a definite eye contact with your audience.

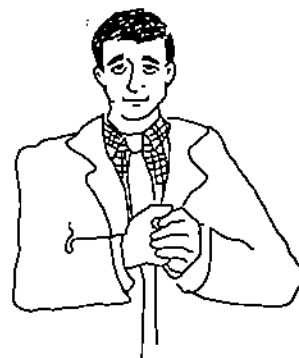
You might have also seen in a presentation that people respond differently to questions. There are some who reflect dominant attitude through their facial expressions, position of hands while others, with the same non-verbal communicate openness, and enthusiasm to respond.

With the help of these illustrations we have tried to explain to you that in any presentations, your body-language is an integral part of your presentation. We have also seen that how one can plan the body-language for the presentation. If you are able to incorporate only 20 percent of the above, you would still notice a marked improvement in your presentation skills. Therefore, each speaker must give due attention to his or her non-verbal, the way they give to the verbal contents.

Figure 5: Non-Verbal During Interactions With Audience



ATTEMPTS AT SELF CONTROL



ANXIETY - UPTIGHT.



CONVEY FEELINGS OF HONESTY AND SINCERITY.



CONFIDENT, FRIENDLY

AGGRESSIVE, DOMINANT SMUG  
ATTITUDE

OPENNESS, ENTHUSIASM, READINESS

### 6.6.3 Oral Delivery

How confident you appear through your voice, how effective you become through the use of your voice, how successful you emerge, by speaking clearly and holding the attention of your audience are the issues related to the oral delivery. Every aspect of the oral delivery, i.e., rate, pitch, volume, vocal quality, etc., all are important.

- i) **Pitch:** It is highness or lowness of your voice. Voice too high or low can add to word value. A monotonous voice may drift the audience away from the speaker.
- ii) **Rate:** It relates to the number of words released per minutes. The purpose is to synchronising speaking with listening pattern of the audience. The rate should also relate to the subject matter. Often you might have felt that if you speak a sentence at a higher rate you can create a better impact.
- iii) **Volume:** It relates to the loudness or softness of the voice and by contrast in volume one can give emphasis on the spoken words.
- iv) **Vocal Quality:** It is difficult to define it but we come across so many words to describe voice quality. Some of these words which describe voice quality are: Throaty, loud, vibrant, dynamic, moving, weak, strong, harsh, shrill, effeminate, gentle, clear, flexible, vibrant, colourful, etc.
- v) **Pronunciation:** It should be your constant endeavour to find out the right pronunciations of each word. You may not get any advantage for correct pronunciation but you are certainly at in disadvantage when it is incorrect. You would be surprised to know, how carefully your audience are observing your mistakes, and on every mistake they drift away from you.

There are some suggestions to help you in enhancing your non-verbal while you speak to a group. These suggestions are:

- Sincerely like your audience
- Know your subject thoroughly in order to appear confident
- Be well dressed (not overdressed)
- Look your listeners in the eye (Not too long at any one) and talk with them
- Avoid excessive, meaningless, gestures and nervous movements
- Keep calm
- Remain objective, no matter what the provocation
- Speak clearly and pleasantly, make sure that you can be easily heard



**Activity 3**

Observe in any one presentation the non-verbal of the speaker under postures, Movements, Gestures, Eye Contact, Facial Expressions, and Oral delivery. Against each item give scores out of ten. Check your evaluation with another person.

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## 6.7 EFFECTIVE PRESENTATION: SOME PRINCIPLES

Ron Hoff, a hard core advertising professional, head of Ron Hoff and Associates, based on his presentations to the clients, has suggested some basic guidelines for effective presentation. Let's discuss these, eight, real-life principles of presentation that make a measurable, meaningful difference in the success of your presentation.

Rule	Description
1	In preparing your presentation, may be you should start about halfway through.
2	Content is always the first requirement of any presentation. Once content breaks down, delivery is never far behind.
3	It's impossible to be too clear.
4	Keep in mind that your audience is going to remember about one quarter of what you say.
5	Participation by your audience will help them remember you and your message, but "handle with care". Participation can backfire.
6	Nervousness is not all bad, but it can become serious when your audience becomes more concerned about your nerves than your subject.
7	Eye contact is the strongest force in your favour during a "Live" Presentation.
8	"People may lie, but body language never does".

Source: Ron Hoff, "How to Make Your Next Presentation a Winner", In *Strategic Advertising Campaigns* by Don E. Schultz (Illinois: NTC Business Books, 1996).

### 6.7.1 Start Half Way

In preparing your presentation, may be you should start about halfway through. There isn't an audience in the world that hasn't said to itself, "When is the presenter going to stop talking about his business and start about mine". So instead of "Opening Remarks", why not structure your outline to begin with, "an issue of direct concern to my audience". The sooner you can stop being self-conscious and start being audience-conscious, the better your chances of winning a positive verdict.

### 6.7.2 Plan Out Content

Content is always the first requirement of any presentation. Once content breaks down, delivery is never far behind. If you don't know your subject, your voice is going to tighten. If you don't believe what you are saying, your gestures are going to be halfhearted. If you get a question that catches you unprepared, your body language is going to answer for you. How much substance do you need in order to feel supremely confident about your next presentation? The answer is, have in your head about seven times as much information as you are likely to use in your presentation. Know your subject better than anybody in the room and your delivery may not be magnificent, but it will carry conviction - and that's better than empty theatrics any day.

### 6.7.3 Clarity

It's impossible to be too clear. Many presentations are so muddled that members of the audience say to themselves, "What in the world is that person talking about?" or, "What on earth am I doing here?"

Here is a simple but effective exercise: Ask yourself "If I were going to put a fifteen-word headline on my presentation, what would it say?" Isolate the meat of what you want to communicate and make sure you say it - clearly, prominently. Also ask yourself, "What do I really want my audience to do as a result of this presentation?"

#### 6.7.4 Partial Receptivity

Keep in mind that your audience is going to remember about one quarter of what you say. A surprising number of presenters will assume that once a statement is made, the audience retains it. In reality, an average audience retains approximately 25 per cent of a presentation if the verbal content is given visual reinforcement (slides, charts, videotapes). If the presenter is simply standing there, going through a manuscript, flooding the atmosphere with words, he or she will be lucky to have one tenth of the total message retained by the audience.

So what do you do about it? May be you would like to "tell them what you are going to tell them - tell them - then tell them what you told them", i.e., put your proposition up and keep referring to it. It is not that audiences have poor memories, it is simply that presenters assume that audience have perfect memories.

#### 6.7.5 Encourage Participation

Participation by your audience will help them remember you and your message, but "handle with care". Participation can backfire. You, the presenter, can ask your audience to do almost anything. Most audiences are surprisingly agreeable. They will do almost anything. Nonetheless, a few words of caution.

- Study your audience carefully before you get up to present.
- Look for the most animated people in your audience to be your participators.
- Never force anybody to participate if you detect even a hint of reluctance
- Never allow anybody to look bad.

Participation by your audience can make your unforgettable but just make sure that it does not backfire.

#### 6.7.6 Control Nervousness

Nervousness is not all bad, but it can become serious when your audience becomes more concerned about your nerves than your subject. Nervousness is the number one problems of people who make important presentations in advertising, or in any other business. But nervousness (sometimes known as "stage fright"), is not all bad. There are ways to deal with it, and some of them can actually work.

- i) Take a brisk 2-minute walk. It can be around the block, through the halls, or anywhere you want to walk. Exercise of any kind breaks the strain that creates nervousness.
- ii) Look at yourself in a mirror and check your appearance. Nothing's out of place and you look like you want to look. That reduces anxiety.
- iii) Next, take five deep breaths. Deep breathing always calms the nervous system. Ask anybody who has hypertension, about the results of deep breathing.
- iv) Tell yourself that your presentation has one goal only: to genuinely help the audience. That uncomplicates your mind and keeps the focus clear.

#### 6.7.7 Eye Contact

Eye contact is the strongest force in your favour during a "Live" Presentation. When you make your next presentation, you will know whether you are making eye contact or not because you can see your audience. Here are three fundamentals on eye contact that will benefit your next presentation:

- i) Don't set any specific length of time to maintain eye contact with one person. Stay only as long as it is comfortable for both people.
- ii) Eye contact should be broken by natural pauses in meaning -- between phrases -- or thoughts. Eye contact usually breaks most comfortably at punctuation points.
- iii) There is a big difference between staring at people and eye contact. Staring is intimidating, confrontational. Eye contact reduces the distance between people. It reaches out, asks for understanding on a one-to-one basis.

### 6.7.8 Body Language

"People may lie, but body language never does." Body language, once you have learned how to read it, is going to tell you more than what your audience will say. You can rate people by their body language, and use your ratings to apportion the amount of time you spend with each member of your audience: Obviously, you will want to work a little harder -- with eye contact and participation techniques -- on the person who is scoring low on your body language scale.

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## 6.8 SUMMARY

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To summarise the discussion on the structure of a presentation, we can say that the first thing in any presentation is the preparation you do in advance. You research the information, club the information under subtopics, subheads etc., sequence these subheads appropriately. You identify specifically what you would say in the opening section of your presentation, you decide the core i.e., the main body and you also plan your closing remarks. You have not started speaking to your audience but you have spent considerable time in preparing. In fact, those who overlook this phase they find it difficult to make a winning presentation.

While developing any presentation you have to progress very systematically. Each of the strategic variables should be considered in as much detail as possible. Knowing your purpose, understanding of audience, development of a message, identification of presentation method, and integration of various media are all important in development a presentation strategy.

In addition, there are eight golden rules, although sound and simple, but you need long years to fully practice them. Body language is fascinating. And you can practice just about anywhere. Even if you make a commitment to follow these rules to the extent you can, you have already improved your presentation ability.

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## 6.9 KEY WORDS

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**Presentation:** A presentation is a commitment by the presenter to help the audience to do something to solve a problem.

**Presentation Structure:** It relates to the three main phases of a presentation, opening, body and closing.

**Presentation Strategy:** It is a mix of all the presentations variables, like, objectives, audience profile, message contents, media available, time at the disposal, which are adjusted to achieve a success.

**Presentation Skills:** These are the abilities of an individual in making successful presentations.

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## 6.10 SELF-ASSESSMENT QUESTIONS

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1. What do you understand from the 'structure of a presentation'? Do you need it in a sales presentation? Discuss.
2. What presentation strategy you would adopt if you have to sell personal computers, door-to-door?
3. "why overall appearance and body language are important, when to a prospect your contents are more important than anything else"? Discuss.

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## 6.11 FURTHER READINGS

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1. Ron Hoff, "How to Make Your Next Presentation a Winner", In, *Strategic Advertising Campaigns* by Don E. Schultz. (Illinois: NTC Business Books, 1996).
2. R.L. Bhatia, *Development Presentations Skills*, (New Delhi: Wheeler Publishing, 1994).

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# UNIT 7 NEGOTIATION SKILLS

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## Objectives

After studying this unit, you should be able to :-

- Define negotiation
- Understand and explain different steps of negotiation
- Describe the various skills required for each step
- Make the use of negotiation skills in selling process

## Structure

- 7.1 Introduction
- 7.2 What is Negotiation
- 7.3 Difference Between Selling and Negotiating
- 7.4 The Negotiating Continuum
- 7.5 Steps of Negotiation
  - 7.5.1 Prepare
  - 7.5.2 Discussion
  - 7.5.3 Signaling Behavior
  - 7.5.4 Proposing
  - 7.5.5 Packaging the Offer
  - 7.5.6 Bargaining
  - 7.5.7 Closing and Agreeing
  - 7.5.8 Deadlock
- 7.6 Negotiation Strategies
  - 7.6.1 Strike Back
  - 7.6.2 Give In
  - 7.6.3 Break Off
- 7.7 Principles of Sales Negotiations
- 7.8 Summary
- 7.9 Key Words
- 7.10 Self-Assessment Questions
- 7.11 Further Readings

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## 7.1 INTRODUCTION

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Negotiation is a fact of life. It is the basic means of getting what you want from others. It is a two-way communication process designed to reach an agreement when the two sides have some interests that are shared and others that are opposed. When we look around ourselves we find that almost everything needs to be negotiated - whether in business, industry or family.

Negotiation is a demanding activity and the best way to learn it is to practice it with seasoned negotiators and get a personal feedback. It is essentially a practitioners art. The primary objective of every negotiation is goal achievement. Both the sides involved in negotiation will have their own goals. But the desirable goal is a "win-win" situation - with a win-win situation both the parties get a feeling of satisfaction with the outcome.

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## 7.2 WHAT IS A NEGOTIATION

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Negotiation can be defined as a process for resolving conflict between two or more parties where both or all modify their demands to achieve a mutually acceptable solution.

You may note from this definition some of the following important points.

- Negotiation is a process of resolving conflicts and if there are no conflicts, there is no need to negotiate.
- There is a need to resolve conflicts, more so with our customers. If we don't resolve conflicts we may even lose them.
- Negotiation does not mean persuading the others to accept our offer. Rather we should listen to others, and their propositions. If possible modify one stand or suggest/guide the others to modify their demand.
- Through negotiations we try to reach at a mutually acceptable compromise to solve a problem.

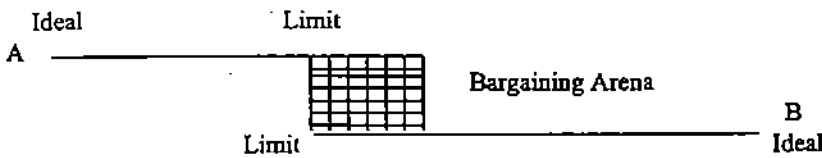
### 7.3 DIFFERENCE BETWEEN 'SELLING' AND 'NEGOTIATING'

**SELLING :** Can be described as the Process of identifying customers, then getting through to them and persuading them to act, or accept our propositions.  
 Whereas **NEGOTIATING** is a : Process of getting the best terms, once the other side starts to act on their interest.

One important point to keep in mind is that negotiation is not just stating a grievance or point of conflict. As you must have experienced complaints at best can produce apologies and at worst, they lead to arguments. In negotiation what we really want is to suggest, or encourage a proposal which will put things right, and take the parties concerned to an acceptable solution. In the selling situations, whenever the buyer and the seller differ on terms on sale, be it price, discounts, terms or place of delivery, a negotiation opportunity arises.

### 7.4 THE NEGOTIATING CONTINUUM

Negotiation involves movement of both the parties. Thus in a negotiation we must have somewhere to move from and somewhere to move to. We move from our ideal position to a settlement point that is acceptable to both parties. Our opponent also does exactly the same. It is the relative bargaining strength and skill of the negotiators that decides the position of this settlement point.



This sample diagram is static. Negotiation in reality however is a dynamic process. Both the sides often, as the negotiation proceeds have to review and modify their limits.

If you look at the above continuum in the context of sales process as a sales person your ideal position is to sell your product at maximum benefit while from the customers angle the ideal position may be to get all the benefits at a much lower price. As the sales process moves both of you are likely to move from ideal positions and reach a mutually agreeable state if the transaction has to take place.

**Activity 1**

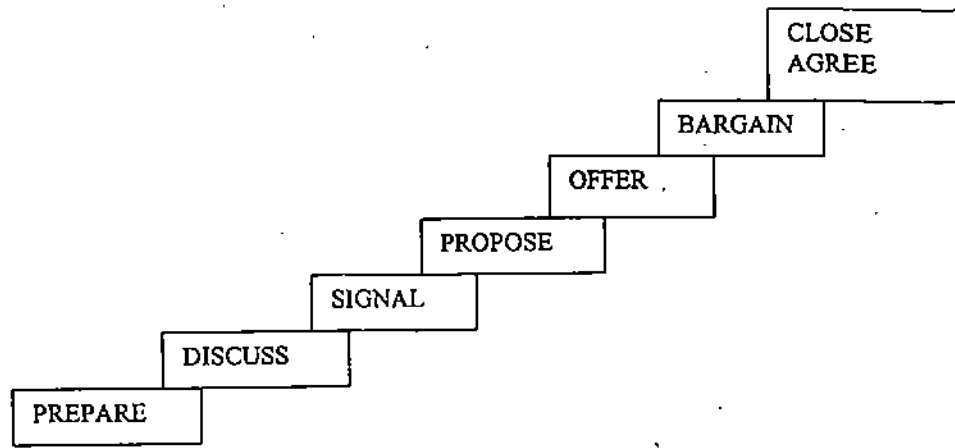
Analyse the past sale agreements on some of your senior sales persons or those of any other organisation, that you are familiar with, Discuss with the concerned sales persons to find out.

- a) What is the kind of movement along the negotiating continuum did they make in those sales agreement.
  - b) What are the type of movement they were able to get their customers to agree to.
- .....
- .....
- .....
- .....

### 7.5 STEPS OF NEGOTIATION

The negotiating process, for understanding purposes is broken down into following steps through which negotiations will go, if agreement is to be reached. However, please keep in mind that this is not a rigid order, and the time and attention devoted to different steps varies.

However, it is essential for you to appreciate the importance of each stage, irrespective of their sequence in which they may take place. Table 1 summaries each of these studies.



**Table 1: Different Steps Of Negotiation**

Steps	What you should do
i) Preparing	<ul style="list-style-type: none"> <li>- Have you decided your objectives ?</li> <li>- Have you prioritized them?</li> <li>- Are they realistic</li> <li>- What are your opponent's objectives</li> <li>- Do you have any information regarding buyer attitudes, personalities, assumptions etc.</li> <li>- Is your strategy simple and flexible</li> <li>- In a group negotiation, have each members tasks been clearly defined.</li> </ul>
ii) Discussion	<ul style="list-style-type: none"> <li>- Always try to avoid interrupting, talking too much, using sarcasm and threats.</li> <li>- Practice listening, and summarizing.</li> </ul>
iii) Signaling	<ul style="list-style-type: none"> <li>- Is your signal generating some movement.</li> <li>- What signals have you made?</li> <li>- If your signals have been ignored, have you tried rewording them.</li> <li>- Are you listening attentively for your opponents' signals.</li> </ul>
iv) Proposing	<ul style="list-style-type: none"> <li>- What is the language you are using to convey your proposal.</li> <li>- Have you itemized your proposal</li> <li>- While receiving a proposal ensure that you do not interrupt it.</li> </ul>
v) Offer	<ul style="list-style-type: none"> <li>- Before making an offer review your opponents and your own objectives.</li> <li>- How can your offer meet all/some of your opponents inhibitions/objectives</li> <li>- Have you considered all the possible variables in your offer.</li> </ul>
vi) Bargaining	<ul style="list-style-type: none"> <li>- Everything must be conditional</li> <li>- Decide what you require in exchange for your concessions</li> <li>- Keep all unsettled issues linked</li> </ul>
vii) Closing and agreeing	<ul style="list-style-type: none"> <li>- Decide where you intend to stop trading</li> <li>- What type of close are you going to use</li> <li>- Always list the agreement in detail</li> <li>- If the agreement is oral, always send a written note to your opponent, as soon as possible after the meeting.</li> </ul>

Source: Gavin Kennedy, John Benson and John McMillan, *Managing Negotiations*, (London: Hutchinsonson Business, 1990)

Activity 2

a) Discuss with 2-3 senior negotiators in your organisation or any other organisation that you are familiar with. Let some of them be from the sales field and others from administrative (e.g. HRD) or policy fields. Try to find out what has in general been the sequence of the steps in the negotiating exercise in their case. Does the sequence vary across situations?

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b) Look at the family situations requiring negotiation. Do the negotiation steps remain the same? If not, how do they vary?

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7.5.1 Prepare

What you do, or don't do, before you arrive at the negotiating table will become evident when you get to negotiations. If you are not fully prepared you can only react to events, you cannot lead them. In the preparation phase you define what needs to be achieved and also decide how it will be achieved. As a negotiator you must know what you want in the short term and in the long term. You must be clear why you want them. You must be aware of your opponents expectations and environment. For easy understanding we can sub-divide preparation under a number of key headings :- objectives, information, concessions, strategy and tasks.

Objectives

The first priority in preparation is to decide your objectives as everything else will follow this. Once you decide your objectives, you must assign relative priorities and question how realistic they are. If your objective is clearly unattainable you are not likely to gain anything from negotiation. Once you decide your objectives, these also become your criteria for measuring whether the negotiation has been a "success" or a "failure". The first step in deciding objectives is to make a list of all your objectives. The objectives set in any negotiation are only fixed at a given moment of time. Circumstances, people, information and so many other factors can alter the objectives and their ranking. After you have listed down all the objectives you can classify them into three categories :-

- Like to get
- Intend to get
- Must get

Relating this step to the sales process as a salesperson it is very important that you decide your call objectives before you meet the customer and categorize them, E.g. from a particular customer you may Like to get : order for 20 machines at 25% profit margin.

Intend to get: order for 20 machines at 20% profit margin.

Must get : order for 15 machines at 17% profit margin.

Information

To establish and prioritize your objectives realistically, considerable amount of information is required. The person with the best information in a negotiation carries a lot of power. After you collect all the information you have to then decide which information to use and which not to use. After deciding your sales objective the more information you can gather about your customer in terms of his personality, likes and dislikes, past usage pattern etc. the easier it will be for you to plan a strategy to deal with him.



## Strategy

Strategy as a separate step will be discussed in detail later in this unit. However you must keep in mind that in preparation phase your strategy will need to be mapped out. Thus the framework of game plan you need to follow to achieve your objectives must be clear. Always ensure that your strategy is not too inflexible. It should be able to respond to developments within the negotiation. Thus, at any stage of negotiation, if you feel that the strategy is not working you must be able to modify it.

## Tasks

In the day-to-day minor negotiations where we are involved, we act as an individual rather than as a member of a team. However in more important negotiations both the groups involved are likely to have more than one member. In such situations where the group has more than one member it becomes very essential that each member's role and the tasks he has to do are clearly defined and explained. Many times when you are calling a major customer, you may visit him as a team from your company. At such meetings it is important that everyone in your team knows what exactly his role is and what he is going to say during negotiations.

### 7.5.2 Discussion or Arguing

The second step in the process of negotiation is the discussion. This step is also called arguing. Within the second step of discussion we will also look at another important aspect of negotiations i.e. signaling.

When the parties involved in negotiation first meet each other, they are aware of the conflict of issues between them. In the instance where the parties have not met each other before this they are most wary of each other. Thus, during the opening phase of the negotiations the atmosphere tends to be very tense.

The discussion step is a major opportunity as you can gain all kind of information regarding the other party's behaviour, his intentions, his objectives from him only. To gather more and more useful information about your opponent, however you must avoid the habit of interrupting your opponent when he is speaking.

As is normally seen when emotions are charged up, most of us make certain threats, not necessarily intending to carry them out. The most natural reaction to a threat from either side is a counter threat from the other party. In such a situation during a negotiation both the parties may end up with mutual exchange of sanctions. Thus it becomes very critical, that as a party involved in negotiation you depict constructive behaviour. But the problem is, how to show constructive behaviour?

The most important thing is to listen more than you talk. Your positive listening must be supported and followed by positive talking behavior. The technique for doing this is to ask open questions which will encourage your opponent to explain and elaborate his views and ideas.

When the discussions are in progress, one of the factors that will determine the outcome is how well you can send signals. We learnt at the beginning of the unit that the essence of negotiation is movement along the continuum. Both the parties involved need to move from their ideal state to mutually acceptable state. The parties involved in the negotiations use sanctions and incentives to ensure movement towards their ideal state.

### 7.5.3 Signaling Behaviour

When you are involved in negotiations the way to handle concessions with confidence is to develop skills in signaling behavior. A good negotiator always tests how strong is his opponent's apparent stonewall position. This is the same situation which any salesman recognizes when he is facing objections from his customers. The first thing that a good salesman does in such a situation is to test whether the objection is real or false. So he will

ask his customer, "If I was able to overcome this problem, would you be prepared to buy?" For a real objection the customer's answer to the above question is yes. With the help of signals, the parties involved in negotiations indicate their willingness to negotiate.

**What is a Signal?**

The dictionary defines signal as a message. For any message to convey the meaning it has to be interpreted correctly by the receiver. Signals are qualifications placed on a statement of a position. Thus, instead of saying 'I will never agree to your demands' you may say, "In the present from your demands are unacceptable to me". A signal is expected to lead to movement.

**How to signal:** For signals to convey message effectively it is essential that the parties involved in negotiations are listening to each other. What normally happens is that as both the parties are focusing on their issues, many times they will miss the signals and prolong the argument. If you are not listening to what your opponent is saying and how he is saying it, you will inevitably miss his signals. However there are many situations during negotiation when you may want to consciously miss a signal. Consciously missing a signal requires a different skill.

During a deadlock, if you are willing to negotiate a solution, you can try to break the argument by signaling or responding positively to signals sent by your opponent. Remember, the method to signal is by adding qualifications to your statements. For e.g. 'It is not a normal practice over here to give credit', 'Everything you are suggesting cannot be accepted etc.

**What to do when your opponent ignores the signal:** If there is no response to your signals from your opponent you must analyze first whether he has missed the signal or is intentionally ignoring the signal. If your opponent has missed the signal you can either repeat it verbatim or in modified form. 'Everything you are suggesting cannot be accepted in its current form' can be repeated as 'you cannot expect us to accept everything you are suggesting in its current form'.

After having tried a signal, repeated it in different forms, and positively responded to any signals from your opponent, you must decide whether you want to move out of discussion or more importantly whether negotiations are possible in current circumstances.

**Activity 3**

If possible observe some negotiating processes in your organisation. Study and list the type of signals you observed during the process. from the side of both the parties. Study the list carefully after the negotiations are over. Does the sequence of the signals give any indication of the type of 'movement' in the negotiating process. Comment.

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**7.5.4 Proposing**

Discussions, opinions and prejudices cannot be negotiated, only proposals can. When an argument is prolonged, the way out is by a signal which leads to a proposal. In the context of negotiation a proposal is an offer which establishes a realistic opening position.

When you are presenting an initial proposal you would most likely state your ideal position, and your language will effect the firmness of your position, 'I had expected much better service'.

When you present a secondary proposal you are trying to initiate a move forward to common ground. Thus the language used for secondary proposals in most cases is tentative. 'I may look into the possibility of considering this'.

**How to Present a Proposal:** The best way to present a proposal is to keep it separate from reasoning and justification. The reasoning must be reserved for only those cases where it is

absolutely necessary. The party that puts the proposal first usually gains a upper position in the negotiation as after having put the proposal, it can always seek a response, "Is my proposal acceptable?"

**How to receive a proposal:** To effectively receive a proposal, you must curb two common behavior patterns : interrupting and instant rejection. When you interrupt a proposal you are likely to miss something which was yet to be proposed as very often experienced negotiators will tag a concession at the end of a proposal.

The other important behavior to control is instant rejection. Even when the opponent's proposal is absolutely unacceptable to you, treat the proposal and the prepares with some respect. Listen carefully to the complete proposal and then ask questions to clarify the points that may not be clear to you. If you are well prepared then reply to the proposal and in case you need some time to finalize ask for an adjournment. The most useful skill in handling proposals and counter-proposals is the summarizing skill. Regular summarizing of issues keeps both the parties concentrated to issues.

**Adjournments**

The main purpose of an adjournment is to review and assess progress against the set objectives. The actual number and frequency of adjournments depends upon the practice of negotiators involved

**Activity 4**

Selling Consumer durable, especially through personal selling, represents and situation where the consumer may present corresponding objections and need corresponding rounds of proposals before he/she agrees to buy. Talk to some salesmen of such products, like, Vacuum cleaners, water filters, home appliances, and delivery services, and collect information on their first proposal and second proposal formulation.

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**7.5.5 Packaging the Offer**

Offer moves the negotiations into the bargaining arena. But before the bargaining begins, one should package the offer, suitably.

**What is an offer:** In the context of negotiations, an offer is a considered activity in response to the opening moves of the negotiation. When you present an offer, you present the variables in a form which more clearly matches the other party's interests and inhibitions.

Before presenting the offer you must think carefully and creatively about all the possible variables.

**7.5.6 Bargaining**

Bargaining is about exchange - you give up something and gain something. This is the most intense phase of negotiation.

The single most important rule of bargaining is to make all propositions and concessions, conditional. Thus while bargaining you give away nothing absolutely nothing free. You always use the big IF.

"If you agree to X, I will agree to Y".

Another point to keep in mind is put your bargaining proposals as statements and not as questions 'If you inform the discounts, and promise to deliver in seven days, then I will process the order'.

While during the proposal step you make tentative offers. 'I will consider', 'I will look into' etc. in the bargaining step you firm up your proposals and become more positive 'If you do X, I will do Y'.

Very often in negotiation, a party will present a list of demands, objections, requirements etc. followed by the 'logical' suggestion that each item is dealt with one at a time. If other party presents such an idea, don't agree to such a demand. Always try to ensure that you keep all the issues in dispute linked. If you agree to negotiate item by item the other party has good chances of squeezing you.

### 7.5.7 Closing and Agreeing

The purpose of closing is to lead both the parties to final agreement. Thus closing must be credible. Your closing package must meet enough of your opponents needs to be acceptable. Two common types of closes used during negotiations are concession close and summary close.

**Concession Close:** When you use a concession close you terminate the bargaining step by offering a concession to secure agreement.

**Summary Close:** Summary close terminates the bargaining step by summarizing everything that has been agreed upto then, highlighting the concessions that the customers have secured from your side, and emphasizing the benefits of agreeing to what is on the table.

Agreeing is the last step towards which both the parties have been working. The purpose of closing is to secure agreement to what is on offer. It is of utmost importance that both or all the parties involved are absolutely clear on what they have agreed to before they leave the table.

### 7.5.8 Deadlock

We have seen all the steps of negotiation process. During any of the steps negotiations could enter deadlock. A deadlock stops the negotiation process deadlock has a price. Its most obvious price is the fact that the time spent in trying to negotiate a deal becomes a dead loss to the organisation, if the deadlock is irresolvable.

Deadlocks occur in many negotiations despite the best efforts of the negotiators. Some deadlocks are temporary, others can be permanent.

The way to handle deadlock is to keep your emotions, prejudices out of the issue and work towards finding some common objectives. Your basic intention should be to get negotiation process moving again, so as to enable a solution, acceptable to both parties.

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## 7.6 NEGOTIATION STRATEGIES

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During the negotiation process, as the discussion happens you would be reacting to the other party's comments in various ways. However three natural reactions that are commonly observed in most people are:

### 7.6.1 Strike Back

In this strategy you respond to your customer in the same tone and language as he is doing to you. Occasionally striking back will show your prospective that you can also play the same game and will make him stop. But more often this strategy will land you in a futile and costly confrontation.

### 7.6.2 Give In

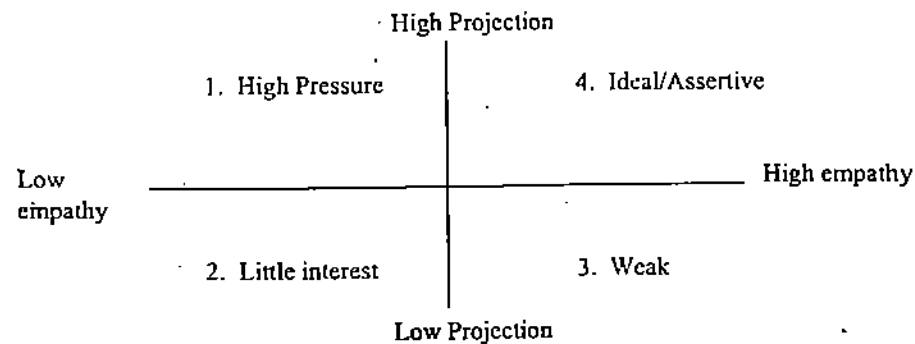
Many times your customer may succeed in making you feel so uncomfortable with the negotiations that you give in just to be done with it. Giving in results in an unsatisfactory

outcome specially for you. Giving in also gives you a reputation for weakness that your opponent and others may try to exploit in the future.

### 7.6.3 Break Off

At times, the negotiation process can come to such a stage, that avoidance is a perfectly appropriate strategy. Sometimes it is better to end a business relationship if continuing means being taken advantage of or getting into fights again and again. But the costs of a break off are high. Breaking off is frequently a hasty reaction that you come to regret later.

This negotiating requires you to be a very good communicator. As we stated earlier the objective of negotiation should be a 'win-win' solution for both the parties. This requires that you show empathy with the other person. If we consider empathy and overall projection (i.e. how you come over to others by your tone, language etc.), we can have four kinds of communications:



**Type 1 High Pressure Communicator:** He is the kind of person who is over aggressive and insensitive to other person's feelings. He feels, due to sheer pressure, he can win over the argument. In fact, mostly what happens is that as he has very low empathy, it becomes self-defeating and switches off the other people who are taking part in negotiation.

**Type 2 Little Interest Communicator:** He is the kind of person, who has little interest in either person, or surprisingly his own ideas. His general attitude in the process is take it or leave it kind. It often appears that mentally he has no interest in the process of negotiation. Thus a lack of commitment to the whole process tends to just run the process.

**Type 3 Weak Communicator:** He is the kind of person, who is over sensitive to the other person's needs and comes over as essentially nice. He can take the side of the other person so much on occasion that there is no persuasion and thus no commitment is achieved.

**Type 4 The Ideal/Assertive Communicator :** He is the kind of person who has understanding of the other person's ideas but is also firm about his ideas. He produces agreement and commitment to the satisfaction of both the sides.

## 7.7 PRINCIPLES OF NEGOTIATIONS

To end this unit on negotiation, let's summarize the principles of negotiation :-

- 1) Negotiation is about bargaining to reach a mutually agreeable outcome. Thus your endeavor should be a win-win outcome for both the parties.
- 2) Never neglect your preparation and you must have a clear plan. It is also advisable that you select the right starting point.
- 3) All the participants of the negotiation must regard each other as equals as mutual respect is essential to both the conduct and the outcome of negotiation.
- 4) Always keep in mind that negotiation is not a debate but a discussion. Therefore each person must 'fight his corner' without trying to overdominate or show one-upmanship.

- 5) Patience is a key characteristic of a good negotiator, thus take your time and do not rush into decision making. Delay is much better than a poor outcome.
- 6) Empathy is another vital characteristic, therefore see things from other's point of view objectively.
- 7) State clearly your objectives and take a feedback as to whether the other person has clearly understood your objectives or not.
- 8) Avoid confrontation and avoid getting into a corner you cannot get out of. When you have to disagree, do it carefully. When you have to make concessions, make them one at a time, unwillingly.
- 9) Aim high, and settle as high as possible. Know when to drop the whole thing rather than agree to a totally inappropriate deal.
- 10) Maintain your stamina.
- 11) Never underestimate people.
- 12) End positively. Neither party will get exactly what they want, but the deal should be agreeable.

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## 7.8 SUMMARY

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Negotiation is about bargaining to reach a mutually agreeable outcome. As a party to negotiation your endeavor should be a win-win outcome for both the sides. All the participants of negotiation must regard each other as equals. If you want to be a good negotiator patience should be your key characteristic. Always end positively. Remember neither party will get what they want, but the final deal should be agreeable to both the sides.

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## 7.9 KEY WORDS

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- Negotiation :** Process for resolving conflict between two or more parties when both or all modify their demands to achieve a mutually acceptable compromise.
- Preparation :** The activities you carry out before you arrive at negotiation table.
- Signals :** Qualifications placed on a statement of a position to convey a message.
- Offer :** Considered activity in response to the opening moves of the negotiation.
- Bargaining :** Process of exchange : going up something to gain something.

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## 7.10 SELF-ASSESSMENT QUESTIONS

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1. Discuss how negotiations and conflicts go hand in hand with each other?
2. Do you think you need to prepare yourself in advance for negotiations? What specific preparations you would do to meet a prospect for sales negotiations.
3. Differentiate between deadlock, stonewallings and non-conclusive negotiations.

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## 7.11 FURTHER READINGS

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1. Gavin Kennedy, John Benson and John McMillan, *Managing Negotiations*, (London: Hutchonson Business, 1990)
2. John Lidstone, *Manual of Sales Negotiations*, (England: Govers, 1991).

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## UNIT 8 RETAIL COMMUNICATION : SALES DISPLAYS

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### Objectives

After reading this unit, you should be able to :

- explain significance and purpose of sales displays;
- describe principles of display designs and types of displays; and
- outline the planning and execution phases of effective sales displays management

### Structure

- 8.1 Introduction
- 8.2 Objectives of Sales Displays
- 8.3 Principles (and Aesthetics) of Display
- 8.4 Types of Display
- 8.5 Managing Displays Effectively
- 8.6 Training Retailers
- 8.7 Motivating the Retailer
- 8.8 Summary
- 8.9 Key Words
- 8.10 Self-Assessment Questions
- 8.11 Further Readings

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## 8.1 INTRODUCTION

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Retailing scene in India has undergone a significant change in the last two decades. Not only there has been a quantitative increase in the number of retail stores but also their size, location, nature of selling operations, exteriors as well as interiors, and merchandise displays etc. have seen a qualitative improvement. This improvement, however, has been more pronounced in the retail stores located in metropolitan cities and urban towns. Over there we notice an increasing use of various methods for attracting customer traffic at the stores. One of such methods is the sales displays.

### Meaning of Sales Displays

Believing in the concept of "come and get it, we have it", sales displays are in-store presentations and exhibitions of the products alongwith the relevant information. Effective displays increase the interest of the shoppers in the products on display and lead to increasing the level of the pass-by ratio and hence the sales. Sales displays have come to form an integral part of store atmospherics and play a useful role in retail store promotions.

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## 8.2 OBJECTIVES OF SALES DISPLAYS

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According to Lewison and Delozier, sales displays are used to :

- maximize product exposure
- enhance product appearance
- stimulate product interest
- exhibit product information
- facilitate sales transaction
- ensure product security
- provide product storage
- remind customers of planned purchases, and
- generate additional sales of impulse items.

In pursuit of the above objectives, displays perform a three-fold job :

- attract people who otherwise might not go into the store, such as passers-by out window shopping, to come inside,



- after they are inside the store, whether they came in to buy or just to look, expose them to buying suggestions by counter displays and literature, and
- those who come in to buy something, induce them to buy a larger supply by smart packaging or display, or to buy additional products.

The power of sales displays in accomplishing the above objectives can be felt by visiting retail stores say Bata, Raymond's, Intershoppe, Akbarally's, Flury's, Benetton, Singer's Kitchen Collection. Usha-Shriram, Titan Watches and Ceat Shoppe to name a few.

In short, sales displays project a retail outlet, as well as a product's personality, create store atmospherics, stimulate desire to buy, trigger moods and act as silent sales people.

### 8.3 PRINCIPLES (AND AESTHETICS) OF DISPLAY

Effective displays result from the use of both the design principles as well as the creative and artistic talents of the designers. Some of the important design principles (see Figure 1) are discussed below :

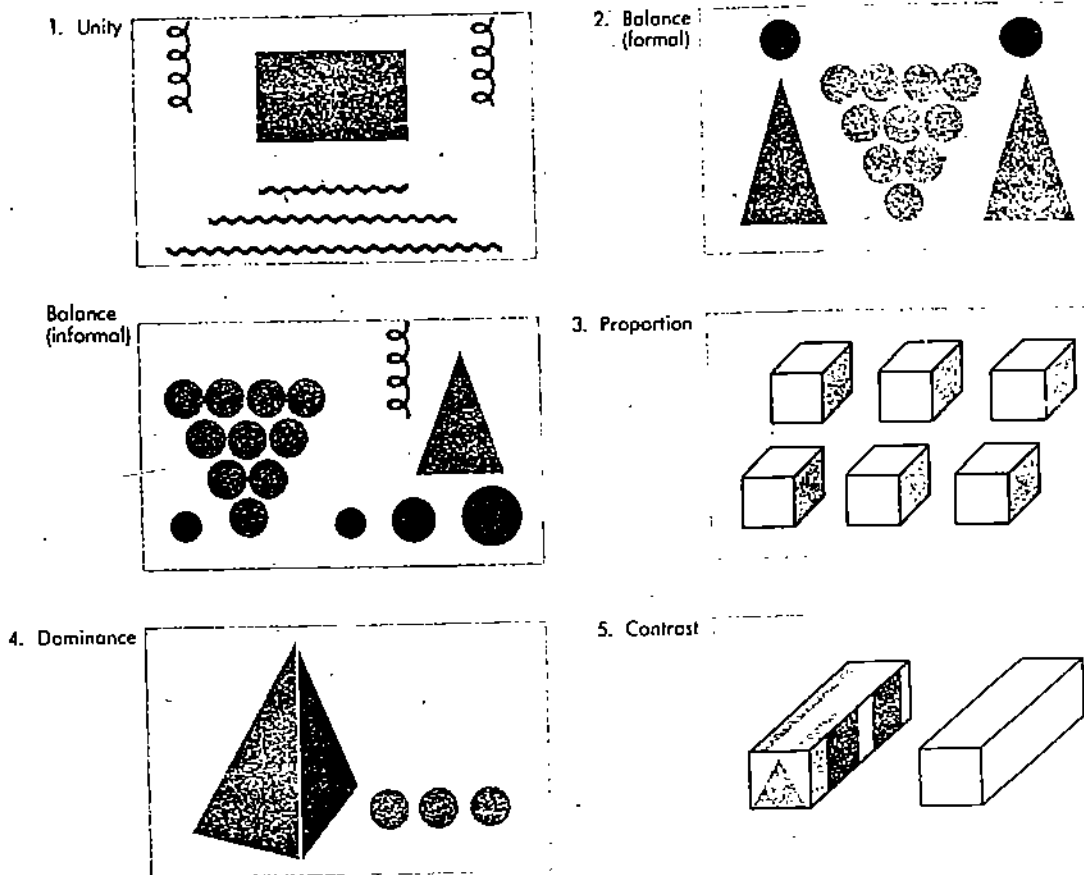


Figure 1 : Basic Principles of Design

**Principle of Unity** means that the various elements of display (such as merchandise, display materials, signs, accessories, etc.) appear unified and be seen as a whole and complete unit.

**Principles of Balance** means a harmony among the components of and items on display. Balance may be formal or informal. Formal balance believes in symmetry, that is, same weight, height or number of items on both the left and right sides of window display. Informal displays aim at being novel and extra-ordinarily attractive and thus are asymmetrical in nature.

**Principle of Proportion** concerns with the relative sizes of the various objects of displays. It involves the positioning of objects in a certain pattern. Popular display patterns are : the step, fan pyramid and zigzag (see Figure 2)

Retail Communication:  
Sales Displays

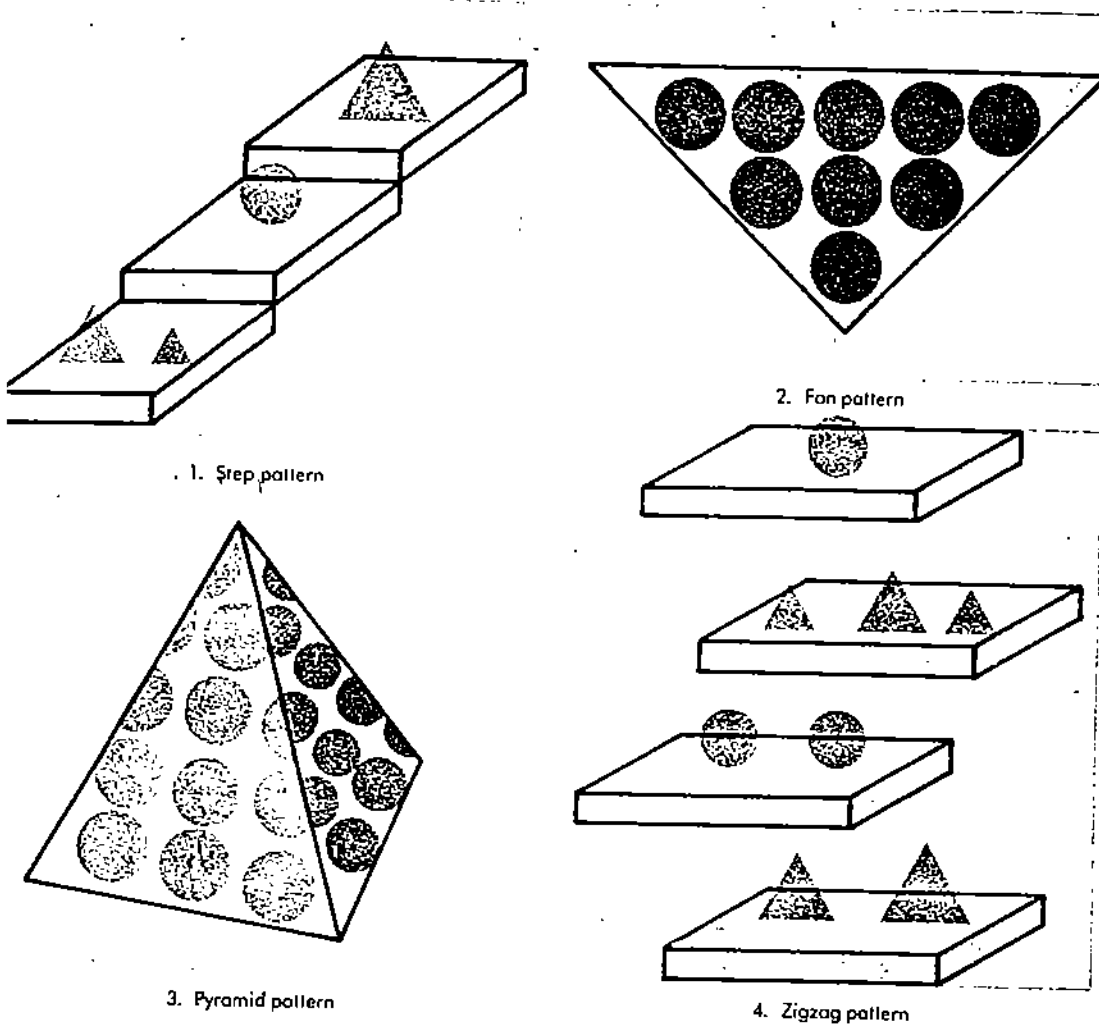


Figure 2 : Display Patterns

**Principle of Dominance** means dominating the display scene/space by using specially made products/packs of size much larger than the original size, or dominating with the use of unusual special effects as attention arresters/crowd pullers.

Use of giant Easter eggs in the show window of Flury's at Calcutta, of snakes and ladder game at Raymond's and placing of chotiwala person at a restaurant in Rishikesh near Haridwar are some examples of  $\alpha$  plays based mainly on this principle.

**Principle of Contrast** concerns with focusing on a product by stressing on the contrast, such as; displaying a light shaded product in dark shade background, a small cute offering against the giant size product in the background, using contrasting colours of lights, etc.

#### Activity A

Visit the major shopping centre of your town and study the retail stores located there in terms of:

- size of stores using show windows ;
- type and brands of products on display ;
- type of material used for making the displays attractive ; and
- the major principle of display used in the show window.

- a) .....
- b) .....
- c) .....
- d) .....

## 8.4 TYPES OF DISPLAY

As has already been stated, good displays act as powerful traffic builders and result in raising the store sales. Going by the increase in competition at the market place and the felt need of each retailer to attract more shoppers to its store, the question facing them today is not whether to use displays or not but how to use displays effectively. Blending creativity with principles of display designs, nature of product and specific market needs, has resulted in the creation of impact making sales displays which can be broadly classified into the following types. Before gaining familiarity with the different types of displays it will be desirable to remember that a creative retailer for gaining the unique display edge may make use of a combination of some or many of the display types discussed below.

- 1) **Assortment Display** : In this type of display a retailer puts on display a wide variety of merchandise for the customer. This display is organized in two ways – open and closed. The open display provides an opportunity to the customer to feel or try the product. Self service stores, Super Bazars, Kendriya Bhandars and ready-to-wear garment stores commonly use open displays.

The closed displays, on the other hand, keep the products within the glass windows or pre-packaged form. Counter service retail stores and those stores that sell expensive items (say jewellery) or fragile products generally use closed displays.

- 2) **Theme Displays** : These displays work on the principle of unifying the merchandise on display around a common theme or event, and accordingly call for the creation of appropriate mood or atmosphere in the store. These displays aim at enhancing customer enjoyment while involving him more deeply in the merchandise and the event. The theme may relate to national, international or local event, a season, festival or even could be internal to the store. Some popular themes include Republic, Independence and 2nd October Days at Khadi Gramudyog, New Year, Christmas, Easter, Diwali, Pooja and even off-season sale themes at other stores. Bridal themes at saree shops, holidays themes at travel agency firms, school opening themes at shoe stores, etc. are some more examples of theme displays.

Bata, probably, was among the first to introduce the theme displays, initially for their range of footwear, and now for their whole host of accessories. Imagination can perhaps be the limiting factor to such creative theme displays one comes across now. For instance, once around Christmas Raymond's had a window display depicting the story of three kings and the shepherds with the underlying aim to display Raymond's blankets which were used as coats by the shepherds. Similarly, Intershoppes played on the "denim magic" theme – even dressing windows in denim blue to sell its range of jeans and jean accessories. Renowned beautician Shahnaz Hussain projects the ethnic image to promote her herbal range of cosmetics at her Saloons in India and abroad.

- 3) **Life-Style Displays** : Using the market segmentation approach life-style displays are used by retail stores focusing on the activities, interests and attitudes of a segment of customers. The purpose is to make the retail store appear homely for the target customer and give him the feeling that he has come to the right place for shopping. Benzer, Sheetal, Roopam and FUs garment stores, Usha-Shriram household furniture and items represent some examples of these displays.
- 4) **Coordinated or Ensemble Displays** : Using the approach of suggestive selling, in this type of display generally a mannequin is dressed in matching say combination of shoes, socks, pants or short, shirt or T-shirt, sports-jacket and even tennis racket and bags as at Bata's, "Power" range stores or Raymond's shops. The customers are thus provided with the ease to buy related Raymond's items in one department or place instead of going over to different departments or stores. Ensemble displays focus on selling a concept rather than just a product.
- 5) **Unit Displays** : Unlike the related displays, the unit displays use merchandise that is identical in size, colour, shape, use etc. for display together as one unit and at one place. Generally the display of knives or spoons in cutlery, shoes, bags, shirts etc. as seen in a good number of stores follows this pattern.
- 6) **Classification Dominance Displays** : This type of display focuses on exhibiting a large variety of width and depth of the product lines carried by the store. This is organized on product basis which are put in vertical order for displays on the walls, on the selling floor or sometimes all over.
- 7) **Rack Displays** : These are mainly used by clothing and household goods retailers for neatly hanging or presenting the products. A variety of vertical chrome or steel tubing racks in circular and sideways shapes as well as mobiles are used for display.

**Cut Cases and Dump Bins** also find use as inexpensive and effective displays. Used at wholesale and large discount sale stores, merchandise is left open in these cases and bins for providing ease of handling to shoppers.

Some other complementary materials that aid in making sales displays attractive include window streamers, stickers, posters, hangers, counter cards, dummy cartons and balloons.

- 8) **Videotape Displays** : An interesting development in retailing in the developed countries is the growing use of audio-visual merchandising. These displays use technology to "speak" to and show shoppers the available merchandise. These pre-recorded audio/video devices include "shelf talkers" and "rear screen projections" thus adding a new dimension to products needing demonstration.

#### Activity B

During your visit to the major shopping centre of your town in addition to gathering data already listed in Activity A, analyse the retail displays in terms of:

- a) type(s) of display used
- b) nature of product and type of display used
- c) power of displays used to attract the window-shoppers and passers-by
- d) unique features of the displays liked most by you.

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## 8.5 MANAGING DISPLAYS EFFECTIVELY

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In order to get maximum advantage from sales displays it is necessary that these be organized and managed effectively. The process of display management can be divided into two phases :

- 1) planning of sales displays, and
- 2) execution of sales displays.

### Planning of Sales Displays

The planning phase of sales-displays covers dimensions such as :

- optimal use of display space
- use of cost-effective fixtures for display which provide maximum exposure to the merchandise
- type and pattern of displays to be used and their suitability with both the available store space as well as store layout ; and
- cost and frequency of change of displays in the retail store.

### Execution of Sales Displays

This phase of display management includes :

- ensuring adequate stock of merchandise to be displayed as well as in inventory
  - earmarking area and allocation of specific space of different displays and fixtures
  - checking the quality and features of the display fixtures procured for use in displays
  - attending to display related aspects such as store name board, store front, display window size, style and colour of display signs to be used, and display window lighting and atmospherics including floors, walls, ceilings, ventilation, cooling, heating etc.
  - organizing men and materials for the display including selection of outside experts, if any, and coordination with other employees of the store
  - instructing store staff on handling of displays and merchandise, and
  - arranging for timely advertising and publicity of the store.
- Ovid Riso in his edited book "Sales Promotion Handbook" cites the following requirements for a good product display :
- 1) It must be easy to set up, and sturdy to stand up well. Should have its own easel or base and not require fastening, tacking or attaching to any other fixture.
  - 2) It should illustrate the product in use if there is the slightest chance if consumer cannot see at a glance exactly how to use it.
  - 3) It should be colourful, well designed and simple.
  - 4) It should be informative, including the price.

Given the importance of proper planning and execution, incorporating creativity and innovativeness in sales displays emerge as the primary need in its effective management. It, therefore, requires the use of outside experts as well as search for newer materials to achieve distinctive edge in the product display. The other requirement relates to the frequency at which display designs are changed which in turn is linked to the budget available for this promotional activity. Big budget companies are known to change their displays quite frequently and for this purpose even employ interior decorators and designers and some have an in-home merchandising and display department.

### Obtaining Retailer's Cooperation

Sales displays at the retail store can be organized either singly by the store owners or jointly with the manufacturers of the products. The manufacturers sponsored product displays at retail stores carry one more important dimension. This relates to selling of the display scheme to the retailers and obtaining their cooperation for proper usage of display material and scheme.

### Motivating and Training Retailers

This relates to the zeal with which the retailers support the manufacturer's efforts. In other words, for maximising results from sales displays, participating retailers need to be convinced of the objectives, and trained as well as motivated to get their utmost cooperation in the conduct of sales displays. The remaining part of this unit covers this aspect.

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## 8.6 TRAINING RETAILERS

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hand, and rising costs of organizing displays on the other, it is becoming necessary retailers participation with equal enthusiasm. An investigation to the reasons for

It is not unusual to find that not all the display schemes offered by manufacturers get retailers participation with equal enthusiasm. An investigation into the reasons for retailer's poor interest in some of the display schemes pointed out to the following inadequacies :

- unreasonable terms of participation and unattractive rewards ;
- mismatch between display space available at the store and display requirements ;
- complicated display fixtures and material ;
- monotonous repetition of old display ideas ;
- non-availability of professional help required for setting up of creative displays ;
- unclear instructions regarding use of display material ; and
- receipt of incomplete display kits.

In view of the above reasons, it, therefore, becomes necessary to satisfactorily involve retailers in the organization and conduct of sales displays. A beginning, in this regard, should be made by explaining to the retailer and his staff the purpose of the display and how to make it a success. The latter could be done through personal discussion, supply of printed self-instructional material, provision of do's and don'ts and availability of assistance from interior decorators where needed. In any case, a salesperson's visit to the retail store after the display material has arrived at the store to ensure its completeness as well as for guiding its handling has been found very useful in both reducing material wastage as well as disinterested participation.

#### **A Company Practice**

In order to ensure proper usage of the display material as well as to make retailers promotion conscious, a U.S. Corporation made the following suggestions to its display scheme participating retailers :

- 1) When the display features a general idea, place it in a prominent location where it will be seen by all customers. The space opposite the front door is, incidentally, the preferred position in the whole store.
- 2) A specific item or specific line display should be placed as near as possible to the merchandise described.
- 3) A display offering the merchandise for the consumer to examine should be placed where the customer can touch it.
- 4) All displays should be placed where they can be seen and read by the customer.
- 5) Displays designed to be hung from the ceiling should be hung low enough for the customer to read and look over easily.
- 6) All displays should be placed where they will not conceal merchandise.
- 7) Never place displays where they will have to be moved back and forth by salesmen when taking care of customers.
- 8) Always place displays in a well-lighted position.

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## **8.7 MOTIVATING THE RETAILER**

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With a view to motivating retailers to put in their best efforts in the conduct of sales displays, sponsoring organizations encourage them by :

- provision of display goods and fixtures at special subsidised prices
- cooperative advertising and sales promotion i.e., promoting the retail store as well as the manufacturer's product on cost-sharing basis
- publicity through newsletter as well as keeping the retailer informed of the market movements of the product on display in different markets
- organization of display contests carrying catchy rewards and effort related consolation prizes
- photoflashing of retailer's displays at work to other retailers
- visit of mystery shoppers who assess and award prizes to outstanding retailers.

For example, Food Specialities Limited in India attaches considerable importance to the retail trade. Even much before the trend of hiring display windows had caught on, it embarked on a drive to enrol all high-visibility shelves and counters for displays. The company, generally speaking, offers nearly 25 per cent more money for shelf space than almost any other company. It has also devised a host of retail dispensers - hanging net baskets, counter top and floor racks to carry a range of its brands. Likewise, one of the principal factors for the success of brands such as Vicks Vaporub and Gold Cafe in 1988 is attributed to the ability of their sponsors in motivating retailers and hiring out premium display windows.

With the passage of time we find that the art of organizing effective sales displays has been perfected. Quite a few consumer goods companies in India which have been using sales displays almost regularly have developed very comprehensive checklists covering pre-planning steps; event planning; design preparation and procurement of aids for displays; selection and signing of select retailers; monitoring of display scheme in action; judging criteria, rewards, follow up and lessons for the future. These checklists also find an outline of the role of the salesforce at the various stages of the sales displays.

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## 8.8 SUMMARY

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Sales displays have acquired a place of significant importance in modern retailing. These help in both enhancing the store image as well as attracting shoppers to the store. Effective sales displays make use of aesthetic principles and are generally built around a popular theme suiting the market needs of the product. Sound management of sales displays requires an eye for detail on the part of sponsors so far as minute details relating to planning and execution of sales displays are concerned. Retailers play a critical role in the success of sales displays and hence require careful handling and proper motivation.

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## 8.9 KEY WORDS

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**Cut-Case Display:** Inexpensive display, where merchandise is left in its original cartons/cases.

**Dump-Bin Displays:** Case/Bins display which carry a large number of sale items.

**Ensemble Displays:** Display where related or coordinated merchandising is put together.

**Fan Display Arrangement:** Set up vertically, the display arrangement rises from the heavy base and widens drastically as the height increases. Often seen at chocolates, confectionary, and grocery shops. (See Fig. 2.2)

**Merchandising Space:** Space used for keeping items in stocks or inventory, while not on display.

**Merchandising:** Planning and presentation of merchandise and services at places and in quantities that best serve the interest of the customer and the retailer.

**Open Assortment:** Display of merchandise inviting access to the customer to feel or try them.

**Pyramid Display Arrangement:** Display arrangement in the shape of a three dimensional pyramid, with each side presenting an attractive triangle (see Fig. 2.3).

**Rack Display:** Displays of merchandise on racks generally used by textile retail stores.

**Scrambled Merchandising:** A wide variety unrelated to additions to the retail store's original business merchandise.

**Selling Space:** Space in the store earmarked for displaying merchandise, interactions between sales personnel and customers, space of demonstrations, etc.

**Step Display Arrangement:** A multi-tiered placing of trays, resembling a series of steps, for display of merchandise on it. (See Fig. 2.1).

**Store Front:** The total physical exterior of the store itself including entrances, windows, lighting and construction materials, etc.

**Width of Assortment :** Variety of different or unrelated product lines handled by a store.

**Zig-zag Display Arrangement :** A display arrangement which uses the basic approaches of step and pyramid display arrangements. The merchandise put on it appears to be zig-zag along the way. (See Fig. 2).

Retail Communication:  
Sales Displays

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## 8.10 SELF-ASSESSMENT QUESTIONS

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- a) Why is it becoming increasingly important for the manufacturers to properly manage the sales displays of their brands? Develop a checklist for evaluating the sales display at a retail store.
- .....
- .....
- b) Using the above checklist compare the effectiveness of sales displays in any of the following two cases :
- 1) A footwear store
  - 2) A Jewellery shop
  - 3) A saree store
  - 4) Consumer durable store
  - 5) Cosmetic shop
  - 6) Beauty Parlour
  - 7) Furniture shop
  - 8) Bookstore

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## 8.11 FURTHER READINGS

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- Bates, Albert D, *Retailing and Its Environment*, New York, Van Nostrand, 1979, p. 128
- Burstiner, Irving, *Basic Retailing*, Illinois, Irwin, 1986, Chapter 20
- Lewison and Delozier, *Retail Marketing*, pp 672-73
- Kerker, Urshila and Cordo, Dhun, Putting up a Smarter Front, *The Economic Times* (ET Esquire) 28 Oct. 1989, page II
- Retailers : A Growing Power, *Advertising and Marketing*, June 1989, pp 44-47.
- Riso, Ovid (ed), *Sales Promotion Handbook*, Chicago, Dartnell Corporation, 1979, Ch. 17 and pp. 922-23 and 952-53.



## NOTES

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**Retail Communication:**  
**Sales Displays**

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## NOTES

**NOTES**



Uttar Pradesh  
Rajarshi Tandon Open University

**MBA-2.5**

**Sales  
Management**

Block

**3**

**MANAGING THE SALES FORCE**

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**UNIT 9**

**Job Analysis, Recruitment and Selection** **5**

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**UNIT 10**

**Training the Sales Force** **20**

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**UNIT 11**

**Compensation and Motivation of Sales Force** **32**

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**UNIT 12**

**Monitoring and Performance Evaluation** **46**

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## **BLOCK 3 MANAGING THE SALES FORCE**

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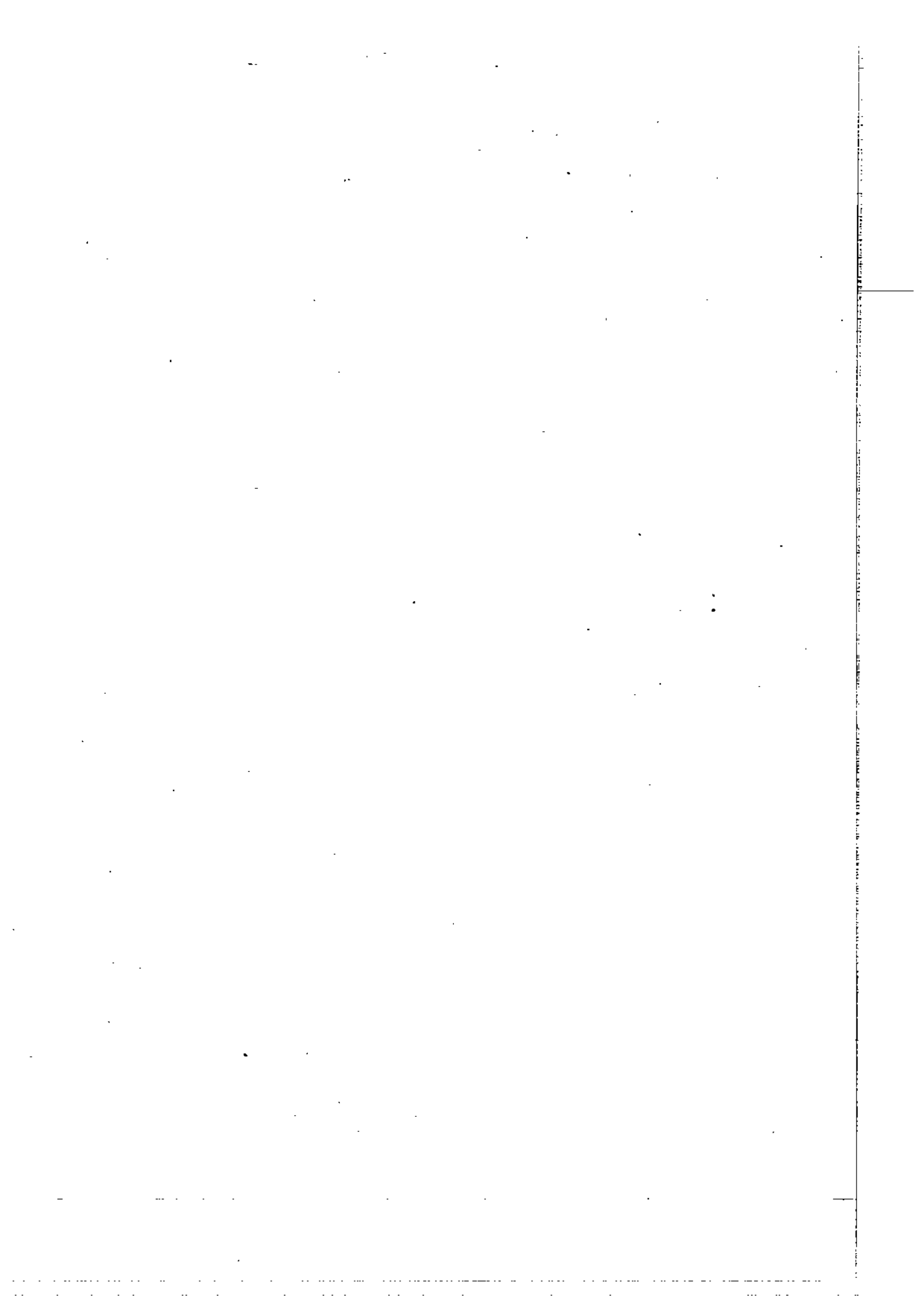
Effectively staffing the sales organisation is crucial to successful sales management, since the quality of sales personnel is a determinant of the quality of the organisation's sales effort. Job Analysis, Recruitment and Selection of sales personnel is the first step in building an effective sales organisation. Attracting and selecting good sales people is only one aspect of the sales manager's job. The staffing job is related to obtaining sales recruits with the capability of becoming good sales people. Adequate compensations, motivation and evaluation of sales people, contribute towards the satisfaction and development of sales person. Therefore, training motivation, performance evaluation and control of the sales force are the other important issues in the field sales force management.

The first unit in this block entitled 'Job Analysis, Recruitment and Selection' discusses the process of attracting and selecting sales personnel for the organisational and explains the variety of selection tools in use in the Indian industry.

The second unit is on "Training the Sales Force". In this unit areas of training, methods of raining and steps involved in the planning of a sales training programme have been discussed.

The third unit in this block explains the methods used for compensating and motivating the sales persons. In this unit, both financial and non-financial incentives have been discussed separately.

The last unit in this block entitled "Monitoring and Performance Evaluation' discusses the processes and practices, in relation to monitoring and performance evaluation of sales personnel.



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## **UNIT 9 . JOB ANALYSIS, RECRUITMENT AND SELECTION**

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### **Objectives**

After reading this unit, you should be able to:

- identify the issues relating to sales force management
- understand the importance of job analysis for better sales force management
- identify, evaluate and prepare lists of recruitment sources for a company
- design the selection process for hiring salesmen for a company
- frame application form and conduct interviews for screening the candidates
- select and administer psychological tests in the selection process.

### **Structure**

- 9.1 Introduction
- 9.2 Nature of the Sales Job
- 9.3 Sales Job Analysis
- 9.4 Recruitment
- 9.5 Recruitment Sources
- 9.6 Selection
- 9.7 Selection Tools
- 9.8 Conclusion
- 9.9 Summary
- 9.10 Key Words
- 9.11 Self-Assessment Questions
- 9.12 Further Readings

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## **9.1 INTRODUCTION**

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Attracting and selecting new sales personnel is an important aspect of the sales manager's job. This unit on job analysis, recruitment and selection will tell you about the procedures used for obtaining sales recruits with the potential capability of becoming good sales people. Once this pool of talent has been generated, it becomes feasible to select the individuals who match the needs of the organisation. Selection is a step-by-step procedure that the sales managers go through to staff the sales organisation. Selection which follows recruitment, requires that the sales manager must reverse the roles and become a buyer instead - a buyer of sales talent and potential.

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## **9.2 NATURE OF THE SALES JOB**

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

- i) As sales personnel works in the field, away from the head offices, they are responsible for managing their territories or accounts. Therefore, sales personnel are expected to take their own decisions for planning and executing their individual activities.
- ii) Most sales persons, while on their journey cycle, get fewer opportunities for interactions in person with their supervisors. Most of the time they provide feedback or receive instructions, telephonically or through fax in their hotel.
- iii) The third characteristics of the field sales job is that the sales personnel remain away from their home and family for days together. This is a regular feature. In some consumer product companies sales people travel for as many as 21 days in a month.



- iv) Another important aspect of the sales job is the job monotony. Each sales person is doing the same work, repetitively with different customers. For example, a medical representative, makes the same presentation to all the medical doctors, day-after-day.
- v) Lastly, success in a sales call doesn't depend on an individual's effort. It may so happen that the customer doesn't need your product or the customer was not happy with his previous experience, on delivery or after sales service or spares. All field sales job create, therefore, a normal tendency to get disheartened or discouraged.

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

### 9.3 SALES JOB ANALYSIS

Sales force management is the personnel function in the marketing department of an organisation. The issues in sales force management are, therefore, the same as that of the personnel management. However, these issues relate to only, those personnel who work in the sales department.

The starting point of all sales force management activities is the Job Analysis, as shown in figure 1.



Figure 1 Activities Involved in Managing the Sales Force

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

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

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

## Basic Responsibilities of a Salesman

### Job Analysis, Recruitment and Selection

Sl. No.	Sales Responsibilities	Specific Activities
1	Direct Selling	a. Locating prospects b. Determining prospects' needs c. Planning selling strategy d. Interviewing e. Creating desire f. Handling objectives g. Completing sales
2.	Customer Relations	a. Helping customers by solving their problems and providing special services b. Training customers to use their purchases c. Arranging displays and promotions d. Keeping customers up-to-date on new developments e. Settling complaints f. Establishing and maintaining good personal relations with customers
3.	Product Knowledge	a. Knowing products and their applications b. Looking for new products c. Keeping up-to-date on merchandise style and price changes d. Keeping up-to-date on competing products
4.	General Administration	a. Maintaining call records b. Carrying on routine correspondences c. Checking customer's credit d. Follow-up on inquiries e. Maintenance expense-account records
5.	Management Relations	a. Making required reports b. Reporting competitors' activities c. Working with other departments

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

Once the job specifications are laid down, it becomes easier for a company to initiate the process of recruitment and selection. Also training can help a sales person to fulfill job responsibilities more effectively.

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

(In the remaining part of this unit issues related to recruitment and selection have been discussed and in a separate unit sales training has been covered).

## 9.4 RECRUITMENT

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

## 9.5 RECRUITMENT SOURCES

Frequently used sources of salesmen are as follows.

### Advertisements

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

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

### Employment Agencies

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

## Educational Institutions

This source includes colleges, universities, technical and vocational institutes. This source is tapped for getting qualified people for entry level positions in sales. Students from technical/vocational institutes or with specific subjects like Physics, Biology, Hotel Management are recruited by the companies, where selling requires specialised knowledge and skills for that particular industry. College graduates are generally taken by the companies having formal sales training programme or for simple selling jobs. Recruits from educational institutions are more easily adaptable than their more experienced counterparts. They have no developed loyalties for a firm or industry and they probably have not acquired any bad work habits. Usually, they have acquired certain social graces, are more poised and mature. They are supposed to have developed their ability to think, to reason logically and to express themselves reasonably well. Ordinarily, they do a good job of budgeting their time and managing their daily activities. Their main limitation is lack of selling experience. Men recruited from this source need training and thus take time for reaching the desired productivity level. To use this source effectively, it is important for the company to develop and maintain good relations with suitable educational institutions.

## Salesmen of Non-competing Companies

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

## Salesmen of Competing Companies

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

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

## Internal Transfers

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

### Recommendations of Present Salesmen

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

#### Activity 1

Suggest suitable recruitment sources for the following :

- a) Salesmen for selling a consumer non-durable.
- b) Salesmen for missionary selling for pharmaceutical company.
- c) Salesmen for technical selling for engineering firm.

#### Activity 2

A sales manager has hired 10 sales people a year for the past five years, and has been keeping records of recruitment sources. A summary of this information is as follows :

Recruitment Source	No. of Recruits obtained	No. of Recruits hired	No. of successful sales people after one year
Employment Agency	40	12	8
Advertising	100	8	4
Sales persons' Recommendations	60	30	15

Should the sales manager concentrate on any one or two recruitment sources? If so, which ones?

## 9.6 SELECTION

After a company has determined the type and number of salesmen it needs and the applications for the job have been received, the management is ready for the third and the final stage of the selection system, i.e. selection process. It involves processing the applicants to select the individuals who best fit the needs of a particular company. The sales force selection process refers to the steps, the sales management goes through to staff the sales organisation. Specifically the process involves :

- i) Critical analysis and evaluation of each tool and procedure.
- ii) development of a system for measuring the applicants against the predetermined requirements.

## Educational Institutions

This source includes colleges, universities, technical and vocational institutes. This source is tapped for getting qualified people for entry level positions in sales. Students from technical/vocational institutes or with specific subjects like Physics, Biology, Hotel Management are recruited by the companies, where selling requires specialised knowledge and skills for that particular industry. College graduates are generally taken by the companies having formal sales training programme or for simple selling jobs. Recruits from educational institutions are more easily adaptable than their more experienced counterparts. They have no developed loyalties for a firm or industry and they probably have not acquired any bad work habits. Usually, they have acquired certain social graces, are more poised and mature. They are supposed to have developed their ability to think, to reason logically and to express themselves reasonably well. Ordinarily, they do a good job of budgeting their time and managing their daily activities. Their main limitation is lack of selling experience. Men recruited from this source need training and thus take time for reaching the desired productivity level. To use this source effectively, it is important for the company to develop and maintain good relations with suitable educational institutions.

## Salesmen of Non-competing Companies

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- i) Critical analysis and evaluation of each tool and procedure.
- ii) development of a system for measuring the applicants against the predetermined requirements.

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

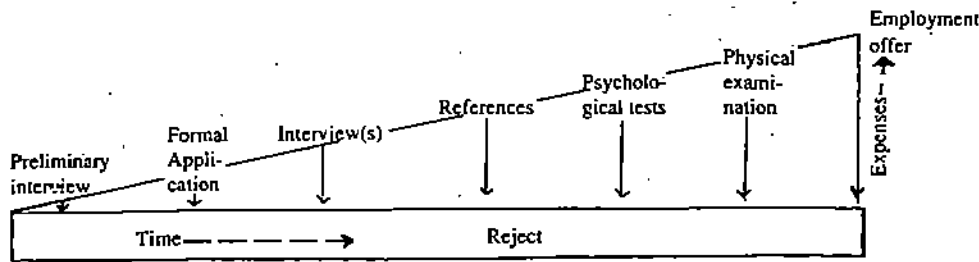


Figure 1 : A Seven Step Selection System.

### Selection Policy Decision

- i) Which tools should be used?
- ii) In what order should the tools be used?

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

## 9.7 SELECTION TOOLS

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

### Application Form

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

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

**Detailed application form** is more extensive and covers each topic in depth. It is designed by each company according to its own information requirements. It varies widely from one company to another, for the designing depends upon the detailed description of the sales job. For example, a detailed application for sales engineer will be quite different from the detailed application form for medical representative. This form may be used as the only application form or alongwith the short application form. A longer form may be used as an initial screen if it is used to the exclusion of the short form. The facts stated on the form can



be the basis for probing in an interview, for instance, by asking several questions related to the job experience as stated on the form. Also, if the applicant passes through the initial screens, management may need to refer, many times to the information stated on the form. This form is also used as a source of information to study the backgrounds of its good and poor salesmen and to establish scores and weights on specific requirements.

**Objective scoring of application form :** Each company, according to its job requirements, decides the ideal personal history requirements that would make the person successful on the sales job. Individuals possessing all the personal history requirements are the ones most likely to succeed on the job. However, many potentially successful salespeople do not possess all the requirements. One company found that most of its best salespeople were of the age group of 30-35 years at the time of hiring, yet there were some as young as 19 and others as old as 48. Although the age group 30-35 years, may be the preferred age range, applicants outside this age range should still receive consideration, since other factors in their backgrounds may more than offset the fact that they are outside the desired age range. One of the ways to determine the total value of candidate is by using application form, on which an objective score has been assigned to each item. The maximum possible score for each of the item depends upon its importance in sales success. A higher score is allocated for the requirements which are more essential than those which are not so important. The points are assigned to an individual, for each of the item, according to its proximity to the ideal.

<b>Example : Education</b>	<b>Maximum Score</b>	<b>- 8</b>
	High School	- 5
	Diploma	- 6
	Graduate	- 8
<b>Job Experience</b>	<b>Maximum Score</b>	<b>-10</b>
	1-2 years	- 4
	3-5 years	-10
	5-7 years	- 7

For example, in an application form of a firm, 12 personal history items are used as selection factors. A maximum value is assigned to each of them according to its relative value on the form. The maximum total score is 150 points and the cut off score is 100. All the successful salespersons in this company scored over 100 when hired and the company automatically disqualifies all applications with score under 100.

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

- i) The objective, the company has in using the application form—if it serves as an initial screen, it is shorter than one that will be used for complete personal history record.
- ii) The other selection tools and records used, often influence the design of the application form. Use of patterned interview, for instance, may enable a concern to shorten its form. On the other hand, a firm may want to duplicate its questions in order to check on a recruit's honesty, by seeing, if his answers on the form coincide with those obtained from other sources.
- iii) The nature of the job is another factor that influences the questions asked on the application form, because different sales jobs call for different qualifications. A firm trying to hire men with 5-10 years of sales experience, for example, is not so concerned about a recruit's activities in school and college. The information required on the application form, for hiring a salesman, for sales engineer's job to sell the technical product will be different from the information for hiring door-to-door salesman for selling low priced consumer product.
- iv) Another factor is the degree to which the selection function is decentralised. If home executives take part in the hiring of salesmen, the application form, probably, is detailed. But if territorial managers do the hiring, the form may be short because the other tools, especially the interviews, can be used more extensively.

Ideally each company should prepare its own formal application form, since no two companies have precisely the same information requirements. But, if a company has only a small salesforce and recruits relatively few people, the time and cost of preparing its own application form may warrant the choice of a standard form. Certain items of information, which are almost always relevant to selection decisions, make the standard form. The information that is typically requested on standard application form includes personal background, education and employment record. Companies using standard application form can obtain the additional information required, during the interview.

### Activity 3

Frame questions that you would ask on the application form to determine whether an applicant possesses any of the following undesirable traits :

- a) Has a history of not staying in one job for very long.
  - b) Has domestic problems.
  - c). Does not get along well with other people, is the lone wolf type.
- .....
- .....
- .....

## Interview

The interview is the most widely used selection tool and in some companies, it comprises the entire selection system. This tool may be used as preliminary interview for initial screening of applicants and plays an important part in the subsequent stages of the hiring process as final interview. This is the most satisfactory tool to find out something about conversational ability, general appearance, personal impact on others and certain behavioural aspects. Personality traits like initiative, imagination, aggressiveness, tactfulness, enthusiasm can come out, when an applicant is talking. Another purpose of interviewing is to verify and supplement the information obtained through other tools. Unusual or omitted references on the application form can be discussed or more details about personality, attitudes and previous work experience can be explored. For example, the applicant might have stated that he was a district sales manager in some previous job. The prospective employer may ask : What were the man's responsibilities? How many employees did he supervise? What were his administrative duties? It is important that the interview serves as a two-way channel of communication. The interview is not only a means by which a company determines an applicant's fitness for the job, it also offers the employer an opportunity to answer the recruit's questions about the company and the job. He can be told about such things as the nature of the job, the physical and social conditions involved, the compensation, the nature of training and supervision and the opportunities for the future. The nearer a firm is to hiring a man, the more information it gives to an interviewee.

**Interviewing decisions :** The following important decisions are arrived at, by the management regarding interviews :

**Who and where :** Persons to do the interviewing and place for interviewing depends upon the size and degree of decentralisation of sales organisation. In large and highly decentralised organisations, it is done at local and regional level by district/branch/regional sales managers e.g. New India Assurance Company. In medium size organisations with less degree of decentralisation, initial interviewing is handled at the branch level and final interviewing at the head office. Interviewing is the responsibility of top personnel of sales and marketing department in small and centralised organisations.

**How many :** Number of formal interviews vary with the selling style of the company. One large steel company, which needs salespeople to do the highly specialised selling to important customers, puts the applicants through three interviews, involving regional sales managers, the general sales manager and marketing vice-president. An office supply manufacturer, which requires sales personnel for routine trade selling, many hire applicants after two interviews. In another situation, where salesmen are required for door-to-door selling of simple products, one interview is enough to gather the necessary information.

**When :** The interview may be used at the initial stage of screening process as preliminary interview and it also usually plays an important part in the subsequent stage of the hiring process, as final interview. At the initial stage, its main purpose is to quickly eliminate the applicants whose qualifications do not meet the job's basic requirements. For example, a few of the company executives visit the college campus to do the initial screening of people who have responded to the company's advertisement in the college. The detailed/depth interview is used at the later stage of the selection process. It is more time consuming and requires people with expert skills to probe the personality traits of the candidate in depth.

#### Techniques of Interviewing

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

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

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

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

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

Examples :

**Enthusiasm :** Bored, somewhat indifferent, normal enthusiasm, sparkling effervescence.

**Judgement :** Jumps to conclusions, less than sound reasons for opinions, sound opinions and reasons, excellent judgement and uses reasons as problem solving device.

**Sales drive :** Low, normal, above average, pushes himself.

**Attitude :** Negative and complaining, pessimistic, positive and healthy, strong loyalty.

**Guidelines for interviewing :** Some general guidelines that will assist one in doing the effective interviewing are suggested below :

i) **Prepare for the interview :** Effective interviewing requires adequate pre-planning to be done prior to the interview. This involves renewing the job description, the company's personnel policies and procedures and existing data about the candidate. The review will enable the interviewer to determine exactly what he wants to know about the candidate and prepare the topics for discussion.

ii) **Established rapport :** A pleasant relaxed atmosphere must be established during the interview. The interviewee must be made to feel at ease by asking general questions about his family, education, experience, that is the subjects about which most people feel free to talk about. A quick review of the interviewee's application form may suggest a suitable opening for it. A pleasant rapport between interviewer and applicant must be maintained throughout the interview.

iii) **Listen and observe :** It is important for a successful interviewer to be a good listener and good at observation. He begins to learn about the candidate, as soon as, he enters the room—Is the applicant dressed appropriately? Is he/she poised and confident? Alert? Observation provides many a clues about the personality of the applicant. For instance, clasping and unclasping of hands, fidgeting, not maintaining eye contact are signs of nervousness, uncertainty and lack of confidence.

iv) **Taking few notes :** Most interviewers will need to refer to notes about the performance of the candidate at the time of the interview, for evaluating him, for selection decision. However, taking notes during an interview distracts the applicant and slows down the tempo of the interview. So, in most of the situations, candidate should be marked on the evaluation sheet after he/she has left the room.

v) **Select a suitable environment :** The interviewer must make sure that the setting is appropriate and conducive for interviewing and there are no interruptions during the interview.

#### **Activity 4**

When interviewing an applicant for a sales job, management is ordinarily interested in complete answers to the following 3 points.

- a) How badly does the applicant want the job?
- b) Can the job furnished him with the success he wants or offer him the opportunity to realise his goals in life?
- c) Will he strive to achieve the level of work his capacity will allow?

Prepare a series of questions, an interviewer might ask with respect to each of these three points

- a) .....
- b) .....
- c) .....

### **Psychological Tests**

Use of psychological tests as selection tool, though still in its infancy, is increasing for the reasons like—greater importance being given to selection as the sales management is becoming more formalised, rising cost of selection and training, increased size of sales force and increased knowledge of psychological tests and their applications. Psychological testing refers to having the recruit answer a series of written questions, the proper answers to which

have been previously determined. The major purpose of testing is to identify and measure more accurately, the various aspects of person's behaviour such as intelligence, achievements, interests aptitude, personality traits, etc. It requires trained specialists for designing, administering and interpreting the psychological tests.

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

- i) The firm hires a relatively large number of men and its cost of training per person is quite high.
- ii) The firm is hiring young inexperienced men about whom little is known.
- iii) The persons being selected are not likely to be testwise, i.e. danger of faking is minimised.
- iv) The executives responsible for interviewing the recruits are not adept at discovering personality traits and selling aptitude.
- v) In companies, where the cost of a man's future development is high, the expense of testing may be a small insurance premium, just to be more accurate in judging a candidate.

#### **Types of Psychological Tests**

- i) Tests of Ability — Tests of mental ability  
Tests of special abilities
- ii) Tests of Habitual Characteristics — Attitude tests  
Personality tests  
Interest tests
- iii) Achievement Tests

**Tests of mental ability :** Give the administrator some idea of the man's present abstract intelligence. These tests are designed to show how well a person reasons, thinks, and understands and thus measure the abilities like problem solving and learning. Beyond a minimum level, this type of intelligence is seldom of vital importance in selling. In the alternate, if the sales job requires a man with higher than average intelligence, because of its being a complex job, then probably such intelligence tests should be made a part of the selection process.

**Tests of special abilities :** These tests measure the sales aptitude and the special abilities required for a person to be successful in sales position. Sales aptitude tests are designed to find out the recruit's behaviour in certain common selling and social situations. One such test asks, "You are a sales clerk. The best of your response to the customer's objection, 'It is not exactly what I want', would be :

- a) Do let me show you another style that is very popular this season.
- b) This is the latest style.
- c) I am sorry you didn't like what we have.
- d) We expect another shipment of articles next month."

Many sales managers administer their own informal aptitude tests by way of a situation in which they give a product to the recruit and say, "Here, sell this to me." General sales aptitude tests are used for measuring the basic qualities of a good salesman and specially designed sales aptitude tests are used for measuring special qualities required for a particular type of sales job of a company.

**Tests of habitual characteristics :** These tests gauge how the prospective employee would normally act in his daily work, i.e. when he is not at his best behaviour.

**Attitude tests :** Are more appropriate as morale measuring techniques. They are used to ascertain employee's feelings towards working conditions, pay, advancement opportunities and like. Used as sales personnel selection device, they make limited contribution by identifying abnormal attitudes on general subjects.

**Personality tests :** Success in selling depends mainly on the multitude of behaviour traits called personality. By adroitly asking many questions concerning what the test taker would do in certain situations, how he feels about certain things and what his attitudes are towards various occurrences, the test hopes to uncover specific personality traits. These tests attempt to identify and measure the traits like stability, tact and diplomacy, self-sufficiency, self-control, dominance, initiative, etc. The obvious difficulties in using these tests are first in stating precisely what aspects of personality are true job qualifications and then finding and designing tests which would measure these aspects correctly. These tests need to be administered and interpreted by skilled testers.

**Interest tests :** The basic assumption implicit in the use of interest tests is that a relationship exists between interest and motivation. Hence, if two persons have equal ability the one with greater interest in a particular job will be more successful salesman. Interest tests measure the extent to which one's interests are similar to those of successful people in a given occupation. Probably, a person who scores low on an interest test will not make a good salesman. These tests are relatively easy and inexpensive to administer.

**Achievement tests :** Provide an assessment of expertise, an applicant possesses in such areas as customer relations, marketing channels, product, etc. These tests seek to determine how much an individual has learned from his education, training and his knowledge about certain subjects.

**Evaluation of Psychological Tests**

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

- i) **Validity :** A test is valid if it actually measures what it is supposed to measure. Following are the three ways to check the validity of a test : (a) A test is given to the present salesforce and test score of successful salesmen is compared with the score of unsuccessful salesmen. If there is close correlation between the score and job performance, the test is a valid test. (b) A test is given to all the applicants, but the test scores are withheld from the persons making the selection decision. After the new salesman have begun work, their performance is compared with their test scores. Again the degree of correlation will reveal the validity of test. (c) Another way to validate a test is through the use of control groups. One group of salesmen is chosen by making use of tests along with other tools in the selection process, while a control group is hired without the benefit of testing. The job performance of both the groups is compared after a period of time to determine the validity of test.
- ii) **Test reliability :** It refers to the consistency of test results. A test has reliability, if an individual gets approximately the same score on subsequent retesting in the same type of tests. Perfect reliability is given the maximum score of 1. The tests having the reliability near one, are considered as reliable tests for use in selection process.

	Reliability
Example:- Social intelligence test	.85
Numerical ability test	.95
Vocabulary test	.75

- iii) **Test objectivity :** If the scorer's opinion does not affect the test score, it is an objective test. For a good test, it is important to have high objectivity.
- iv) **Time effort and cost :** Of administering the tests must be compared with their benefits.

**How the psychological tests should be used :** Any test should be used only as an aid to judgement, and definitely should not be the deciding factor in determining who should be hired. It is a mistake to automatically accept or reject a given applicant on the basis of his test scores. They are a tool to assist the sales executive in selecting the right kind of salesmen, but they should not be relied upon to the exclusion of other tool. Test results may help in avoiding a serious error, but they must not make the selection decision for the manager. Sales executives need to recognise the fact that psychological testing, although capable of making a valuable contribution, is but one step in the selection system. The sales manager should not believe that the best score on a test means that the man is the best prospective employee. All that can be said is that a man does or does not fall within a range and all those

who do fall within that range should be judged as being equally qualified for the job. Test results should be used to probe deeper into any questionable areas.

**Activity 5**

The sales manager of one of the leading business machines manufacturers claimed that he uses psychological tests in selecting salesmen. When asked about their nature, he replied, "One test has a lot of words in it, which must be matched with some other words and another test has a lot of figuring that must be done. The third gives several numbers or letters in a row and asks the test taker to give the next number in the series." What are the tests that the company is using?

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**References**

Names of references are sometimes requested on the application form by the company. As a selection tool, the basic purpose of the reference is to verify the facts such as the dates of employment, earnings, sales volume, absenteeism and the nature of the past selling job. The typical procedure is to check the references by personal visit, telephone or letter.

**Physical Examination**

Many sales jobs are very demanding physically and/or mentally. So, near the end of the selection process, some companies require a physical examination to eliminate the candidates who do not meet the minimum physical qualifications deemed necessary for the job.

**Activity 6**

Give some specific examples of how each of these following factors can influence a company's choice of selection tools for its salesforce:

- a) Calibre of the salespeople
- b) Nature of the job
- c) Financial condition of the company.

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**9.8 CONCLUSION**

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Appropriate recruiting and selection policies and procedures, and their skilful execution, result in greater overall efficiency of sales department. A higher grade salesperson is produced, and the advantages of having such employees make an impressive list—better work quality, improved market coverage, superior customer relations and a lower ratio of selling expense to sales. Moreover, good selection fits the right person to the right job, thereby increasing job satisfaction and reducing the cost of personal turnover. In addition, training costs are reduced, either because those hired are more capable of absorbing training or because they require less formal training.

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**9.9 SUMMARY**

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The recruitment and selection of sales people constitute one of the primary responsibilities of sales management. After a thorough analysis of each sales job, the sales manager prepares a list of qualifications to be used in recruiting. Depending upon the type of job to be filled and company policy, the sales manager then seeks applicants through various sources—educational institutions, other departments within the company, employment agencies, advertising and even competing or non-competing firms. Managers must evaluate the pool of applicants in order to select the most promising candidates. The selection process involves the use of application forms, interviews, references and psychological tests in order

to identify those persons meeting the job qualifications. The final step in the hiring programme requires that the sales manager decide which, if any, of the candidates should be offered selling positions.

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## 9.10 KEY WORDS

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**Patterned interview :** Also called guided interview, this method employs a list of prepared questions that the interviewer asks in order to obtain the required information.

**Unstructured interview :** Also called a non-directed interview, this method has no set format or plan. It involves a relaxed discussion in which the interviewee is encouraged to talk.

**Semi-structured interview :** Also called an outline interview, this interview format combines the characteristics of both structured and unstructured interviews.

**Stress interviewing :** An interview technique in which stress is placed on an applicant through interruption, criticism or silence.

**Rating scales :** A widely used sales evaluation method that uses specific desired traits, behaviour factors or performance criteria.

**Psychological testing :** Tests designed to measure a person's behaviour and to attempt to predict employment success.

**Test validity :** The authenticity of the test as a measure of behaviour.

**Test reliability :** The quality of the test related to consistency of test results.

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## 9.11 SELF-ASSESSMENT QUESTIONS

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- 1) "One sales executive claims he knows a good man when he sees one, and therefore, he does not like to be bothered by so called scientific selection process. What can you offer to refute this claim? Would your answer be any different if you knew that the sales manager who made the statement had a low rate of turnover in his salesforce and was running a highly profitable operation.
- 2) "Careful selection is important, but not essential, in building an effective salesforce. Improper selection of sales people can be overcome by a good training programme, sound supervision and an excellent compensation programme." Do you agree? Discuss.
- 3) When selecting salesmen many companies have adopted a policy of hiring only experienced salesmen and preferably men who have had experience of selling similar or directly competitive products. What are the merits or demerits of such a system?
- 4) The following firms want to hire salesmen, and as recruiting sources, the executives are considering—other departments of the company, competitors salesmen and educational institutions. Evaluate each of these three as sources of salesmen for each company :
  - a) Manufacturer of paper and paper products
  - b) Manufacturer of office furniture and equipment
  - c) Manufacturer of breakfast cereal

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## 9.12 FURTHER READINGS

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Anderson, B. Robert, 1981. *Professional Sales Management*, Prentice Hall, Inc.

Dalrymple, J. Douglas, 1982. *Sales Management Concepts and Cases*, John Willey and Sons, Inc.

Smith, F. Roger, 1987. *Sales Management — A Practitioner's Guide*, Prentice Hall, Inc.



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## UNIT 10 TRAINING THE SALES FORCE

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### Objectives

After reading this unit, you should be able to:

- understand the importance of training for the sales personnel
- learn the training process
- identify the areas in which training for the field sales personnel can be of use
- understand how to conduct each step of training.

### Structure

- 10.1 Introduction
- 10.1 Logic of Training
- 10.2 Training Process
- 10.3 Areas of Sales Training
- 10.4 Process of Identifying Training Needs
- 10.5 Methods of Identifying Training Needs
  - 10.6.1 Self Observation
  - 10.6.1 Reports
  - 10.6.2 Survey of Questionnaires
  - 10.6.3 Face-to-Face Interviews
  - 10.6.4 Focus Group
- 10.7 Learning Styles
- 10.8 Designing and Conducting the Programme
  - 10.8.1 Self Learning Modules
  - 10.8.2 Class Room Training and Refresher Courses
  - 10.8.3 On the Job Training
- 10.9 Trainer's Abilities
  - 10.9.1 Analytical Abilities
  - 10.9.2 Educational Abilities
  - 10.9.3 Training Techniques
  - 10.9.4 Ensuring Participants' Participation
  - 10.9.5 Course Organisation
- 10.10 Training Follow-Up
- 10.11 Summary
- 10.12 Key Words
- 10.13 Self-Assessment Questions
- 10.14 Further Readings

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### 10.1 INTRODUCTION

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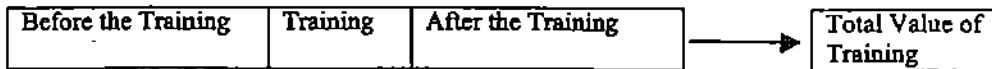
If you ask any sales person or a sales manager about how did they learn the selling skills, majority of them will answer, 'by experience'. The statement, however is really useful when we learn the correct things by experience and more importantly when we are able to use the lessons successfully. But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

There are salesmen who have never learnt the art of closing their sales. There are others who have talked too much for all the years they were in selling. In fact, there are still many more, who, never discovered the best way to sell or manage their time. Experience alone is perhaps never sufficient. We all have to learn from the knowledge and experience of the others. This is where the right training can make a difference. Training can help transform a below-average salesman to an average salesman, or the average salesman to sell higher and the top salesman to reach newer heights.

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

## 10.2 LOGIC OF TRAINING

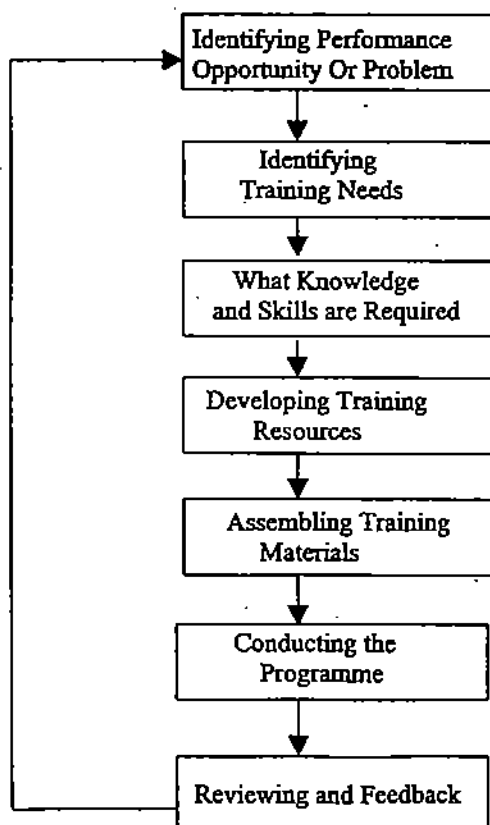
It must be clearly understood that a training programme is just a small portion of the total learning experience of any participant. Before any participant attends a training programme, the trainer must identify specific area of knowledge, skills, or attitude in the participant that needs to be improved. (A detailed account on these points is given in 10.5). After the training programme, it is expected that the participants have gained the required knowledge, skills or attitudinal change.



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

## 10.3 TRAINING PROCESS

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



## 10.4 AREAS OF SALES TRAINING

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

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

Depending upon the contents of training programme the training methods or technique are selected. These methods are discussed under item 9.8, in this unit.

## 10.5 PROCESS OF IDENTIFYING TRAINING NEEDS

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

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

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

Secondly, specifying what knowledge, skills and attitudes are needed to achieve the standards set for the job. Based on the job description, a training needs analysis can be done setting out the knowledge, skills and attitudes. Some examples of such an exercise are given below :

### JOB DESCRIPTION/TASK/KNOWLEDGE SKILLS/ATTITUDES ANALYSIS

Job description : Keep Technically and Commercially Up-to-date

Task	Knowledge	Skills	Attitudes
(a) Read Journals	What knowledge and skills are needed as defined by the job and the company.	Ability to : self train, learn, interpret and apply, information and use initiative	Training is not a classroom operation. Good training is self-inspired continuous and accumulative
(b) Attend relevant Meeting and events			
(c) Assess own training needs with manager on a continuous basis			

**Job Description : Liase with Companies and Organisations**

Task	Knowledge	Skills	Attitudes
(a) Make contact with Representatives	Who they are Where they operate Who they know	Establish mutual respect, Sell one self, Establish mutual benefits	We all need all the extra 'salesmen' we can get
(b) Maintain contact for mutual advantages	Who knows them		

**Job Description : Sales Planning**

Task	Knowledge	Skills	Attitudes
(a) Identify target	Number of unit sizes Location Present situation/usage Future needs Finance	Ability to select priorities, good administration	Time, effort and thought given to planning make the whole job easier, more enjoyable and more effective
(b) Draw up action plans	Company activities Competitor activities Distributor involvement timing Management assistance available Own time available	Good communication with managers and distributors Ability to set realistic objectives in a reasonable time scale	An agreed plan of action makes success more likely
(c) Plan with distributors	Distributor coverage Distributors representatives Credit problems Distributor needs	Motivation of distributor representatives	Liaison is essential for success

**Job Description : Make Effective Sales Contract**

Task	Knowledge	Skills	Attitudes
(a) Plan journeys	Geography Market days/events Whether appointments are needed	Ability to assess timing of individual calls Ability to plan journeys economically	Time and effort saved, makes work easier, enjoyable and effective
(b) Plan calls	Customer needs products available Distributor involvement Customer attitude	Ability to identify customer needs Communication with distributors	

(c) Make effective sales presentations	Products and system knowledge Economics Customer needs Selling techniques/negotiation Sales benefit Nature of objectives Alternative methods of closing	How to open an interview How to create interest How to present benefits how to overcome objections Negotiation How to close positively	Professional selling is essential in a competitive market
(d) Involve management when necessary	Own limitations of authority Customer needs Price limitations	Communication with management and distributors	A team works better than a collection of individual

**Job Description : Motivate and Train Distributors**

Task	Knowledge	Skills	Attitudes
(a) Identify needs for each distributor and each representative	Priority 'gaps' to be filled between company needs individual needs customer's needs	Distinguish between knowledge, skills and attitudes and establish priorities Distinguish between 'lack of' and 'need for'	Efficient profitable distribution is essential to Co's own prosperity
(b) Agree what should be done and by whom	Methods of training Other facilities available Other personnel Own limitations Own skills	Liase with management 'Sell' training to distributors and representatives Setting of objectives Planning and preparation	It is our responsibility to equip our distributors with the knowledge and skills to sell products and services
(c) Carry out training	Methods : On-the-job Off the job Product knowledge Sales knowledge Use of training techniques Preparation of aids Appropriate location	Applying the right Method Translating knowledge to suit audience techniques and aids	Training is not only a classroom operation. Use of the right method and careful preparation is essential
(d) Evaluation on a Continuous basis	Gap in the objectives set Objectives achieved	Interpret reasons for gap Take appropriate steps i.e. change objectives, change training methods and change training contents,	All good training is continuous and accumulative

**Job Description : Investigate Quality Complaints**

Task	Knowledge	Skills	Attitudes
(a) Investigate the situation	Character of customer Distributor involved Representative involved Methods of : reporting, handling and delivery complaint factors Product knowledge	Look at problems objectively Assess likely causes tactfully and accurately Establish rapport with the customer	A quality complaint is an opportunity to build customer confidence and loyalty
(b) Report back to Management	In addition to above checks, place of origin Date of delivery and manufacture Interpretation of situation Recommendations for action	Accurate report Writing Accurate interpretation of facts, people and circumstances Empathetic presentation of information	The customer should neither check not gain if the complaint is handled correctly
(c) Conclude Complaint satisfactorily	Laboratory report Interpretation of report Character of customer Relation between loss and views of Co.	Selling skills in presenting information Obtaining agreement without haggling Positive closing	The customer should feel that his complaint has been handled fairly, speedily and sympathetically

**Job Description : Provide After Sales Service**

Task	Knowledge	Skills	Attitudes
(a) Identify what is needed: (i) For personal action (ii) For distributor action (iii) For individual customers	Priorities Customer needs Customer attitude Distributor coverage Representative's abilities	Ability to select and priorities Ability to delegate	
(b) Keep personal involvement to a minimum	As above	Tactful delegation to distributor representatives Training of representatives	
(c) Provide first-class personal services where necessary	Technical knowledge Product knowledge Management of finance and economics	Ability to provide service effectively Use service as a sales aid	Service is a tool to be used in gaining and maintaining business not an end in itself

**Job Description : Support Promotional Activities and Participate In Meetings/Demonstrations**

Task	Knowledge	Skills	Attitudes
(a) Apply promotional Plans in own district	Company plans Area plans District plans Distributor needs Consumer needs	Selling of promotion to: distributors distributor representatives	Use Distributors and Distributors' Representatives to sell
(b) Take part in meetings and demonstrations	Suitable venues Meeting organizations Press coverage Products/systems Company policy	Public speaking Discussion leading Chairmanship Report writing	We are professional

**Job Description : Internal Communication**

Task	Knowledge	Skills	Attitudes
Report competitor Activities to management  Suitable speakers	Competitors representatives Competitors customers Competitors products and Policies	Accurate Report writing Objective interpretation Communication with third parties	Effective action depends on accurate and balanced reportage

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

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

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

**Activity 1**

Suppose you are the sales manager for a Kashmir carpet manufacturer. You have a vacancy in your sales force in the Maharashtra region. You want to recruit only that person who is fully familiar to the product. What type of training objectives you would have, if you wish to prepare your sales personnel fully for the field job?

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**10.6 METHODS OF IDENTIFYING TRAINING NEED**

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

### 10.6.1 Self Observation

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

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

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

### 10.6.2 Reports

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

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

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

### 10.6.3 Surveys and Questionnaires

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

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

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

### 10.6.4 Face to Face Interviews

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

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

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

### 10.6.5 Focus Groups

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

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



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

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

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## 10.7 LEARNING STYLES

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

**Activist :** An activist involves himself fully and without bias in new experiences. He is open minded, not skeptical and is enthusiastic about anything new. He is happy to take problems by brainstorming. Thus, if you are designing a programme for an activist, be sure to include situations of his participation's like, games, simulation exercises, etc.

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

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

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

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## 10.8 DESIGNING AND CONDUCTING THE PROGRAMME

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

### 10.8.1 Self Learning Modules

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

### 10.8.2 Class Room Training

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

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

The objective of a class room based refresher course is to reinforce some aspects in the salesmen which they are likely to forget and also to add new knowledge and skills to the salesmen. Thus, as the name suggests a refresher and development course must refresh the memory and develop the true potential of the salesmen. To truly meet its objective, a refresher course must be based on factual information. Thus complete information on salesmen's behaviour, weaknesses and general morale must be available before designing any refresher course. The information can either be obtained through a questionnaire sent to participants or through personal interviews, or any other methods, as discussed under 9.6. Some of the questions that need to be answered for running an effective refresher course are:

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

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

### 10.8.3 On The Job Training

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

**Activity 2**

To better identify the training needs of your sales personnel, you circulated a questionnaire. An analysis of the questionnaires revealed that your sales personnel need to learn handling of difficult customer or complaining customers. What type of training method you would use and why?

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**10.9 TRAINER'S ABILITIES**

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

**10.9.1 Analytical ability**

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

**10.9.2 Basic Educational Abilities**

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

**10.9.3 Training Techniques**

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

**10.9.4 Ensuring Participants' Participation**

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

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

**10.9.5 Course Organization**

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

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

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## 10.10 TRAINING FOLLOW UP

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

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## 10.11 SUMMARY

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In order to meet the sales and marketing objectives successfully, it is necessary for each organisation to train their sales personnel, as objectively as possible. The training activities should be tailored to the specific needs of the sales personnel and the typical market situations they face. Therefore, it becomes mandatory to identify the training needs. Once the training needs have been identified, then commences the process of executing the training programme. Activities, such as identification of teaching material, appropriate trainer and training methods, all should be decided, as carefully as possible. Lastly, one should learn from one's experience and therefore, evaluation and review of a training programme is also an important and integral component of any training activity.

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## 10.12 KEY WORDS

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**Training :** Training can be defined as learning to change the performance of people doing certain tasks. Training revolves around helping people to learn so as to improve their performance.

**Training Needs :** A training need can be defined as a gap between the desired level and the actual level of knowledge, skills or performance that can be bridged by training.

**Self Learner Module :** The participants are given the course material which they are required to study themselves. Written notes can be sent, and if needed audio and video cassettes can also be used.

**On Job Training or Field Training :** In on the job or field training the trainer can make a sales call himself which the salesman observes and learns. In the other method, the trainer gives feedback to the salesman after observing him during his sales call. The salesman, in the future calls thereafter, practices the recommendations.

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## 10.13 SELF-ASSESSMENT QUESTIONS

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1. How an applicant, before accepting a job, could appraise himself quality of training that will be provided to him?
2. Why is sales training a continual managerial activity?
3. Why is product knowledge also considered to be a sales related training need?
4. Why do sales trainers rely so much on role-play in teaching sales techniques. Discuss its advantages over other training methods?

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## 10.14 FURTHER READINGS

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The following units of the Management Programme are recommended for further readings.

MS-2, Unit 6.

MS-22, Block -1.

MS-23, Unit - 12.

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# UNIT 11 COMPENSATION AND MOTIVATION OF SALESFORCES

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## Objectives

The objectives of this unit are to enable you to :

- describe the importance of compensation
- explain types of direct and indirect compensation
- discuss compensation schemes used by different companies
- enumerate factors influencing design of compensation schemes
- explain the need for motivating salesmen
- discuss the different motivational techniques.

## Structure

- 11.1 Introduction
- 11.2 Types of Compensation (Direct)
- 11.3 Types of Compensation (Indirect)
- 11.4 Case Studies on Compensation Schemes
- 11.5 Factors Influencing Design of Compensation Schemes
- 11.6 Criteria for Designing a Compensation Package
- 11.7 Motivation of Salesforce
- 11.8 Motivation and Needs
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## 11.1 INTRODUCTION

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The salesforce of any company needs to be compensated adequately to keep its morale high and to enable it to contribute to its maximum. The direct salary and allowances etc. are similar for all kinds of companies. However, the indirect benefits (such as incentives and perquisites) provided by each of them may differ. The general trend is towards increasing the indirect incentives of the salesforce.

A salesforce is the representative of the company's philosophy and business principles. It is the medium which builds the company's perception among its clients. The building of the salesforce is a phenomenal task but its maintenance, as you will agree, is also important. This is possible through proper compensation schemes including provision of indirect benefits in a planned manner. In this lesson we shall study the methods adopted by companies in designing their compensation packages and in keeping their salesforce motivated.

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## 11.2 TYPES OF COMPENSATION (DIRECT)

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As mentioned above, the direct compensation package for a salesman is more or less the same in all companies. However, as you must have also seen in your experience, a company employing technical person as salesman for selling, say, industrial or electronic products may offer a high basic salary. Sometimes, when the product is in the introductory stage the function of the salesman is to create new markets and make customers understand how to use the product as in the case of a new consumer durable product like Vacuum Cleaners or a new electronics products used by certain industries; the basic salary of the salesman may be on the higher side.

The direct compensation package of a salesperson thus consists of the basic pay + allowances covering all travel and entertainment expenses etc. In case, the salesman has to stay overnight his boarding and lodging allowances are also provided for. All the above expenses needless to say, are budgeted and controlled as per the salesman's route and cycle of travelling. The salesman is normally required to present necessary vouchers to get his expenses reimbursed.

The basic salary and other allowances are revised from time to time. They also increase with promotion of the salesman. More important than the basic salary are the other benefits made available to the salesman. We shall discuss these in the next section.

#### Activity 1

Given below are four different kinds of product market combinations. Rank them according to basic salary giving rank 1 to the combination which has a high basic salary; rank 2 which has lower than that and so on.

Product	Market	Rank
1) Industrial	New	
2) Consumer non-durable	Competitive	
3) Consumer non-durable	Non-competitive	
4) Banking/financial service	Competitive	

Study different types of companies you come into contact with respect to the travelling allowance given to the salesman. Using this, answer the following to rank the travelling allowances :

#### Type of selling activity

#### Travelling allowance

- 1) A medical representative covering four suburbs of a city.
- 2) An industrial product salesman visiting 1-2 industries a day in a particular geographical area.
- 3) A door-to-door salesman selling/demonstrating a new consumer durable product.

### 11.3 TYPES OF COMPENSATION (INDIRECT)

These consist of financial as well as non-financial incentives. The financial incentives are again in more than one form :

- i) salary plus commission on sales above a certain amount;
- ii) salary plus a share in profits.

#### i) Salary plus commission on sales above a certain amount

Herein, the salesman receives direct salary and a commission in addition to it. Every salesman is assigned a fixed quota, territorywise/customerwise to be achieved in a fixed period of time. The commission is awarded on achievement of the targeted quota. Again, a fixed percentage of sales achieved over and above the target is also set. This type of compensation scheme ensures a direct salary as well as an in-built motivation system through incentives.

This method for compensation with an in-built incentive scheme is adopted by most consumer non-durable as well as consumer durable companies. Certain industrial product companies and financial service companies, insurance companies, also are increasingly adopting this method.

#### ii) Salary plus share in profits

This is not a very prevalent method. It is generally suggested for a company selling high value items with high profit margins. The incentive here is based on profits earned. Herein,

the selling expenses to sell a product may also be large and this is incorporated in the profit sharing scheme as it acts as a control mechanism. Also salespeople working to obtain contracts are generally given a share in profits rather than awarded on direct sales.

### Activity 2

Given below are certain types of selling jobs. Give a compensation plan which will be the most appropriate in each case.

#### Compensation plan

- 1) Medical representative selling 2-3 formulations and tablets of a pharmaceutical company.
- 2) Salesperson employed by a construction company to get building contracts.
- 3) Salesperson employed overseas by an export agency to develop overseas market for the product.
- 4) Salesperson selling soaps of a reputed company in a particular district in a competitive market.
- 5) Salesperson selling refrigerators to company dealers.

#### Non-financial incentives

The trend these days is to provide other non-financial incentives like :

- a) Training programme
- b) Awards, recognitions and prizes.

Most companies offer training programmes for their salesmen. On an average a salesman has to undergo a training course every one or two years. These programmes enable interaction between salesmen of different territories as well as provide them with latest developments in the field. These training programmes are viewed as an indirect benefit by the salesmen. They may be held in the company premises or preferably at an outdoor locale. They break the monotony of the salesman's job as well as make him feel a part of the company team. A sense of belonging is cultivated which also motivates him. Certain companies with foreign holding companies may also send their salesmen for training abroad providing them with good opportunities to learn about their field.

In addition to training programmes the award ceremonies for outstanding achievements in sales are held in exotic locales like hill stations or five-star hotels. The awards are presented through foreign dignitaries or important people in the field, thus providing the salesman with the much needed recognition.

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## 11.4 CASE STUDIES ON COMPENSATION SCHEMES

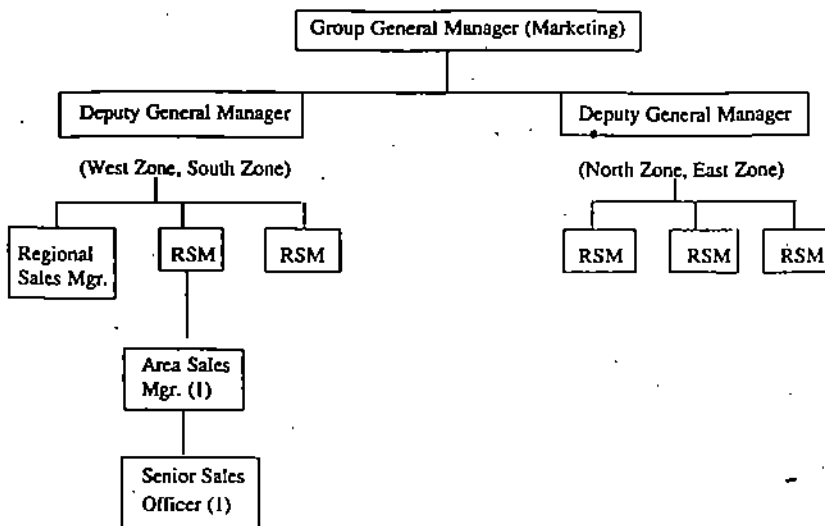
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Let us now take a look at the salesforce compensation scheme followed by Videocon International Ltd. This company markets Televisions, VCRs, Washing Machines and Audio products. The organisation structure of its marketing and sales department is given below.

The group general manager for marketing is responsible for overall sales and marketing of all the products of the company. There do not exist any separate product marketing managers for the different products. The group marketing manager is assisted by the deputy general managers who are two in number for all the four sales zones. The deputy sales manager is in turn assisted by the regional sales manager. An area sales manager reports to the regional sales manager. The field force under the area sales manager consists of the senior sales officer who controls and directs a battery of 6-25 sales officers depending upon the size of region allotted to them which is generally a state. Thus, for example, Maharashtra has 25 sales officers, whereas Delhi has about 6 sales officers.

## Marketing Department

## Compensation and Motivation of Salesforce



The function of the sales officer is to follow on the dealers; look orders; look after sales and service; report competitors activity; stock position with dealers etc.

Given the greater popularity of the company's products, the salesmen territorial quotas are fixed on the basis of the production and supply capacity of the company rather than the demand in that particular area. The demand for the product, according to the company services is adequate in most regions and selling is more a function of production rather than the selling skills or promotional tools employed by the company. As such, there exists no reward system for compensating the salesmen on achievement of targets although it is an important criterion in the evaluation exercise. Every salesman has to report on the basic activities performed by him as a daily routine.

The company has set aside certain budgeted entertainment allowances for its salesforce to maintain and develop good dealer relations. These entertainment allowances are generally very liberal and go a long way in providing the sales officer with the additional incentive or indirect benefits which he expects. A direct reward system is replaced by such an indirect system to keep the sales officer motivated.

A 6-month performance evaluation exercise is carried out to aid in promotion as well as streamlining of salesforce. The parameters used are allotted a total of 1000 marks which are allotted to :

- Target achievement
- Utilisation of material
- Personality
- Merchandising
- Dealer relations
- Integrity
- Loyalty
- Rapport with Top Management

Target achievement is allotted a maximum of 250 marks followed by the last three parameters which are subjective in nature. Thus both personal relations as well as expertise in selling are considered important by the company.

From this case study we can see that the company being in a sellers market as of to-day can afford to have a less complicated compensation structure with no direct incentive system. The salesforce is motivated by providing them with a good life style through entertainment allowances as well as treating them as a part of the Videocon family. The human relations



form the basis of motivation rather than just compensation in terms of money in this company.

**Activity 3**

Critically evaluate the compensation scheme adopted by Videocon. Is a change required or is the present system adequate ?

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## 11.5 FACTORS INFLUENCING DESIGN OF COMPENSATION SCHEMES

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Although the basic structure of a compensation plan may be similar across the companies, some factors do predominantly shape the structure of the company's compensation plan.

i) **The Relation with Product Life Cycle**

The amount of selling effort is directly related with the stage at which a product is in its life cycle. The compensation structure is a function of selling effort. So, in effect, the compensation structure is an indirect function of the selling effort.

When the product is in the introductory stage the company needs a dynamic salesforce which can establish the product in the desired market. The salesforce must be enterprising, willing to travel, take criticism easily, have a good knowledge of the product, have good communication skills and last but not the least, have tremendous stamina to work. To keep such a salesforce motivated, adequate compensation is the basic need. So, in the introductory stage of a product, the direct salary may be on a higher side but indirect benefits may not be introduced at this point.

In the growth stage, the motivation of the salesforce has to be sustained to exploit all the opportunities available in the market. They have to approach the market with renewed vigour. At this point indirect compensation schemes which are incentive linked play an important role. Incentives linked with achieving targeted quotas; giving adequate feedback on market and competitor activities will keep the salesforce happy and at the same time help the product in its growth.

When the product has firmly established itself, the salesforce also needs a break from the monotony. Other indirect benefits like training programmes in good environmental locales ; foreign trips for training and understanding markets; promotions to much responsible positions are the requirements at this stage. These programmes not only enhance their knowledge but lend a new direction of looking at things.

With the break in monotony, certain problems with the product which may have started emerging get due consideration. Schemes for sales promotion and dealer promotion which are inevitable at this stage can be designed with a fresh outlook. The basic increase in salary and incentives, however, are made as per schedule.

When the product is in the decline stage some fresh incentive schemes may be introduced in the compensation scheme to generate fresh interest in the product. The number of people involved with the product has also to increase marginally. The existing product managers who may be concentrating on a more successful product at this stage would require added incentives to revive the declining sales of the product concerned.

You are already familiar with the PLC curve. Incorporating the discussions we have had above a PLC curve in relation to changes in compensation over time would look like Fig. 5.1.

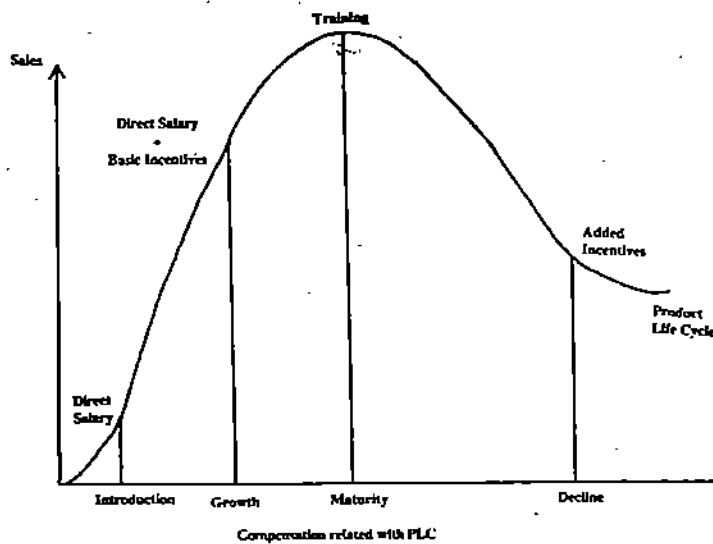


Fig. 5.1 : Compensation during stages of product life cycle

ii) **Compensation Related with Demographic Characteristic**

You might be slightly surprised to know that in practical situations the compensation package preferred by the salespeople depends upon their demographic characteristics also. Their age and size of family or number of dependents play an important part in the preference for a basic salary and/or incentives. However, this cannot be generalised and depends largely on the individual. The table below classifies the preference according to demographic data.

	Salesman	Preferred Job	Preferred Compensation Style
Age	Family size		
20-28	Bachelor	High risk High reward Aggressive Company	Straight Commission or Incentive
28-35	Married with one-two young children	Established company stability	Intensive plan Basic + Incentive—preferably with higher basic component
35 & above	Married with growing up children	Stability and steady job	Preferably straight salary basis

Source: Marketing in India by S. Neelamegham.

iii) Role of selling in Marketing strategy of the company.

iv) Competitor's practices.

**Activity 4**

A multi-product company is introducing a new product in a new market. Its existing salesforce is managing the existing products which are in various stages of the PLC. What are the alternatives available to the company with respect to the salesforce for the new product ?

Given the salesforce what are the compensation scheme alternatives available ? In the light of the factors discussed above, list all possible alternatives.

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## 11.6 CRITERIA FOR DESIGNING A COMPENSATION PACKAGE

We can now set a few important criteria which must be kept in mind while designing a salesforce compensation package. These are primarily :

- i) The budget set for the compensation of salesforce;
- ii) A proper study of job requirements is the second step followed by a concise job description;
- iii) Defining the organisational hierarchy of the salesforce the role and function of each responsible person in the structure;
- iv) The current trend in the competitors selling similar products in the similar markets;
- v) The company's policy of motivating salespeople whether through an in-built incentive system or through provision of indirect benefits like entertainment allowance/liberal travelling allowances, other out of pocket expense reimbursements;
- vi) Formal and compulsory training programmes for all sales personnel to make them feel a part of the company as well as to develop their skill and provide them with the necessary break from the monotony of daily routine sales reports;
- vii) Human resource development programmes to create a feeling attachment towards the task at hand and imbibe the culture of the organisation.

The present day trends lay greater emphasis on the last two mentioned considerations along with a direct compensation programme inclusive of direct salary. With selling having become more and more difficult a satisfactory compensation package is a must to avoid high turnover within the salesforce.

## 11.7 MOTIVATION OF SALESFORCE

Motivation is generally regarded as the process of getting people to work towards the achievement of an objective. Ideally it should go beyond the achievement of company objective, plans forecast or targets and help the company win commitment of salesforce to the company.

Salesforce is primarily responsible for achieving the sales targets and as already mentioned the salesforce cannot be controlled, administered in the way factory workers or office staff can be monitored. The salesforce is required to be self starters, highly ambitious, result oriented and go-getters. All the sales situations cannot be predicted and preplanned in view of the dynamics of the market place.

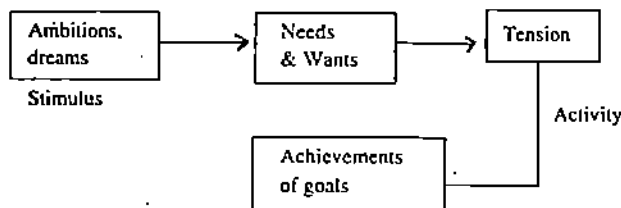
Effective selling, therefore, requires creative skills. Thus, the salesforce has to be kept highly motivated and committed both externally as well as internally.

Attracting and maintaining a well motivated salesforce is a challenging task. The confidence and motivation of a salesperson get worn out by the inevitable rejections he suffers from customers as part of his everyday activities. In some situations such as selling office automation products (Electronic typewriters, Computers, Xerox machines), consumer durable (television, refrigerators, scooters etc.) rejections may greatly outnumber successes. Thus motivation of salesperson poses a major challenge to the management. The challenge of motivation is magnified by the fact that the salesperson and supervisor are normally geographically separated, as a result the salesperson may feel isolated and even neglected. He is prone to frustration of success and failure coupled with extra working hours. He requires extensive travelling, many days of separation from family and with sense of risk involved in travelling. Above all he has to live in the environment of competitiveness with his own colleagues to meet his targets. In market situation characterised by keen competition he is constantly exposed to the offerings of the competing manufacturers — in terms of their sales compensations packages, working conditions, etc.

All these peculiar conditions, therefore, require an understanding of the motivational needs of salesperson by the management.

## 11.8 MOTIVATION AND NEEDS

While studying motivational theory, behaviour research studies have revealed that motivation can be created if needs can be studied, evaluated and predicted and fulfilled. We know that various types of needs arise out of ambitions/dreams and all needs create tensions leading to that extra bit of effort and activity which help fulfil these needs and achieve the goals. Hence to study the motivational pattern of salespersons/sales executive we need to study the process of creating ambitions, leading to arousal of needs and hence to that extra activity.



Every salesperson has different types of needs, goals, and problems of his life and the leader i.e. sales executive has to understand these needs of each individual salesperson of his team before applying the principles of motivations.

According to A.H. Maslow needs can be classified into five categories.

- 1) **Physiological Needs**  
Food, clothing, shelter are primary needs which are ordinarily satisfied.
- 2) **Safety Needs**  
Protection from threat, danger and deprivation etc.
- 3) **Social Needs**  
Need to feel that everyone belongs to a relationship, to feel as being accepted as part of the society.
- 4) **Ego Needs**  
Needs which satisfy the enhancing of self-image, self-esteem, self-respect and achievement. Salespersons in general has high level of ego needs.
- 5) **Self-Actualisation Needs**  
These are the desires of self-development, self-fulfilment and self-growth.

As you all know that level of the needs and understanding of the sales personnel do not remain stationary. As the sales personnel grows in life, in age and career, his needs shift and to keep the motivational level high, the supervisors and sales manager must be able to foresee such changing needs and desires and must manage for these needs.

## 11.9 SALE PERSONS AND MOTIVATIONAL TECHNIQUE

The simple motivational tools of early years such as only financial benefits prove to be a poor method of motivation beyond physiological and safety needs satisfaction on account of the unique aspects of a salesperson's job.

The non-financial incentives, thus, become an important component of the motivation mix of a company. These are especially relevant as Dawson has pointed, "business is on the threshold of a new era of human and social concern, which will inevitably result in greater attention to total human resource development by sales management."

### Two Surveys

A study was conducted to analyse the factors which motivate salesperson employed in the pharmaceutical industry in India and to examine the extent to which they perceive their need fulfilment on their job. More specifically its objectives were to find out :

- a) The kind of needs of salesmen which according to them must be fulfilled as per their jobs and relative importance.
- b) Salesmen's perception of their need fulfilment, and deficiency.
- c) How the level of motivation of the salesforce could be improved.

The study is based on a sample of salesmen taken from 30 pharmaceutical companies registered with DGTD, India. In order to measure the extent of motivation, a list of need factors that a salesman was expected to satisfy through his job were selected. The results of the investigation are summarised in the tables given below.

Table 1 : Average Scores for the Motivational Perceptions of the Salesmen

(Sample Size = 116)

S. No.	Need Factors	Medium Score for the			Importance of the Needs	
		Need Fulfilment	Need Expectation	Need Deficiency	Average	Rank
1)	Job Security	5	7	2	2.98	1
2)	Financial Earning	4	7	2	3.45	2
3)	Relations with Fellow Salesmen	6	7	1	8.51	10
4)	Confidence of Supervisors	6	7	1	6.49	7
5)	Prestige of Salesmen's Position	6	7	1	7.31	8
6)	Recognition for Good Work	5	7	2	4.0	3
7)	Control over Means of Accomplishment	4	7	2	7.74	9
8)	Supporting Help from Superiors	5	6	1	9.31	11
9)	Feeling of Self-esteem	4	7	3	5.77	6
10)	Prospects for Promotion	3	6	3	4.88	4
11)	Opportunities for Personal Growth and Development	4	7	3	5.20	5
Average Across All Needs		5	7	2		

Source : Marketing in India : Cases and Readings by S. Neelamegham

Table 2 : Level of 'Need Fulfilment', ' Need Deficiency' and 'Need Importance' of the Salesmen

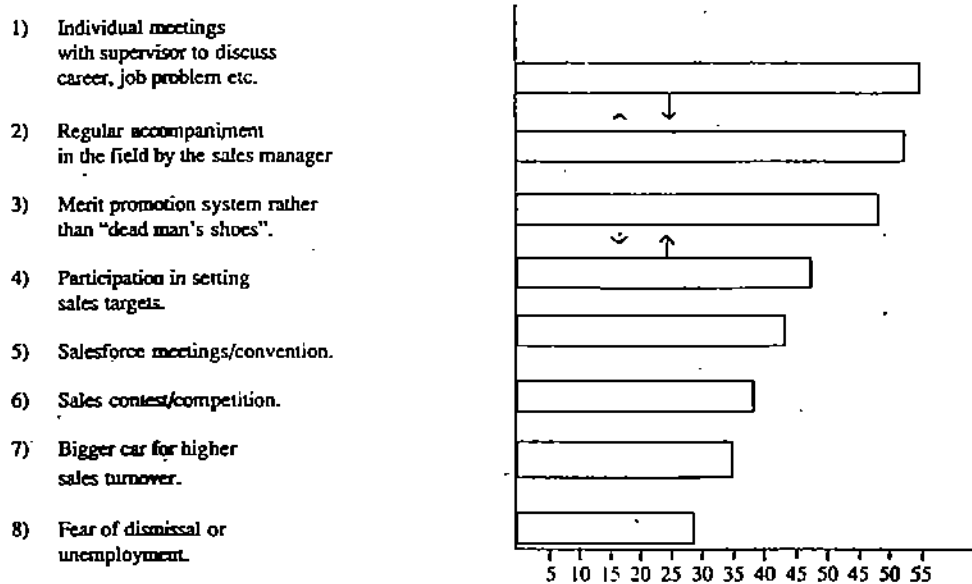
(Samples Size = 114)

S. No.	Need Factors	The Level of Need Fulfilment	Need Satisfaction	Importance of the Needs
1)	Job Security	Medium	Medium	High
2)	Financial Earnings	Medium	Medium	High
3)	Relations with Fellow Salesmen	High	High	Low
4)	Confidence of Supervisors	High	High	Medium
5)	Prestige of Salesmen's Position	High	High	Low
6)	Recognition for Good Work	Medium	Medium	High
7)	Control over Means of Accomplishment	Medium	Medium	Low
8)	Supporting help from Supervisors	Medium	High	Low
9)	Feeling of Self-esteem	Medium	Low	Medium

S. No.	Need-Factors	The Level of Need Fulfilment	Need Satisfaction	Importance of the Needs
10)	Prospects for Promotion	Low	Low	High
11)	Opportunities for Personal Growth and Development	Medium	Low	Medium

Source : Marketing in India : Cases and Readings by S. Neelamegham.

Institute of Marketing (PA Consultant, 1979) conducted a study into the salesforce motivational practice by asking the sales managers to rank eight factors excluding financial benefits (i.e. salary, bonus, commission) which could be effective in motivating their salesforce to improve upon their usual performance.



The findings of the study showed that individual meetings between sales manager and salesmen were thought to be the most effective of the eight factors taken. Sales contest and competitions were ranked only sixth in importance, although a more detailed analysis of questions revealed that this form of motivation was ranked first among the consumer goods companies replying to the questionnaire.

Some of the unconventional factors that make a special mark on salesforce motivation are discussed below.

#### 1) Meeting between Manager and Salesforce

These are highly regarded by sales managers in the motivation of their sales teams.

This provides opportunity to managers to meet their salesforce in the field, at head office and at the sales meetings/conventions. This provides a number of opportunities for improving motivation.

These meetings allow the sales manager to understand the personality, needs and problems of each salesperson. The manager can then better understand the causes of demotivation/frustration in individual salesperson and respond in a manner which takes into account the needs, problems and personality of the salesperson. Sales techniques can be improved and confidence boosted. According to Likert, when the sales manager encourages an "open" style of management, salesmen are encouraged to discuss their problems and opportunities so that the entire sales team benefits from the experience of each salesman. This results to a greater sense of group loyalty and improved performance. The success of the marketing team can be easily attributed to the open door policy adopted by companies in India. As one manager put it, "I know all my team of 166 sales representatives personally, by name and make it a point to keep in touch with all of them. They can walk in any time with their problems and they have got the confidence that most of their problems will be handled to their satisfaction."

2) **Clarity of Job**

Clarity of job and what is expected from the salesperson is a great motivator. The objectives when duly quantified and well defined, properly connected and linked with the reward and recognition serve as source of motivation to the salesperson.

3) **Sales Targets or Quotas**

If a sales target or quota is to be effective in motivating a salesperson, it must be regarded as fair and attainable and yet offer a challenge to him. Because the salesperson should regard the quota as fair, it is usually sensible to allow him to participate in the setting of the quota. However, the establishment of the quotas is ultimately the sales manager's responsibility and he will inevitably be constrained by overall company objectives. If sales are planned to increase by 10 per cent, then salesmen's quotas must be altered in a manner consistent with this objective. Variations around this average figure will arise through the sales managers knowledge of individual salesperson and changes in commercial activity within each territory; for example, the liquidation of a key customer in a territory may be reflected in a reduced quota. Quotas can be set on Rupees sales, unit volume, margin, selling effort or activity and product type. The attainment of a sales target or quota usually results in some form of financial benefit to the salesperson.

4) **Sales Contest**

The sales contest is an important tool to motivate salesperson. The purpose of the sales contest varies widely. It may encourage a higher level of sales in general, to increase the sales of a slow-moving product or to reward the generation of new customers. It provides an incentive to show better performance and secure more satisfactory results. However, sales contest have a few disadvantages, one such disadvantage is that it can encourage cheating. For example, in one company which used a sales contest to promote sales at a series of promotional events around country with its dealers salesperson "stored up" orders achieved prior to the events in order to increase the apparent number of orders taken at the events. Also, contests, by pitching salesperson against salesperson, militate against the spirit of mutual help and cooperation which can improve salesforce performance.

5) **Sales Conventions and Conferences**

These are the devices of group motivation. They provide opportunities for salesperson to participate, gain social satisfaction and express their views on matters directly affecting their work. They promote team work, dissolve social barriers, inspire and raise salesperson's morale. Most of the companies in India are now-a-days adopting this method to motivate their salesforce.

6) **Positive Affect**

The positive affect method is also an important techniques for motivating the salesforce to their best.

The proper application of praise, positive feedback, and human warmth and understanding can impel others to perform up to their capabilities. This must be done in a genuine way and not be perceived as overtly—self serving.

Another form of motivation through positive affect occurs via small group and peer relations. Friendship, support and comradeship frequently serve as vehicles for creating positive feeling towards the company and job.

7) **Leadership Style of the Manager**

Leadership style of the manager plays an important role in motivating the salesperson. Inspirational leadership, which refers to influence through referent power, identification or charismatic charm is an important tool in the motivational strategy of the management. It infuses the images and expectations for extremes of effort, sacrifice, achievement and in general "the right stuff". It is practiced through the use of professional speakers special audio tapes and video tapes designed to arouse and stimulate salesperson. It also tries to create and perpetuate certain corporate myths and success stories, which indirectly motivates salesperson to perform at their best.

8) **Freedom to Work**

In order to perform the onerous duties and responsibilities, the salesperson must be given a reasonable amount of freedom and discretion in performing their job. Likert in

his studies has mentioned that lack of enough discretion has a negative impact on employees job satisfaction. Discretion and freedom may be accomplished by allowing salesperson to develop their own call patterns, more control over the types of promotional packages that are offered to their customers etc.

Freedom or autonomy satisfies the psychological needs and is like power pay (which is a reward), making the job of salesperson more important in the organisation.

9) **Reward and Recognition**

Although sales quotas, sales contests, conventions and conferences have positive carry over effects, these are short lived techniques of motivating salesmen. On the other hand reward and recognition on salesperson accomplishments are more enduring and relatively economic methods of motivation. Some of the ways to extend recognition and honour to salesperson include conferment upon the title of "salesman of the month/year." Congratulation telegrams from members of top management, sales trophies, offering membership of social clubs, mention in company newsletter, certificate etc. Recognition and honour satisfy salesperson's need for self-esteem and self-respect. These are like status pay — a public acknowledgement of the value that management places upon an individual.

10) **Persuasion**

One of the more common and recommended forms for inducing high levels of motivation is through persuasion. In this situation, managers use rational arguments to convince salesperson that it is in their own best interests to act in a preferred way. Persuasion has the advantage of getting people to conclude that their actions were performed out of their own free will. This leads to higher levels of self direction than reward or coercive modes of influence where one perceives he or she acts more as a function or external compulsion than internal volition.

**Financial Incentives**

Now we come to the financial aspects of the motivational technique.

Financial incentives are definitely a motivating factor, but it varies at the hierarchial level of the salesperson. The need is great at lower end of the salesperson. It not only keeps salesperson on the company rolls but also motivates them to contribute to the growth of the company and thereby get grown individually. It is also important managerial tool to control and direct salesforce to attain the sales objectives.

A poorly developed or administered financial plan may invite unions to organise salesforce as happened in some of the pharmaceutical companies in India.

Therefore in the management and motivation of salesforce, a fairly reasonable financial incentive plan plays a very important role and "a salesforce cannot be considered soundly managed unless there is a well developed and well administered compensation plan". We shall not concentrate more on the financial aspects of the motivational strategy because salient features of the plan has already been discussed in MS-6 Block 6.

**Activity 5**

A chart of some basic motivational needs is drawn here. Make a team of your friends or colleagues and attempt a rating on the scale to identify the stronger needs within each individual in the team. The rating scale 1-8 gives the weightage points in ascending order, 8 being the highest rating.

Motivational Need Audit

	Rating								Notes
	1	2	3	4	5	6	7	8	
<b>Survival</b> Need for income to meet more than minimum requirements.									
<b>Health</b> Physical and mental well being of self and family.									
<b>Security</b> Need for stability of income, employment, homelife and environment.									



	Rating								Notes
	1	2	3	4	5	6	7	8	
<b>Acceptance</b> Need for acceptance by family, friends, peer groups, colleagues, supervisors.									
<b>Respect</b> Need to receive or show respect in home, social or work environment.									
<b>Dependence</b> Need for support and supervision.									
<b>Consolidation</b> Satisfaction with present role/status.									
<b>Activity</b> Need for physical and/or intellectual activity beyond minimum job inputs.									
<b>Recognition</b> Preference for public recognition rather than obscurity.									
<b>Responsibility</b> Need to have and seek responsibility rather than avoid it.									
<b>Status</b> Need for a feeling of self worth or recognition of status.									
<b>Power</b> Need for power through position or knowledge.									

Source : Sales Management, The Complete Marketers Guide by Chris Noonan.

## 11.10 SUMMARY

In this lesson we have studied the various dimensions a compensation scheme for a salesforce can assume. Both direct and indirect compensation play a vital role. However, indirect compensation is assuming greater importance, of late. Factors like the PLC, demographic characters of the salesforce; sales strategy, competitors practices, company policy on motivation and retention; budgeted amount for compensation etc. A case study on Videocon Appliances, a growing consumer durable company, indicates the strategy adopted in the introductory stage. We can say in the conclusion that maintenance of salesforce through adequate compensation schemes is imperative for the growth of any company. A salesforce compensation plan should be simple enough for every salesperson to understand and fair enough for every salesperson to remain motivated.

Motivation of salesmen which forms the other aspect of this chapter is among the most important responsibilities of salesmen. It is not something a manager adds after the organisation has been set-up and is in operation. It involves basic relationship that are built into the organisational structure.

Behavioural scientists have classified motivational needs. According to them each individual is a different entity and hence to understand what would motivate the salesperson, individually the nature, character and needs of individual have to be understood. Within the available resources of the organisation and the limitations these have to be fulfilled to achieve the results with high productivity. The sales manager/supervisor plays an important role in motivating his salesforce as he interacts most with his salesforce and can understand empathise closely with the salespersonnel. His role as a primary source of understanding his team and motivating his team is of great importance. In order to be a good motivator, he has to be a capable leader with the leadership style suiting the particular environment and conditions.

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## 11.11 KEY WORDS

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**Bonus :** A payment made at the discretion of management for a particular achievement.

**Combination plans :** A compensation plan that uses salary, commission and/or bonus.

**Commission :** A payment based on performance.

**Financial incentives :** Direct monetary payment such as salaries and wages.

**Fringe benefit :** Indirect rewards such as paid vacations, pension plans, medical reimbursement and insurance payments.

**Motivation :** The how-to aspect of getting salespeople to do their jobs well.

**Non-financial incentives :** Incentive techniques used for specific, special efforts situation. Sales convention and meetings, sales contests honours and awards, special privileges and favourable communication are the major forms of non-financial incentives.

**Varied commission plan :** A compensation plan where higher commissions are given for selling products with high profitability and lower commissions for products with smaller profitability.

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## 11.12 SELF-ASSESSMENT QUESTIONS

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- 1) Why is it necessary to have an adequate compensation package for the company sales-force ?
- 2) How does the compensation package differ between the companies selling different types of products ?
- 3) What are the basic components of a compensation package ?
- 4) Describe your views on training programmes as an indirect incentive to salesmen ?
- 5) How do factors like PLC and demographic characteristics influence the compensator scheme offered ?
- 6) What are the factors affecting motivational needs of salesmen ?
- 7) Comment upon the non-financial incentives given to salesmen ?

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## 11.13 FURTHER READINGS

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S. Neelamegham, *Marketing in India, Cases and Readings*, Vikas Publishing House Pvt. Ltd.

Richard R. Still, A.P. Govani, Edward W. Cundiff, 1988. *Sales Management, Decisions Strategies and Cases*, Prentice Hall of India Pvt. Ltd.: New Delhi.

Philip Kotler, 1988. *Marketing Management, Analysis, Planning, Implementation, and Control*, Prentice Hall of India Pvt. Ltd.: New Delhi.

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## **UNIT 12 MONITORING AND PERFORMANCE EVALUATION**

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### **Objectives**

After studying this unit you should be able to :

- Explain the need and purpose of monitoring systems
- Explain the monitoring systems used for sales personnel
- Describe the various types of information sought through sales reports
- Discuss the quantitative and qualitative criteria used for performance appraisal
- Evolve a composite measures for evaluating sales performance.

### **Structure**

- 12.1 Introduction
  - 12.2 Monitoring - Needs and Objectives
  - 12.3 Parameters used to Monitor Salesforce
  - 12.4 Contents of a Sales Report
  - 12.5 Basic Sales Reports and their Analysis
  - 12.6 Performance Appraisal Evaluation
  - 12.7 Salesmen's Evaluation - Some basic Issues
  - 12.8 Setting Performance with Norms
  - 12.9 Comparing Performance with Norms
  - 12.10 Case Study - Monitoring and Performance Appraisal of Medical Representatives
  - 12.11 Summary
  - 12.12 Key Words
  - 12.13 Self-Assessment Questions
  - 12.14 Further Readings
- Appendix

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### **12.1 INTRODUCTION**

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Even the best organised sales department will not function effectively unless the sales effort is planned and controlled on a regular basis. Sales reports form the basis for the monitoring of sales personnel. Firms need regular sales information on effort by product line, customer type or by geographic segment for appraising their salesmen and analysing their profitability. Most organisations today have formal performance appraisal systems to aid them in evaluating their salesforce. In this unit, you will learn about the processes for monitoring the sales effort and the procedures for performance evaluation generally used for sales personnel.

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### **12.2 MONITORING - NEEDS AND OBJECTIVES**

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Once the sales plan has been put into action, it is important for the sales manager to know whether the sales effort is being operationalised in the way it was expected to be. Organisations depending upon their own needs, through periodic reporting or field visits, design a monitoring system, to keep themselves informed about the activities of the salesforce on a regular basis. Monitoring has been explained as "keeping abreast of the salesmen's activities through a formal feedback system. It is a vital aid in controlling the sales effort, and by furnishing a wealth of data about the salespersons day-to-day activities the monitoring system becomes an input in the formal appraisal of the salesmen's performance. Sales reports are the basic tool used for monitoring sales personnel. The sales

manager uses the information from these reports to judge whether sales personnel are calling on and selling to the right people and whether they are making too many or too few calls.

A good monitoring system also helps the sales management in determining what can be done to secure more and larger orders. The data furnished by the sales reports is processed to gain insights in the type of direction and help that can be given to field sales personnel.

A well designed monitoring system also aids in the self improvement of the salesmen. Regular recording of their own accomplishments forces individuals to take a stock of their own work, compare it to their own past performance or their aspirations, and leads them to a periodic self-evaluation, which may become an effective motivating force. The basic purposes for which a good monitoring system is designed could be :

- a) to keep the sales manager informed about all the sales activities of the sales personnel.
- b) to enable the sales manager to get data for evaluating performance; for example, details of prospects called upon, number of calls made, number of orders obtained, days worked, kilometres travelled, selling expenses incurred, displays arranged, missionary work performed etc.
- c) to enable the sales manager to detect deviations from standard performance and take timely remedial action.
- d) to help the salesperson plan his work e.g. in planning specific approaches for specific accounts; planning a travel schedule etc.
- e) to record consumers reactions and complaints in respect of new products, price changes and service policies.
- f) to record information on competitors activities e.g. new products, changes in promotion and pricing, changes in service and credit policy etc.
- g) to record information on local changes.
- h) to build a rich database of territorial information which can be put to a variety of uses.
- i) to furnish information requested by marketing research— i.e. data on dealers sales, productwise.

### 12.3 PARAMETERS USED TO MONITOR SALESFORCE

The monitoring of salesforce is closely related with the monitoring of sales. One depends on the other. The sales performance of a company and its salesforce is measured using a number of parameters on a continuous basis. Some of the commonly used parameters are :

- i) sales per salesman, per dealer, per product
- ii) expense to salesman, ratio for each dealer and salesman
- iii) calls per day
- iv) order-call ratio
- v) average cost per call
- vi) direct selling expenses
- vii) profit contribution analysis
- viii) number of accounts
- ix) number of customer complaints.

The emphasis in monitoring is on gathering information on day-to-day activities with respect to the chosen parameters and taking a timely stock of deviation from expected performance. Monitoring therefore is a way of achieving day-to-day control over the sales effort.

As mentioned earlier, two of the most common methods of monitoring sales performance are through sales reports or through field visits by the field sales managers.

The details required in sales reports vary from company to company. A company with a decentralised large field sales organisation covering a wide geographical area needs more detailed sales reports than a company using a few salesmen covering a compact area. Generally, the greater the discretion the salesmen have in planning and scheduling their own activities, greater the details required in the sales report.

## 12.4 CONTENTS OF A SALES REPORT

Though the format of the sales report will vary across companies, some basic components are common to the sales reports in all organisations. Some of these components are :

- a) **Progress report :** This part of the report is meant to give information on the progress or day-to-day work done by the salesman. It may be prepared after each call, or commutatively for calls made during a specified period. This component furnishes valuable data on company's position in different territories and in respect of each account. Usually the progress report also records information on specific class or customers, extent of competitive activity, best time to call upon the competitor items which become valuable input in future sales planning.
- b) **Expense component :** Since all salesmen are reimbursed for expenses incurred or are given an expense account for which they have to account for, most sales reports have an expense component. The objective of incorporating this component is to keep a check on the nature and extent of salesmen's expenses.
- c) **Workplan component :** Usually for a week or a month in advance, salesmen are expected to submit a work plan or call schedule. The work plan may include details of prospective and present customers to be called upon, routes to be taken, the non-selling activities to be performed etc. The main aim is to help the salesperson in his planning and scheduling activities and keep a track of his whereabouts. This component also helps the management in process of control by allowing comparisons of salesman's plans and accomplishments.
- d) **New business or potential business component :** The report may require the salesman to inform on accounts recently obtained or those who may become sources of potential business. This component furnishes information on the prospecting capabilities of salesperson.
- e) **Lost business component :** As salesmen are required to sell under competitive conditions, they may at times lose prospects to competitors. This component of the report provides information on the salesman's ability to retain customers. It can also be utilised to develop pointers for gaps in sales training changes in service and credit policy and product improvements.
- f) **Complaint and adjustment component :** This component is related to the specific complaints that a customer or class of customers may have in relation to the work of the salesman, the product or the company policy and the adjustment if any made by the salesperson. The information generated is useful in detection of needed product improvements, service improvements and changes in merchandising practices.

### Activity 1

Talk to the sales manager's of an organisation which has a field sales organisation. Study the monitoring system in use in the organisations to find out

- a) What are the parameters used in monitoring system ?

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- b) What is the frequency of salesmen's reports ?

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- c) What are the major components of salesmen's report ?

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## 12.5 BASIC SALES REPORTS AND THEIR ANALYSIS

You are now familiar with the type of information sought through the sales reports. This section discusses the basic types of sales reports and explains how they can be analysed to monitor sales performance. (Some standard formats of reports used to monitor salesmen are given in Appendix.)

**Weekly sales report :** The basic sales report to be prepared by the salesman is a daily report or a weekly report depending upon again the type of product and its movement. This report forms a basis for estimating the future trend of sales of individual products/brands. It also assists in production planning, cost planning and product portfolio planning.

A summary of the daily/weekly reports for all the branches is made on a monthly basis to arrive at total sales for the month and to study its variance from estimated sales. The budgets for the next month may be revised accordingly. At times sales in a particular territory/area may be effected on account of stock-outs; as a result, more stocks need to be sent.

### Weekly Sales Report—Format

Weekly sales report for week ending.....

Week	Tonnage		Comparison with last week	Remarks
	Current % change on last year	Cumulative Comparison with same week last year		
Product A				
Product B				
Product C				

A study of weekly sales estimates reveals the seasonality of sales, if any. This enables proper production planning and monitoring of sales performance. Condensing of monthly figures into quarterly figures is used to establish sales estimates for the next quarter.

Apart from the basic volume analysis information on other parameters is also sought.

- i) The value of goods sold gives the contribution from each product. This contribution needs to be maximised.
- ii) Sales are broken down geographical areawise to assess the potential demand and monitor salesmen performance in the light of this information.
- iii) A customerwise break-up of sales indicates whether the right kind of customer is being serviced or whether the salesman is concentrating on a segment which is not a prospective buyer in the long run.

**Regional sales analysis :** The strength of sales regionwise is indicated through this analysis. Variation in regional sales reveals the effectiveness of particular localised sales developments and the importance of competitors in different regions. The regional sales figures are adjusted for the area of the region as also the size of the population of that region.

The boundaries of the regions should be permanent so that trends over a long period of time can be watched. The unit upon which division will be based is the buying area. Depending upon the type of product the buying area will differ.

In addition to value, volume, productwise and areawise categorisation of sales it is also important to study the volume of sales through different types of outlets such as sales through wholesalers or direct to retailers — which are further classified into cooperatives; departmental stores etc. This has implication on the distribution channel effectiveness and proper monitoring of salesmen performance. A summary of monthly, quarterly and annual value sales by areas can be presented in the following format :

Value of sales for period ending \_\_\_\_\_

Area No.	Product A			Product B			Product C			Total		
	Last Qtr.	This Qtr.	% Change	Last Qtr.	This Qtr.	% Change	Last Qtr.	This Qtr.	% Change	Last Qtr.	This Qtr.	% Change

Sales by customer type

	No. of direct accounts	Product A	Product B	Product C	Total
Wholesaler					
Provision Store					
Chemists					
Retailers					
Independents					
<b>Total</b>					

**Distribution of Accounts by Size**

In this analysis, the total trade of different output types is divided as per the account sizes. The number of outlets which fall into each size are ascertained. This enables the management to decide whether the sales generated from the smaller size accounts are commensurate with the cost of running them. The format of this form is given below.

Area No. \_\_\_\_\_ Year : \_\_\_\_\_

Number of Accounts

Account Size	Wholesalers	Chemists	Provision Stores	Retailers	Total
Under Rs. 100	Rs. No.				
Rs. 100-Rs. 250	Rs. No.				
Rs. 250-Rs. 500	Rs. No.				
Rs. 500-Rs. 1000	Rs. No.				
Rs. 1000-Rs. 1500	Rs. No.				
Rs. 1500- Rs. 2500	Rs. No.				
Rs. 2500- Rs. 4000	Rs. No.				
<b>Total</b>					

The reports described above, in addition to supplying the regular information on the different aspects of marketing, reveal certain additional information also :

- i) What are the main competitive brands? On what system of distribution do they work — direct sales to retailers, through wholesalers only or both or otherwise ?
- ii) — How do services given by competitors compare with those given by the company ?  
 — Does any manufacturer supply goods on a "sales or return basis" ?  
 — What are the credit terms offered ?  
 — What are the discounts offered ?

- Do the competitors give any specialised treatment to some traders ?
- Are the in-shop displays supplied by the competitors regularly ?
- What is the frequency with which competitors call upon their distributors as also the promptness in delivery? The above analysis seeks to point out the factors which contribute to the competitor's success and the policy the company must employ to counteract it.

iii) The perception of retailers with respect to the company's product and the competitor's product is very essential. The reasons to which retailers attribute the success or failure of the leading brands is very essential to determine. The retailers serve as a vital link between the company and the consumer and it is his opinion which generally forges the link. Also, technical faults in the product, if pointed out as detrimental to sales by the retailers need to be rectified.

### Activity 2

With respect to your own organisation, or any other organisation that you are familiar with, try to analyse the sales information from the weekly/monthly sales reports in terms of :

- a) Sales generated per month.
  - b) Productwise/Customerwise sales.
  - c) Variation in volume of sales over the last period.
- .....
- .....
- .....

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## 12.6 PERFORMANCE APPRAISAL EVALUATION

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Every sales manager is engaged in the task of appraising and evaluating his salesmen continuously, in an informal way. Informal evaluation however is not enough to arrive at realistic and astute assessment of the worth of a salesman in absolute or relative terms. The ultimate goal of any evaluation programme is to make a salesman more valuable to the company. In order to achieve this the evaluation programme must involve :

- a) A study of the salesman himself — his skills, habits, aptitudes and attitudes.
- b) A study of his selling record — his efforts and accomplishments.
- c) An analysis of the direction the development function is to take.

Evaluating salesmen's performance is a complex task not only because salesmen are required to perform a variety of activities, but also because different types of selling situations require different kind of selling skills, which may not lend themselves to equitable comparisons.

In addition, salesmen differ in terms of selling acumen and personal qualities, then territories differ and they are required to spend a large part of their time away from their immediate supervisor. A good monitoring system, as you have learnt in the preceding section, becomes a basis for developing an appraisal system and for evaluating sales performance.

Performance evaluation consists of setting performance standards, both quantitative and qualitative and then periodically comparing them with actual sales performance to judge salesmen in terms of their contribution to the sales objective. The concept of productivity is relevant here. A salesman is considered to be productive only when the results achieved by him offset not only the costs incurred by the company on his account, but also show some contribution towards the corporate profit. Appraisal and performance evaluation systems besides enabling the sales manager in judging the contribution of his sales team and improving its efficiency have also been found to be useful in :

- a) Developing salesmanship as an interpersonal influence process.
- b) Motivation of salesmen and supervisory leadership.



- c) Identifying the need for continuous training and development of salesforce..
- d) Improving selling aids like demonstration materials, working documents etc.
- e) Determining and restructuring salesmen's territories and work assignments.
- f) Improving sales planning for example, planning call cycles routes and visits, job preparation etc.
- g) Introducing sound compensation and incentive systems supported by a national evaluation system.

## **12.7 SALESMEN'S EVALUATION - SOME BASIC ISSUES**

There are some basic issues involved in all performance evaluations systems for salesmen, which require consideration while the system is being designed. You will note that unless adequate attention is given to these issues they might result in discontentment of these being evaluated. Some of these issues are :

- a) The first issue relates to evaluation based on qualitative vis-a-vis quantitative data. It is obvious that in any qualitative assessment, personal bias and subjective value judgement may vitiate evaluation. On the other hand evaluation based entirely on statistical data may not give entirely valid results as certain important determinants of a salesman's effectiveness (for example personal effectiveness of a salesman in handling consumer relations problems) do not lend themselves to quantitative definition. In addition selling skills are broadly determined by one's ability to impress, influence or persuade prospects as well as an alternation between aggressiveness and submissiveness depending upon the situation. It therefore is evident that sales managers, based upon their own set of circumstances, would have to evolve a judicious mix of qualitative and quantitative criteria on which to base the evaluation of their sales personnel.
- b) Another issue relates to the comparisons between salesmen on the basis of the results of evaluation. Such comparisons can never be on a "man to man" basis since a great deal of human element is involved and different salesmen have to work under different geographical and environmental conditions; and may handle different set of products or customers.
- c) The third issue is related to the problem of determining standards of performance. The whole evaluation exercise rests on the comparison of actual sales performances against predetermined standards or norms. If these norms or standards are not realistic, the whole exercise would become self-defeating
- d) Another issue worthy of consideration is the periodicity of evaluation. Evaluation based on very short-term results may not be very correct as it ignores the value of some criteria which are of long-term value to the company. A small example is the effectiveness of particular salesman in cultivating good customer relations, which may give the company an added acceptability when it introduces a new product. On the other hand, evaluation based on very long-term results is not desirable because if the results are unsatisfactory, it will have a great impact on the operating results of the company for a longer period. Periodicity of evaluation has been found to vary with the type of product sold, industry practice and management's outlook towards control. Yearly evaluations are a very common practice though longer periods are also prevalent, especially in case of capital goods and industrial goods companies.
- e) The last issue here refers to the accounting system or the database of the company as a basis of developing the evaluation system. Actual data taken from typical sales records are not adequate to provide precise comparison of salesmen or salesgroup performance. For example, if the product mix sold by different salesgroups differs, it will be difficult to compare the performance of the salesmen in the two different groups merely on accounting data.

You will realise that unless adequate attention is given to these important details, evaluation may not be very effective. The above issues also underline the need for developing an evaluation system involving multiple criteria to make data more comparable.

- Do the competitors give any specialised treatment to some traders ?
- Are the in-shop displays supplied by the competitors regularly ?
- What is the frequency with which competitors call upon their distributors as also the promptness in delivery? The above analysis seeks to point out the factors which contribute to the competitor's success and the policy the company must employ to counteract it.

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- .....

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Evaluating salesmen's performance is a complex task not only because salesmen are required to perform a variety of activities, but also because different types of selling situations require different kind of selling skills, which may not lend themselves to equitable comparisons.

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- b) Another issue relates to the comparisons between salesmen on the basis of the results of evaluation. Such comparisons can never be on a "man to man" basis since a great deal of human element is involved and different salesmen have to work under different geographical and environmental conditions; and may handle different set of products or customers.
- c) The third issue is related to the problem of determining standards of performance. The whole evaluation exercise rests on the comparison of actual sales performances against predetermined standards or norms. If these norms or standards are not realistic, the whole exercise would become self-defeating.
- d) Another issue worthy of consideration is the periodicity of evaluation. Evaluation based on very short-term results may not be very correct as it ignores the value of some criteria which are of long-term value to the company. A small example is the effectiveness of particular salesman in cultivating good customer relations, which may give the company an added acceptability when it introduces a new product. On the other hand, evaluation based on very long-term results is not desirable because if the results are unsatisfactory, it will have a great impact on the operating results of the company for a longer period. Periodicity of evaluation has been found to vary with the type of product sold, industry practice and management's outlook towards control. Yearly evaluations are a very common practice though longer periods are also prevalent, especially in case of capital goods and industrial goods companies.
- e) The last issue here refers to the accounting system or the database of the company as a basis of developing the evaluation system. Actual data taken from typical sales records are not adequate to provide precise comparison of salesmen or salesgroup performance. For example, if the product mix sold by different salesgroups differs, it will be difficult to compare the performance of the salesmen in the two different groups merely on accounting data.

You will realise that unless adequate attention is given to these important details, evaluation may not be very effective. The above issues also underline the need for developing an evaluation system involving multiple criteria to make data more comparable.

## 12.8 SETTING PERFORMANCE WITH NORMS

As noted earlier it is important to decide on a judicious mix of quantitative and qualitative standard against which performance of salesmen can be realistically compared. Standards must be reflective of the company's analysis of its own market situation vis-a-vis its competitors. As sales-effectiveness is a function of both quantifiable and non-quantifiable criteria, let us discuss both, the quantitative and the qualitative standards that are used by companies. Some of these criteria have already been mentioned earlier as criteria for monitoring sales performance. Though all companies use some quantitative standards, the past tendency of using sales volume as the only yardstick of performance is no longer prevalent. Sales managers today realise that it is possible to make unprofitable sales, or to generate high present sales at the expense of future sales. Each company today selects a combination of quantitative standards that are best suited to its marketing situation. Some of the important quantitative criteria are :

**Sales quotas :** Sales quotas are quantitative sales targets assigned to a specific salesman expressed absolutely either in terms of rupee value or units. They are the most widely used performance standards. If we assume that the management is being realistic while setting quotas, this standard can specify desired levels of accomplishment for sales volume, gross margin, net profit and expenses. If quotas are based upon valid sales forecasts where the probable strength of demand has been realistically considered, they represent good performance standards. However, when they are chosen mainly to inspire or are based on guesses, they lose meaning as performance standards.

**Net profit ratio or gross margin rates per territory :** In this case target ratios of net profit or gross margin to sales, are decided upon for the sales territories. Each sales territory is considered as an organisational unit that should make a contribution to the corporate profit. The positive impact upon the salesforce is that the sales personnel try to meet the ratio by attaining a higher sales volume and by reducing expenses. On the other hand, this approach may lead the salesman to concentrate on more profitable products and accounts. The shortcoming of both net profit and gross margin ratio is that sales personnel pinpoint the more lucrative accounts in their territory and may not spend enough time in soliciting new accounts and may overemphasise high margin or high profit products at the expense of new products which might prove profitable in the long run.

**Sales expense ratio :** This performance standard is used to control the selling expenses relative to sales volume. As many of the factors affecting sales expenses are uncontrollable for salesmen, target selling expense ratios should be carefully set, considering the factors which are likely to affect the expenses. The salesman can manage this ratio by either controlling expenses or by making sales or both.

The major weakness of this performance standard so that it does not provide for variation in the profitability of different products. A salesman may meet the sales expense ratio and yet show disproportionately low profits. In times of declining business conditions, this ratio has been found to inhibit salesmen from exerting efforts to generate higher sales volume.

Companies show different practices as far as defining selling expenses is concerned. Some companies feel that both indirect and direct selling expenses should be included while developing this standard. This, however, means that the salesmen are held accountable for some expenses (the indirect expenses) over which they have no control. Some companies use the concept of direct expenses i.e. expenses incurred and controllable by salesmen to define norms for selling expenses.

This performance standard tends to be used more by industrial companies than by consumer products companies.

**Sales coverage effectiveness index :** This measure evaluates the thoroughness with which a salesperson covers and cultivates his territory. The index is calculated by getting the ratio of the number of customers to the total prospects in the assigned territory.

**Call frequency ratio :** This performance standard is calculated by dividing the number of sales calls on a particular class of prospects by the total number of prospects in that class. By defining different call frequency ratios for different classes of customers, an effort is made

to direct sales effort to accounts which would lead to profitable sales. While defining call frequency ratio it must be ensured that the interval between calls is proper. It should neither be so short that only small orders are possible, nor so long that competitors take away the sale.

**Calls per day :** In case of consumer products, salesmen may be required to contact large number of customers or prospects. Calls per day in such cases become a criterion of judging whether a salesman is making too few or too many calls a day. Establishing a norm regarding calls per day also helps the salesmen in scheduling their activities on a day-to-day basis. Territorial variations are taken into account and different call norms are individually set for different territories.

**Average cost per call :** Target cost per call standards are set to underline the importance of making profitable calls and reducing expenses associated with calls different norms may be set for different classes of customers if the cost in relation to different customers is significantly different.

**Multiple quantitative measures :** In practice the companies rarely use a single parameter to judge the effectiveness of its salesforce. A combination of factors, weighted according to their relative importance in the organisational set-up, is generally used to arrive at a composite measure. A simple example listed below (and successfully in use in two companies) shows a multivariate approach to evaluation. The author of this simple model, suggests a list of twenty factors, out of which a suitable number of variable which are relevant in a given case may be chosen to evaluate salesman.

**These variables are :**

- 1) Market share—proportion of actual sales in quantity to the total sales of the product in the market or the size of the market.
- 2) Sales quantity.
- 3) Sales value.
- 4) Number of calls.
- 5) Number of orders.
- 6) Value of orders booked.
- 7) Value of order per call—this is also called the batting average. (In industrial marketing, the expression hit ratio is used to indicate the percentage of business obtained against a tender.)
- 8) Gross margin or contribution and also P/V ratio (contribution on sales).
- 9) Direct selling expenses.
- 10) Direct sales margin (contribution minus direct selling expenses).
- 11) Average inventory (average being calculated on the basis of opening and closing inventory figures).
- 12) Average outstanding receivables.
- 13) Average credit enjoyed from suppliers.
- 14) Working capital locked up (item nos. 11 + 12 - 13).
- 15) Marketing R.O.I.—Direct sales margin (item no. 10) as a percentage on working capital (item no. 14).
- 16) New product performance (comparison between actuals and earlier projections).
- 17) Number of accounts obtained.
- 18) Number of accounts lost.
- 19) Number of customer complaints.
- 20) Information about competitors' plans and strategies.

The list is by no means exhaustive. It is neither practicable nor desirable to use all of them together. Depending upon the needs of the organisation, a few of these criteria might be chosen. Norms can then be established for each of these criteria, and their respective weightage in the total evaluation score can also be assigned. There are certain criteria (for example those listed in no. 19 and no. 20) for which norms cannot be easily established. Past experience of the organisation could become a guideline in these cases.

After norms have been fixed, the periodicity of evaluation can be decided upon. The following table shows a hypothetical situation using six of the above variables, and gives a comparative evaluation of six salesmen.

**Table 1 : Monthly Evaluation Criteria, Weightage and Norms**

Product :

Sl. No.	Evaluation Criteria	Weightage	Norms	Basis of Score: Maximum 12 for each. (6 points for achieving the norm; + or - for deviation as given below)
1	Market Share	30	25%	+ (-) 1 for increase (decrease) by every 5% or part.
2	Value of Orders	15	Rs. 10 lakhs	— do — by every Rs. 1 lakh or part.
3	Batting Average	10	Rs. 25,000	— do — by every Rs. 5,000 or part.
4	Sales Value	10	Rs. 10 lakhs	— do — by every Rs. 1 lakh or part.
5	P/V Ratio	15	40%	— do — by every 5% or part.
6	Marketing R.O.I.	20	20%	— do — — do —
Total		<u>100</u>		

Source : Marketing Management : A Finance Emphasis by Dr. B.K. Chatterjee, Jaico Publishing House, 1982.

**Qualitative Performance Criteria**

As noted earlier, certain aspects of the sales job are not easy to quantify and measure. Use of some qualitative criteria therefore is unavoidable in evaluation of sales personnel factors like effectiveness in dealing with customers problem. Contribution to the teamspirit of the sales team, building up goodwill in the territory, establishing cordial dealer relationships, affect sales results in the long run, but their degree of excellence can only be judged subjectively. Most sales executives do not precisely define the desired qualitative criteria and prefer to arrive at informal conclusions regarding these criteria. Some prefer to have a detailed check-list, with subjective factors scaled on a five-point or seven-point scale on which salesmen can be formally rated.

Individual discretion of the sales executive has a major role to play in qualitative evaluation. Written job descriptions become an input in deciding what combination of qualitative criteria should be used to evaluate sales personnel at different levels and in different kinds of sales jobs. The manner in which these criteria are applied would depend upon the needs of management in a specific organisation.

**Activity 3**

Study two organisations which have field sales operations. Find out :

- a) What are the criteria used to evaluate sales performance ?  
 .....  
 .....  
 .....
- b) In case multiple criteria have been used together, how has the composite measure been derived ?  
 .....  
 .....  
 .....
- c) What are the qualitative criteria that have been used for evaluating performance ?  
 Discuss with the concerned sales manager to find out how these criteria are applied in practice to arrive at decisions regarding these variables in respect of the individual salesmen's performance.  
 .....

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## 12.9 COMPARING PERFORMANCE WITH NORMS

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The most crucial and also the most difficult step in the evaluation process is the comparison of actual performance with the defined norms. The difficulty arises because evaluation requires an exercise of discretion. The same standards, indiscriminately cannot be applied to all salesmen as the sales territories assigned to them differ in terms of sales potential, level of competition, personalities of sales personnel and their customers. Though variations in territories may be adjusted by setting territorywise norms, personality variations cannot and therein judgement of the executive has to be exercised.

Similarly, there may be varying results in respect of the same salesperson, on quantitative and qualitative criteria. A salesman who does not quite meet his quota may be making compensating qualitative contributions by developing excellent dealer relationships, which have long-term implications. Again executive judgement is called for to arrive at an overall assessment of performance.

The performance of the sales personnel results from many variables, some of them beyond the control of either the salesperson or the sales management. It is, therefore, important that while comprising actual performance with the defined norms, the effect of the other variables that affect performance should also be kept in mind.

### Activity 4

Study the case problem given below and answer the question at the end of it

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## 12.10 CASE STUDY - MONITORING AND PERFORMANCE APPRAISAL OF MEDICAL REPRESENTATIVES

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**Background :** The pharmaceutical industry is characterised by a number of 'Me-too' products manufactured by a number of different companies. The success of any particular company depends upon the doctor prescribing the product of that company. This, in turn, is largely dependent upon the selling effort put in by the salesforce of the company. The medical representative forms the nucleus of the salesforce. The function of a medical representative is critical to the success of the company. At the same time, the company has to spend a huge amount of its marketing budget on its medical representatives. The monitoring and performance appraisal of the medical representatives becomes all the more essential. In this context, we had visited Glindia Ltd., one of the leading pharmaceutical companies today, and studied the system used by them for monitoring and performance appraisal of its medical representatives.

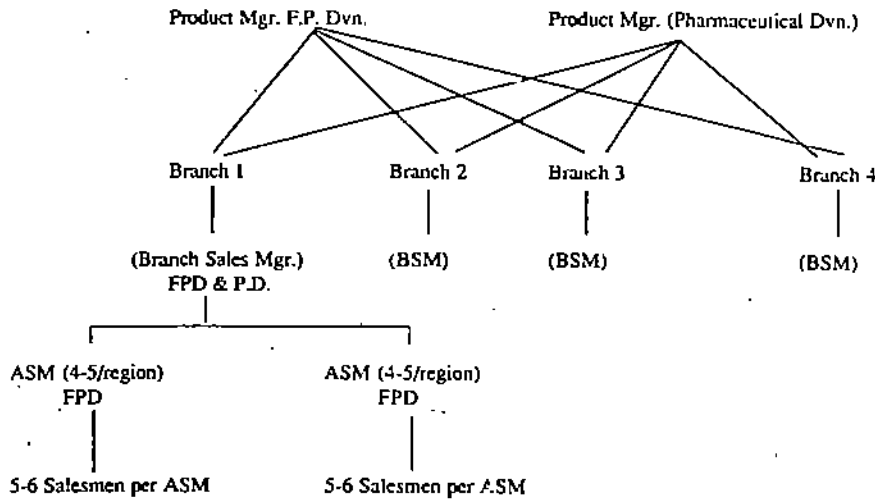
**The Company :** There exist two divisions (i) Food Product Division (FPD) and (ii) Pharmaceutical Division (PD). The total number of products handled by the salesforce is 110. The organisational structure of the salesforce is as follows :

While the FPD functions like any ordinary consumer product marketing salesforce dimension the pharmaceutical division has a different approach :

**Setting of Budgets :** The budgets are set quarterly. Regression analysis of the past 4 years' sales is used, with a weightage of 30% assigned to the previous two years and 20% assigned to the earlier two years. The sales figures so obtained are broken down into sales quotas for the medical representatives with a range of  $\pm 10\%$  used judgementally.

**Monitoring of Performance :** The daily coverage of a medical representative consists of making 10 doctor calls and 5 chemist calls a day. In these visits he not only has to make them aware of the company's product and its benefits but it also has to check stocks with

chemists and observe competitors activity. These findings are then sent in a daily report to the Area Sales Manager. A 45-day cycle has been assigned to each representative. A summary report areawise is presented to the branch manager after the completion of each cycle. The branch manager presents a summarised report to the product manager to develop the marketing strategy further accordingly.



BSM: Branch Sales Manager, ASM : Area Sales Manager, FPD : Food Products Division and PD : Pharmaceuticals Division.

The field control measures exercised by the Area Sales Managers consist of insisting on completed daily reports on time. The method of working with stocks, merchandising ability of the medical representatives are also reviewed continuously.

**Performance Appraisal**

The evaluation of Medical Representatives is done by the Area Sales Manager concerned. A more or less objective evaluation is adopted with subjectivity involved in certain parameters. The evaluation is done on an annual basis.

A total of 150 marks is assigned to each salesman. The weightage given to different parameters is as under :

Primary sales	50	(sales to stockists)
Redistribution	30	
Collection	20	
Merchandising	15	
Stock Rotation	10	
Reporting	10	
Market Servicing	5	
Market Information	5	
Film Checks	5	
	<u>150</u>	

Subjective Judgement is exercised towards parameters like attitude towards job; integrity, representatives development on the job : analytical ability, initiative and adherence to company guidelines.

**Incentives offered :** An achievement of 105% over budgeted targets entitled the medical representative to certain incentives in the form of awards given by the company. Each year the company felicitates 25-50% people for achievement of targets. Certificates, medals and gifts are awarded at a grand award function held in a hill resort in the presence of foreign dignitaries. This gives the necessary encouragement to future medical representatives. In addition, the company also holds training programmes for on-the-job training. Each representative has to undergo a 2-week compulsory training at the company's training centre. In spite of these efforts the turnover rate of the medical representatives is high and the company has to live with this industry phenomenon.



**Question**

Critically evaluate the monitoring and performance appraisal system followed by Glindia Ltd. State the criteria used for evaluation of the system.

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**12.11 SUMMARY**

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In this unit we have discussed the importance of monitoring salesmen and appraising their performance. Different parameters are used by different companies depending upon their product—market portfolio. Sales reports generated by salesmen give information on many decision-making areas for the top management. Every company in accordance with its requirements sets standards of performance for specific criteria and develop a reporting system for comparing actual performance with the norms. Both qualitative and quantitative criteria are used to arrive at proper evaluation of sales performance.

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**12.12 KEY WORDS**

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**Call Planning :** A specific planning sequence with which the sales representative defines the objective of the call devices a selling strategy to achieve his objectives and makes the payments.

**Contribution Margin per Salesman :** The amount that a salesman contributes to the firm's fixed cost and profits.

**Evaluation :** A comparison of planned and actual results identifying reasons for deviations.

**Evaluation Frequency or Periodicity :** The timing of salesforce evaluation.

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**12.13 SELF-ASSESSMENT QUESTIONS**

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- 1) Describe the importance of monitoring and performance appraisal of salesforce.
- 2) Consider an industrial product company. What should the reporting system of its salesforce be? State reasons for the same.
- 3) Mention some of the parameters used to monitor salesforce.
- 4) What are the different reports generated to monitor sales force? How are they used ?

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**12.14 FURTHER READINGS**

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Albert H. Dunn and Eugene M. Johnson, 1980. *Managing Your Sales Team*, Englewood Cliffs, N.J. Prentice Hall.

Robert F. Hartley, *Sales Management*, 1979, Boston : Houghton Mifflin.

Joseph P. Gullinan and Gordon W. Paul, *Marketing Management Strategies & Programmes*, 1982, New York : McGraw Hill, 1982.

# APPENDIX

## MONITORING AND APPRAISAL FORMS (A) Activity Monitoring

Date		Prepared by	
Territorywise Variation	Weightage	Salesmen Activities	
1) Size		1	Growth compared with national average
2) Market Segments		2	Selling costs/enquiries
3) Transportation Facilities		3	Selling costs/orders
4) Delivery Service		4	Selling costs/sales
5) Local Promotional Media		5	Sales costs to marketing costs
6) Competitive Activities		6	Number of calls made
7) Territory Cultivation		7	Number of enquiries received
8) Political Environment		8	Number of orders obtained
9) Strength of Local Economy		9	Cost per call
10) Pricing Policies		10	Cost per interview
		11	Average value of orders
		12	Average gross margin per order
		13	Local advertising against competitors
		14	Number of accounts to service
		15	Average value of accounts
		16	Ratio of customers to prospects
		17	Number of new accounts opened
		18	Number of accounts lost

## (B) Productwise Monitoring of Sales Volume

Date		Prepared by										
Salesman	Product Group A			Product Group B			Product Group C			Total Product Groups		
	Standard Performance	Actual Performance	Deviation from norm	Standard Performance	Actual Performance	Deviation from norm	Standard Performance	Actual Performance	Deviation from norm	Standard Performance	Actual Performance	Deviation from norm
A												
B												
C												
D												
E												

Adapted from : How to Prepare a Marketing Plan, "John Stapleton Gower Publishing Company Ltd., England, 1989.

## (C) Performance Appraisal of Salesmen (Composite Measures)

Date		Prepared by						
Performance	Weightage	Specification			Remarks	Total Rating		
		Above	Par	Under				
Customer Relations								
General								
Prospects								
Complaints								
Objections								

**Managing the Sales Force**

Performance	Weightage	Specification			Remarks	Total Rating
		Above	Par	Under		
Selling Skills Approach Presentation Closing the sale Product-demonstration Technical and Product Knowledge General Industry Product Pricing Benefits Personal Planning Reporting and paperwork Maintenance of records Catalogues brochures Planning of time Customer records Journey planning Personality characteristics Appearance Manner Health						



Uttar Pradesh  
Rajarshi Tandon Open University

**MBA-2.5**

**Sales  
Management**

Block

**4**

**PLANNING AND CONTROL OF THE SALES EFFORT**

<b>UNIT 13</b>	
<b>Sales Planning</b>	<b>5</b>
<b>UNIT 14</b>	
<b>Sales Organisation</b>	<b>21</b>
<b>UNIT 15</b>	
<b>Sales Forecasting and Sales Quotas</b>	<b>39</b>
<b>UNIT 16</b>	
<b>Sales Budgeting and Control</b>	<b>47</b>

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## **BLOCK 4 PLANNING AND CONTROL OF THE SALES EFFORT**

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This Block relates to specific operational aspects of the Sales Management function.

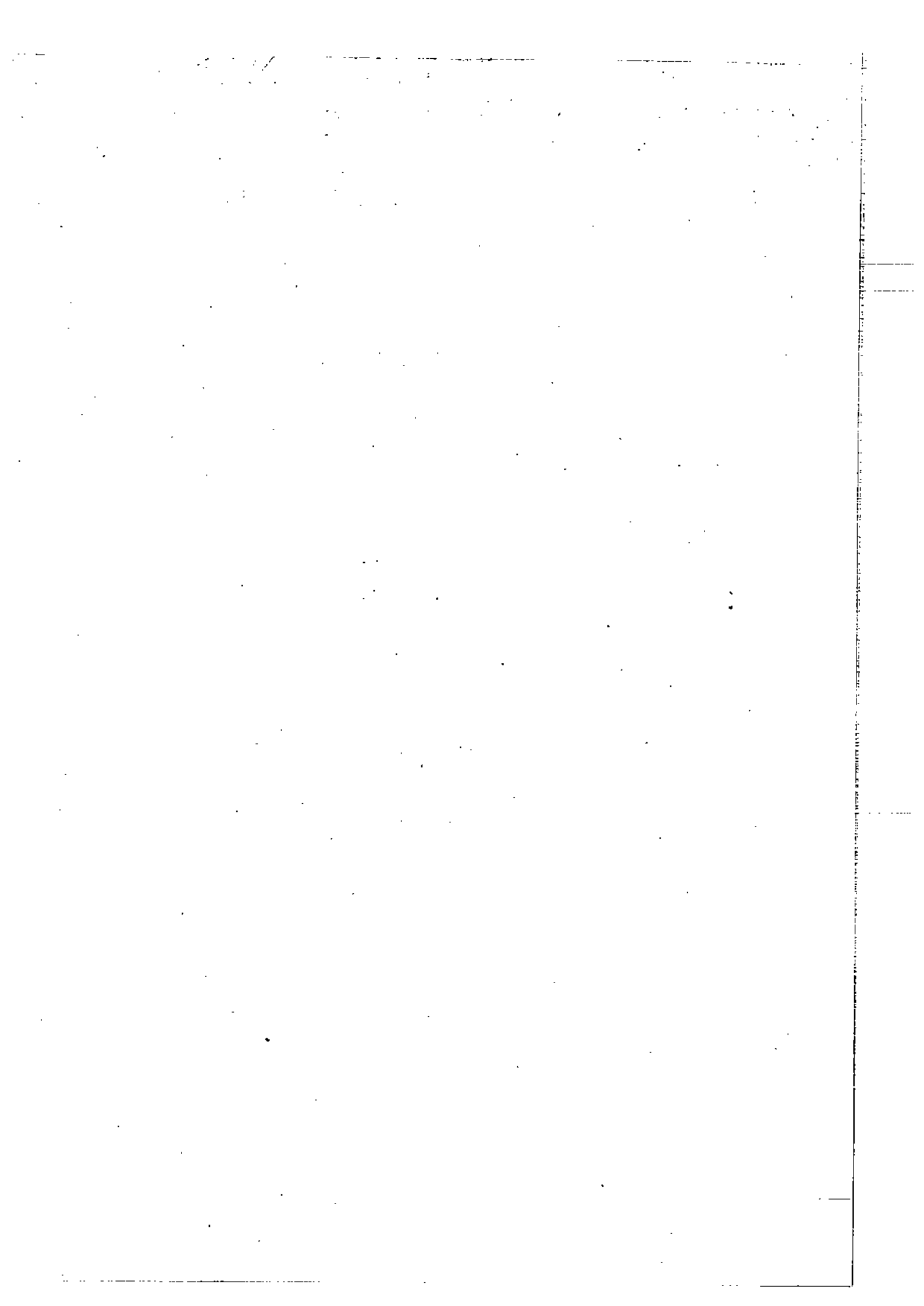
Planning and Controlling the sales effort occupies an important place in the activity spectrum of the sales management. The planning process begins with sales forecasts, which is the projection of the organisation's future revenue, on which all other aspects of sales planning are based. Setting of sales quotas, planning of territories and developing the sales budget, are all the important uses of the sales forecast.

The first unit in this block is on Sales Planning, suggesting various planning stages to meet the sales objectives. More specifically, this unit discusses issues related to planning upto the territory level.

The second unit is on Sales Organisation. After discussing the need for sales organisation the process for designing the sales organisation is explained systematically. Finally the unit, explains the basic types of sales organisation and different kinds of specialisation possible in organising a field sales force.

The third unit in this block, discusses in detail the techniques in Sales Forecasting and the practices related to Sales Quotas.

The last unit in this block is devoted to Sales Budgeting and Control. It discusses budgetary control as well as the other tools of control, which are in practice to ensure streamlining of the sales effort.



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## UNIT 13 SALES PLANNING

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### Objectives

After reading this unit you should be able to perform following functions of a Sales Manager

- design the product-wise / brand-wise sales planning for a company.
- design an effective territory planning for the salesmen
- plan the total expenses on effective coverage of your area
- exercise effective controls

### Structure

- 13.1 Introduction
- 13.2 Product-wise Sales Planning
- 13.3 Territory Management Meaning
- 13.4 Why Sales Territories
- 13.5 Steps in Territory Planning
  - 13.5.1 Salesman's Capacity
  - 13.5.2 Frequency of Calls Per Month
  - 13.5.3 Parity in Sales Potential
  - 13.5.4 Minimise Travel Time and Expenses
  - 13.5.5 Suitably Station the Salesman
- 13.6 Approaches to Territory Design
- 13.7 Territory Coverage Planning
- 13.8 Territory Expense Planning
- 13.9 Control Systems
- 13.10 Improving Territory Productivity
- 13.11 Sales Programme Planning
- 13.12 Planning Sales Manager's own Itinerary
- 13.13 Summary
- 13.14 Key Words
- 13.15 Self-Assessment Questions
- 13.16 Further Readings

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### 13.1 INTRODUCTION

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Since, Sales Planning is an integral part of the overall Sales Department, let us try to understand the concept of Sales Management in brief. The concept and the role of Sales Management has been evolving over the years.

There was a time when selling the goods was no problem at all. Orders for goods produced, were always on hand even before the goods were actively produced. The problem was to produce enough goods so as to meet the demand of nearby customers. Maximum time of the management was devoted to manufacturing problems, while selling and marketing were handled on a part – time basis.

With the increase in production and setting-up of large scale organisations, the problems of market expansion started cropping-up. Total production of goods went so high that nearby customers could not absorb the goods produced, but even under such circumstances other departments took precedence over Sales Management.

The other departments which were preferred over Sales Management, were manufacturing and financial department. It was after these departments were set-up that the Sales Management came into being.

As the companies, business and market expansion increased, the distance between its customers and the company also went on increasing. It was here that the problem of communication with its customers, on a regular basis, came up. This function of communication and other aspects of marketing therefore was also assigned to Sales Management.

Interestingly, as more and more goods were produced, the differentiation between the similar goods of different manufacturers started becoming more and more difficult. Thus a need for the specialised job functions of advertising, promotion, marketing research etc. was felt. Though initially all these functions (now assigned to of marketing Management) were assigned to Sales Management, later on separate specialised functional departments for these functions were created and grouped under the Marketing Manager rather than a Sales Manager.

Thus, we can very well infer, that the meaning of Sales Management has been undergoing a change over the years. Initially it meant the market expansion and the management of sales force. Later on all the marketing activities like advertising, sales promotion, marketing research, pricing etc. were also assigned to it. But still later the term Marketing Management was used to define the broader Concept and the term Sales Management was defined as "Planning, Direction, and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating the sales force." When looked from the top and given an overall view, the Sales Management is responsible for organising the sales process, both within and outside the companies. Inside the organization, it builds an informal organisation structure which ensures effective communication not only inside the sales department but also in its relations with other organisational units. And outside the company, the Sales Management has to service as the company's representatives with the customers and other external organisations. Apart from the responsibilities listed above, the Sales Management is responsible for some other important functions too. Some of these functions are important in making some key marketing decisions such as budgeting, deciding the objective, sales force size, territories etc.

While performing all these important tasks of sales effort management and personal selling effort, the Sales Managers have to plan. This planning consists of sales territory planning, product-wise sales planning, manpower planning etc. All such planning is the centre of our discussion here.

### 13.2 PRODUCT-WISE SALES PLANNING

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

S.No	Product	Unit-wise A Sale Plan	Value Per Unit (Rs.)	Total Sales Value (Rs.)
1.	A.	10,000	1,000	1,00,00,000
2.	B.	1,10,000	100	1,10,00,000
3.	C.	20,000	50	10,00,000
4.	D.	75,000	25	18,75,000
5.	E.	1,00,000	35	35,00,000
6.	F.	50,000	80	40,00,000
				Rs. 3,13,75,000

Once this Product-wise Sales Planning is acceptable to the Top Management, the same can be divided into regional, area-wise and territory-wise sales planning.

While determining the sales plan for each product, the Sales Management has to derive the Market Potential, Sales Potential and the Sales Forecast for their products. Market Potential is



the total number of units of a product which can be sold by all the companies in a given market. For example, the market potential of 10 million cars in India, would indicate that combined sales of all the car manufacturers will not be more than 10 million cars in a year in our country. Sales potential, on the other hand, would indicate maximum units of product which a single manufacturer can sell in a given market in a year. For example, the sales potential of 5 million cars for Maruti Udyog Limited would indicate that the company can sell a maximum of 5 million cars in India in a year.

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

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

1. What is the number of its customers. This should include the present customers as well as the potential or planned or future customers (planned or future customers would be the ones that Sales Management wants to include in the year for which the sales forecast is being made).
2. What is the size of the customers (The ABC Analysis of the customers in terms of their sales turnover, profit etc.).
3. What products will they purchase.
4. Why do they buy such products or what are their needs to buy such products.
5. How much quantities do they buy for a particular product.
6. How many times, in a year do they buy such products.
7. Under what conditions do they buy. Whether they buy on cash or credit.
8. What is the competition doing in these product markets or even what the competition is expected to do.

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

#### Activity I

Plan the product-wise sales planning for the company ABC Limited with six products / brands with the help of following data.

S. No.	Brand	Value Per Unit (Rs.)	Market Potential	Sales Forecast as Percentage of Market Potential
1.	A.	10,000	100 Units	25 %
2.	B.	100	1,00,000 Units	10%
3.	C.	5,000	500 Units	50 %
4.	D.	2,500	1,000 Units	20 %
5.	E.	3,000	200 Units	25 %
6.	F.	5,00	5,000 Units	60%

### 13.3 TERRITORY MANAGEMENT MEANING

A sales territory represents a group of customer accounts, an industry, a market or a specific geographical area. Some of the factors that influence sales volume of a territory are territory

size, its market potential, number of customer accounts, firms experience and market share in the territory, quality of sales person assigned and the frequency of sales calls made. One of the important function of sales management is to set up sales territories with optional profit potential. The major factors that govern the territory size are, number of customers and prospects, call frequency on existing customers, and the number of calls that sales persons makes in a day.

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### 13.4 WHY SALES TERRITORIES

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

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

**Effective Deployment of Sales force:** Proper knowledge of the demands of the sales territory results in assignment of the right person for the territory. The specificity in job description and responsibility definition paves the way for parity in workload and potential among sales person. Therefore when territories are distributed equitably to the sales persons fewer conflicts arise from calling someone else's customer and on workload carried out.

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

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

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

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### 13.5 STEPS IN TERRITORY PLANNING

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

#### 13.5.1 Salesman's Capacity

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

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

### 13.5.2 Frequency of Calls Per Month

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

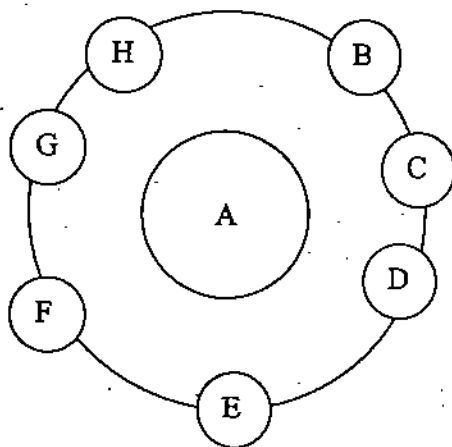
### 13.5.3 Parity in Sales Potential

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

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

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

In such a case the sales manager should divide the territory with the sales potential of Rs. 10,00,000/- into two territories of Rs. 5,00,000/- each and put two salesmen, instead of one. This action would not only be conducive to a realistic appraisal of all the salesmen but would also help in realising the complete potential of territory A (Sales potential = Rs. 10,00,000/-)



### 13.5.4 Minimize Travel Time and Expenses

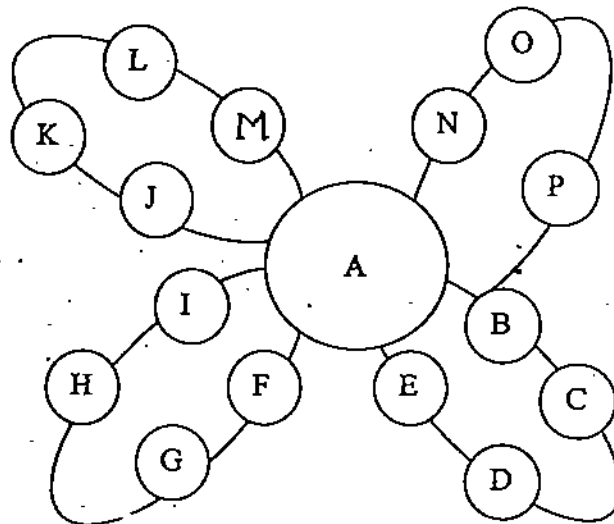
The territory should be planned in such a manner where maximum amount of salesman's time is spent in interacting with the customers rather than in travelling. This would automatically reduce the expenses also.

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

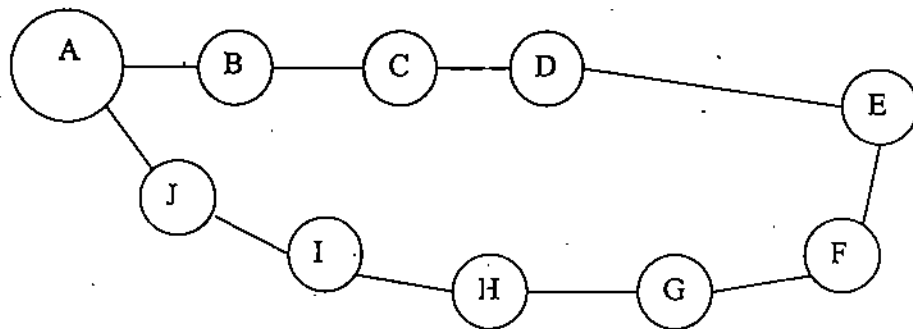
The circle shape is appropriate for a territory where the concentration of customers is more or less the same throughout the territory. The salesman is based at a town which is near the center of his complete territory. This shape ensures almost equal concentration of the salesmen to all his customers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

This type of a sales territory is more common in fast moving consumer goods companies and pharmaceutical companies.

The clover leaf shape is desirable for the companies marketing industrial goods. This shape is suitable when the customers are located randomly. In other words, their concentration is not equal in all areas of a territory. In this shape, the salesman is based at the center of the territory and plans his tour to cover all customers along one leaf. This ensures that the salesman comes to his base town at the weekend, spends sometime to meet his customers here and moves for towns on other leaf, the next week.



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

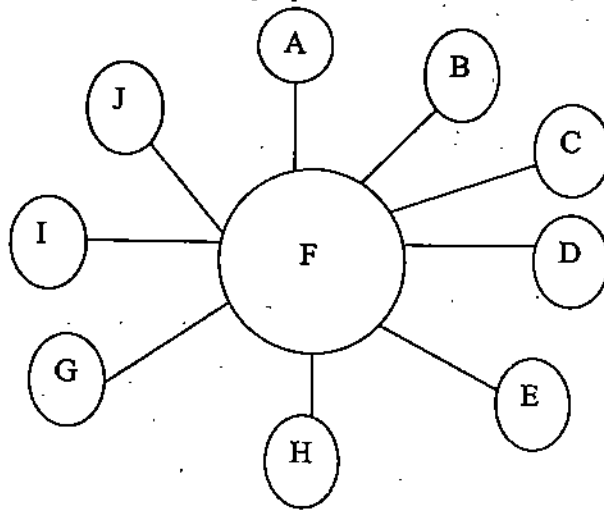


### 13.5.5 Suitably Station the Salesman

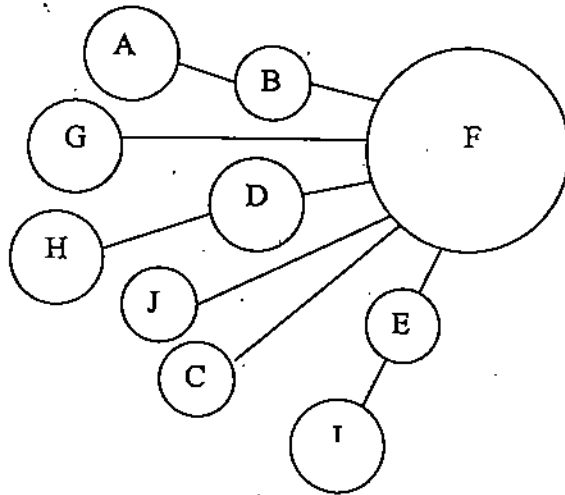
The salesman should be based at a place in his total territory, with the highest concentration of customers.

Suppose a territory consists of towns A, B, C, D, E, F, G, H, I and J and most of the

customers are located in town F, then the headquarter of the salesman should be town F only. Moreover, other towns should be well connected with town F and distances should be minimum between the towns. This can be graphically represented as follows :



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



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

Activity 2

You are the Sales Manager with 5 salesmen reporting to you. Your area has following towns with the indicated sales potential / customer concentration index

Design an effective territory planning for all 5 salesmen reporting to you.

Town	Sales Potential / Customer Concentration Index
1.	150
2.	100
3.	80
4.	150
5.	90
6.	50
7.	35
8.	20
9.	20
10.	100
11.	70

12.	50
13.	40
14.	45
15.	30
16.	35
17.	30
18.	25
19.	15
20.	10
21.	20
22.	25
23.	5
24.	10
25.	15

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### 13.6 APPROACHES TO TERRITORY DESIGN

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

- 1) The Market build up approach
- 2) Workload approach

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

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

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

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

- 1) Customers are grouped into Class Sizes according to the annual Sales Volume that the Company has.
- 2) Optimum Call frequencies for each Class of customers are estimated e.g. In one case

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

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

### 13.7 TERRITORY COVERAGE PLANNING

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

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

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

#### Company XYZ Territory Coverage Plan

Name of Salesman : Arvind Sharma  
Headquarterd : F  
Territory Coverage Plan for the Month of : January, '98  
Date of Preparation : 25 / 12 / 97

S. No.	Date	Town	Mode of Travel	Distance From HQ	Address, Telephone No. Contact Point
1.	1.1.98	F	—	—	—
2.	2.1.98	F	—	—	—
3.	3.1.98	F	—	—	—
4.	4.1.98	F	—	—	—
5.	5.1.98	F	—	—	—
6.	6.1.98	Sunday	—	—	—
7.	7.1.98	F	—	—	—
8.	8.1.98	F	—	—	—
9.	9.1.98	F	—	—	—
10.	10.1.98	F	—	—	—
11.	11.1.98	F	—	—	—
12.	12.1.98	F	—	—	—
13.	13.1.98	Sunday	—	—	—

14.	14. 1.98	A	Bus	25 Km	Hotel Kuber
15.	15. 1.98	A	Bus	35 Km	Hotel Kuber
16.	16. 1.98	B	Bus	35 Km	Hotel Kuber
17.	17. 1.98	B	Bus	35 Km	Hotel Kuber
18.	18. 1.98	C	Train	85 Km	Irawati Guest House
19.	19. 1.98	C	Train	85 Km	Irawati Guest House
20.	20. 1.98	Sunday			
21.	21. 1.98	D	Train	95 Km	Amar Lodge
22.	22. 1.98	E	Bus	30 Km	Hotel Kushak
23.	23. 1.98	G	Bus	25 Km	Hotel Relax
24.	24. 1.98	H	Bus	28 Km	Relax Hotel
25.	25. 1.98	I	Bus	12 Km	Virender Lodge
26.	26. 1.98	F	-	-	Ashok Guest House
27.	27. 1.98	Sunday	-	-	
28.	28. 1.98	F	-	-	
29.	29. 1.98	F	-	-	
30.	30. 1.98	F	-	-	
31.	31. 1.98	F	-	-	

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

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

### 13.8 SALES TERRITORY EXPENSE PLANNING

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

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

Following illustration can be of use to understand the same in a better way.

S. No.	Particulars	Rate (Rs.)	No. of Salesmen	Total Amount (Rs.)
1.	Salary (including P.F. L.T.A., E.S.I. etc.)	4,000	10	40,000
2.	Travelling Expenses @ Rs. 100/- per day for 25 working days / month)	2,500	10	25,000
3.	Fare (Approximate)	3,000	10	30,000
4.	Bonus @10% of salary per year)	400	10	4,000
5.	Administrative Expenses	500	10	5,000
	<b>Total</b>	<b>10,400</b>		<b>1,04,000</b>



Thus Rs. 1,04,000/- will be the approximate Sales Territory Expense Planning for the Sales Manager for one month. For complete year, it will be Rs. 1,04,000 x 13 = Rs. 13,48,000/-

Activity 3

Given below are the expected monthly expenses per sales men. Design the total Territory Expenses Planning for the year supposing you have 7 salesmen.

S. No.	Particulars	Expenses (Rs.)
1.	Salary	5,000 p.m.
2.	Fare	5,500 p.m.
3.	Travelling Expenses	Rs. 135 per day
4.	Bonus	10% of salary, per year
5.	Administrative Expenses	750 p.m.

However, with the growth in the number of customers and / or increase in frequency of visits to the same customers, the Sales Manager may have to select more salesmen and thus his Sales Territory Expense Planning may undergo a change. The Sales Territory Expense Planning may invite changes because of some more reasons. These are :

- i) The Sales Manager may reduce the territory of a salesman to allow for more concentrated working. This will reduce the expenses on travelling and the total Sales Territory Expense Planning will be reduced. While doing this, let us remember that a sales manager should not reduce the territory of a salesman just to reduce his expenses He / She should strike a balance between the territory, its sales potential and the expenses.
- ii) The sales Manager may have to discontinue some salesmen because their sales performance is not upto the mark.
- iii) Let us now try to understand what controls a sales manager can exercise for optimum results and for improved performance of his salesmen. It would be worthwhile to add here that the most important aspect of sales manager's job is to exercise effective controls. In other words controls are the key to effective sales planning or sales management.

## 13.9 CONTROL SYSTEMS

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

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

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

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

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

### 13.10 IMPROVING TERRITORY PRODUCTIVITY

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

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

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

The system should focus on:

- a) Sales territory performance in terms of its market potential, resources deployed and required, and profit contribution potential.
- b) Sales force itinerary planning, covering call planning, journey planning, appointment scheduling, preparation and usage of sales aids and equipment during sales calls, and post call planning.
- c) Documentation of customer call records, daily activity reports, cost and time on various activities, market intelligence, etc.
- d) Individual sales person's productivity.

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

#### Activity 4

A) Check whether the following statements are true or false:

Statement	True/False
1) The emphasis in the concept of the sales territory is upon the geographical area in which a sales person works	.....
2) Good territorial design allows sales personnel to spend sufficient time with customers and prospects and minimizes non-selling time	.....
3) As a rule, sales territories should be very large in order to make sure each sales person has adequate sales potential	.....

which will give him or her incentive to spend maximum effort .....

- 4) Differences in territory coverage difficulty represent differences in the work required of sales person .....
- 5) Establishing sales territories assures proper market coverage .....

B) Tick the most appropriate answer:

- 1) Ideally the optimum territorial arrangement is achieved by establishing territories so that there is an equalising among territories of :
  - a) Market potentials
  - b) Sales potentials
  - c) Sales person's workload
  - d) Selling expenditure
  - e) Incremental sales per selling rupee
- 2) The main reason for establishing sales territories is to :
  - a) secure optimum market coverage
  - b) reduce selling expenses
  - c) facilitate planning and control of selling operations
  - d) improve sales force performance and morale
- 3) In deciding how many sale territories, a sales manager
  - a) should estimate the percentage of the total sales potential that each sales persons. on
  - b) an average should be capable of realizing and proceed from that point
  - b) should use the major competitor's territories as the basic starting point
  - c) should first find out how many good sales persons are available
- 4) Among other things, revising territories to adjust for differences in territory coverage on account of differences in workload involves:
  - a) estimating the time required for each sales call
  - b) deciding call frequencies
  - c) calculating the number of calls possible within a given time period
  - d) determining the length of non-selling time between calls
  - e) all of the above
- 5) Profitable management of sales territories helps in matching selling efforts with:
  - a) sales person's assignments
  - b) selling expenses
  - c) marketing plans
  - d) sales opportunities

**Check Your Answers**

A) 1 (False), 2(False), 3(False), 4, True), 5(False)

B) 1(e), 2 (c), 3(a), 4(e), 5(d)

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**13.11 SALES PROGRAMME PLANNING**

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

Primarily, this planning includes the activities like.

- a) Putting up point of sales material like danglers, posters, stickers, billboards etc. at

retail counters.

- b) Improving shop window display like arranging product packs attractively in the glass windows at retail shops.
- c) Conducting outside the shop promotion like distributing gifts to the customers who purchase their product or distributing coupons for some discounts or free goods to customers.
- d) Conducting demonstrations like demonstrating the actual performance of a product like a Juicer, Mixer Grinder, at a shopping complex.
- e) Sampling programme like distributing free samples of the product ( a new detergent) to some housewives in a colony.
- f) Presentation on the performance and benefits verbally to a group of potential customers.

### **13.12 PLANNING SALES MANAGER'S OWN ITINERARY**

For achieving the product-wise and thus value-wise sales planning, the Sales Manager should plan his tour or work plan quite objectively. Before he goes on tour or to work with a salesman, he should find answers to questions like

- a) Why is he going there ?
- b) What is he going to do there ?
- c) What he will achieve ?
- d) What has been the performance of the salesman he is going to work with ?
- e) What are his developmental objectives for the salesman ?

Generally, in any given area, 60 percent of the members of a team are average producers of sales, 20 percent are above average and 20 percent are below average performers. Usually the Sales Managers work more with either the above average or below average performers. In the process, they neglect the average performers who bring about the major chunk of the business. Therefore, the sales managers should concentrate more of their time on this group of salesmen who will mostly do an adequate job.

Apart from this, a sales manager should have a TOUR PLAN, which should elaborate on who is he going to visit, why and how many days he will spend with each salesman. It need not necessarily be a standard of two days, work with each salesman, it should be four days with one and only one day with other salesman, depending upon the performance and development objectives for each salesman.

A Sales Manager should circulate his tour plan to other departments within the organisation. This will enable other departments to voice their concerns to be discussed with a particular salesman. This way a lot of unnecessary correspondence can be avoided and full advantage of Sales Manger's tour can be taken by the organisation.

In a nutshell, while planning his own tour plan, the Sales Manager should know WHERE there is a problem and he should go there, WHY there is the problem, he should investigate when he is there, and HOW & WHEN to solve it.

Therefore, what is needed for a high level of Sales Planning is

- i) Customer definition and classification
- ii) Product-wise emphasis - which products should receive high priority.
- iii) Self - training in selling skills and product knowledge.
- iv) Optimum usage of promotion material like posters, danglers, coupons etc.
- v) New business activity.
- vi) Objectivity in self tour plan.

### 13.13 SUMMARY

The function of Sales Management is a specialised function which involves planning, direction and control of personal selling, including recruiting, selecting, equipping, assigning, routing, supervising and motivating the sales force. All this is primarily done to achieve the specific sales objectives, setting which involves a comprehensive Sales Planning process. Various steps in this process are (1) Product-wise Sales Planning (2) Territory Planning (3) Territory coverage Planning (4) Sales Territory Expenses Planning (5) Control Systems (6) Sales Programme Planning (7) Planning Sales Manager's Own Itinerary.

Product-wise Sales Planning consists of identifying the Market Potential, Sales Potential and then the Sales Forecasts. The Sales forecasts are compiled after thorough study of customers, their size and their buying behaviour. Territory Planning is done by analysing each salesman's capacity to work, identifying frequency of calls per month, building - in parity in sales potential, minimising travel time & expenses, and deciding on proper headquarters.

Territory Coverage Planning should be standardised and it should be made on a sheet of paper where the contact point and address of the salesman should also be indicated. Frequent review of this plan should also be made so as to accommodate necessary changes of towns and customers.

Sales Territory Expense Planning is done once all the planning as listed above is properly done. After deciding the number of salesmen required, a Sales Manager can work out the expenses. A Sales Manager can add or discontinue salesmen depending upon the requirements which may alter his Sales Territory Expense Planning. This planning also helps a Sales Manager to operate proper control systems.

Sales Programme Planning involves planning the efficient and optimum use of various Sales Promotion measures like putting up point of sales material, Improving shop window display, conducting, demonstrations, distribution of samples etc.

A Sales Manager should also plan his own itinerary well - he should be clear as to what is his tour objective, why is he going there, what will he achieve on tour etc. A Sales Manager should devote more of his time with average performers, and should circulate his TOUR PLAN to other departments.

### 13.14 KEY WORDS

**Sales Territory :** An area of responsibility for an individual sales person to develop sales in it.

**Sales Territory Design :** The means of allocating customers or group of customers as a basis for assignment to a sales person to achieve sales objectives. This is usually on a geographical, product or market basis or on a combination of these basis.

**Sales Plan :** A determinant of personal selling strategy reflecting a clear understanding of overall company goals and market characteristics, and incorporating techniques and information which will allow for more effective decisions in eliciting competitive success.

**Process of Sales Plan :** It is in three stages. Firstly, prepare sales forecasts and budgets on the basis of identified firm's market. Its sales potential by product line, geographic area or customer type. Therefore, divide the market into territories so that sales effort can be allocated most effectively to current and potential customers. Finally, set quotas as a means of guiding and motivating salesmen, as well as a means of controlling and evaluating their effort.

### 13.15 SELF-ASSESSMENT QUESTIONS

- 1) How does sales forecasting help in sales planning suggest atleast five requirements of a sales manger in which sales forecasting can be of help.
- 2) What specific points you would consider while territory planning. Explain each of them, briefly.

- 3) Critically examine the workload approach for designing sales territories.
- 4) What measures can be taken to improve the territory productivity. Explain by taking the samples of a) Jewellery watches and b) Agricultural pesticides.

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### 13.16 FURTHER READINGS

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Arthur Median, 1986 Industrial Sales Force Management, Croom Helm Ltd., Provident House, Burrell Row, Beckenham, Kent BR3 1AT.

Chris Noonam, 1986, Sales Management, George Allen & Unwin, London.

Richard R. Still Edward W. Cundiff, Norman A. P. Govani, 1988, Sales.

Douglas J. Dalrymple, 1982 Sales Management : Concepts and Cases. John Wiley and Sons, New York, Chichester, Brisbane, Toronto, Singapore.

Gordan J. Bolt, 1987, Market and Sales Forecasting : A Total Approach. Essex Kogan Page Ltd., 130 Pentonville Road, London.

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## UNIT 14 SALES ORGANISATION

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### Objectives

After reading this unit you should be able to:

- explain the need for a sales organisation
- describe the process of designing a sales organisation
- differentiate between the basic types of sales organisation
- explain the process of development of territories
- describe the various kinds of specialisations in field sales force
- comment upon the role of sales executive in an organisation

### Structure

- 14.1 Introduction
- 14.2 Need for Sales Organisation
- 14.3 Developing a Sales Organisation
- 14.4 Centralisation Vs. Decentralisation in Sales Organisation
- 14.5 Basic Types of Organisational Structure
- 14.6 Developing Territories
- 14.7 Field Sales Organisation
- 14.8 Specialisation in a Field Sales Organisation
- 14.9 Role of the Sales Executive
- 14.10 Summary
- 14.11 Key Words
- 14.12 Self-Assessment Questions
- 14.13 Further Readings

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### 14.1 INTRODUCTION

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Once the sales plan has been formulated, the next logical step is to organise a sales force to achieve the enterprise objectives. Decisions must be made as to the type of sales tasks required to be performed and as to how the sales people should be grouped together to ensure effectiveness and efficiency. The scope of their sales responsibility, line authority and accountability must be defined so that the sales activities can be well coordinated. In this unit we shall discuss the basic types of organisational structures and territorial designs that are used to define work relationships between sales personnel and their superiors.

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### 14.2 NEED FOR SALES ORGANISATION

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Through your exposure to MS-6, and the previous units of this block, you know that it is the sales organisation which bridges the gap between the market and the productive capacity of the firm. As the market changes, the sales function accommodates through adjusting its organisation and manner of operation. Shifts in size of market operation, market trends, competitive position and other environmental factors may necessitate changes in existing sales organisations. An effective sales organisation usually provides for growth and adaptability to such changes.

You can compare the role of an organisation to that of the skeleton in the human body—it provides a framework within which normal functions can take place. However while the skeletal system is uniform for all human, sales organisations vary widely over firms. This is because every enterprise has its own objectives and resources, and corporate plans to achieve those objectives. The structure of the sales organisation reflect this diversity. Apart from providing a basic structure to facilitate working, sales organisation has the following basic purposes.

**a) Defines lines of authority**

Any sound sales organisation defines the relationships between people in the organisation in terms of authority responsibility and accountability. It is important to define and identify the flow of authority, indicate where responsibility lies, specify who is to be held accountable and to whom.

You are already familiar with the concept of line and staff authority. The organisation of the sales department should enable the sales personnel to identify whether their authority is line, staff or functional.

**b) Ensures that all necessary activities are assigned and performed**

The process of organising presupposes identification of necessary activities which have to be performed to achieve the sales objectives. As companies grow, the tasks and performed within the organisation also multiply. One of the basic purposes of the sales organisation is to ensure that all necessary activities are specifically assigned to personnel, and that procedures are devised to supervise the performance of all these activities.

**c) Establishes lines of communication**

In the earlier days, because of relative simplicity of the organisation structure and the smaller size of the organisation in most cases, lines of communication were synonymous with lines of authority. Today, with growing complexity in business, access to much greater volume of information, increasing emphasis on staff assistance, the lines of communication may be more flexible and varied. The flow of information may be both horizontal and vertical. The organisation structure becomes a good aid in identifying the sources of information and recipients of data, and may also tell as who is responsible for generation of information.

**d) Provides for coordination and balance**

By clearly delineating formal relation between different positions in the sales department, the sales organisation reduces confusion about the individuals role and responsibility. Since you will have to identify the types of activities to be performed, group them together and make specific persons responsible for the various jobs, while organising your sales department, you will be able to generate information that is basic to function of coordination. The answers to the questions, who is responsible for what and when, provide vital inputs in developing the coordination programmes for sales effort.

**e) Provides insight into avenues of advancement**

The personnel in the sales department look at the organisational structures as one of the indications of the direction in which their future careers may grow. A good use of the organisation chart may be made by the management, in communicating to the subordinates, the possible avenues of advancement. As the organisation grows, or as the personnel become more experienced in their present assignments, you may sometimes feel the necessity of moving personnel horizontally or even giving lower level sales employees a vertical jump in the organisation depending upon their merit. The fact however remains that the organisation chart depicts the normal promotion route to the subordinates.

**f) Economises on executive time**

As operations and activities in the sales department increase in number and complexity, delegation of authority becomes imperative. A sound organisation design allows effective use of specialisation so that executives may spend less time in operations and more on planning. In growing organisations, the need for effective coordination often results in limiting the number of subordinates who report directly to a certain executive. This span of control, however may vary widely over organisation depending upon the management orientation towards delegation, superiors abilities of coordination, qualities of the subordinates etc. Improvements in the efficiency and reliability of communication systems also encourage wider spans of control. One of the main purposes of all delegation is achieving economies in the use of executive time.

**Activity 1**

Study any two sales organisations, including the one you work for. Try to evaluate how the organisation structure has helped in



a) Developing specialisation

.....

.....

.....

b) Achieving coordination

.....

.....

.....

c) Achieving better communication

.....

.....

.....

### 14.3 DEVELOPING A SALES ORGANISATION

Sales organisations develop in response to market and company requirements. Primary to the development of a sales organisation is the identification of the expectations that the top management has in respect of the sales function and the place of the sales department in the total organisational structure. Figure 1 gives a step by step process of developing a sales organisation. The objectives of the sales organisation need to be defined in the light of the corporate objectives and may be both quantitative and qualitative. The step that follows is the identification of the necessary activities that need to be performed if these quantitative and qualitative objectives are to be achieved. The analysis of the type and volume of activities needed to be performed will lead you to an assessment of how many executive and operating positions would be required, and how would these positions relate to each other. Though the general sales activities to be performed may be similar in most companies, the relative volume and the emphasis that a firm may put on a group of activities will differ. A good key therefore would be to move backwards from the objectives statement and identify necessary activities.

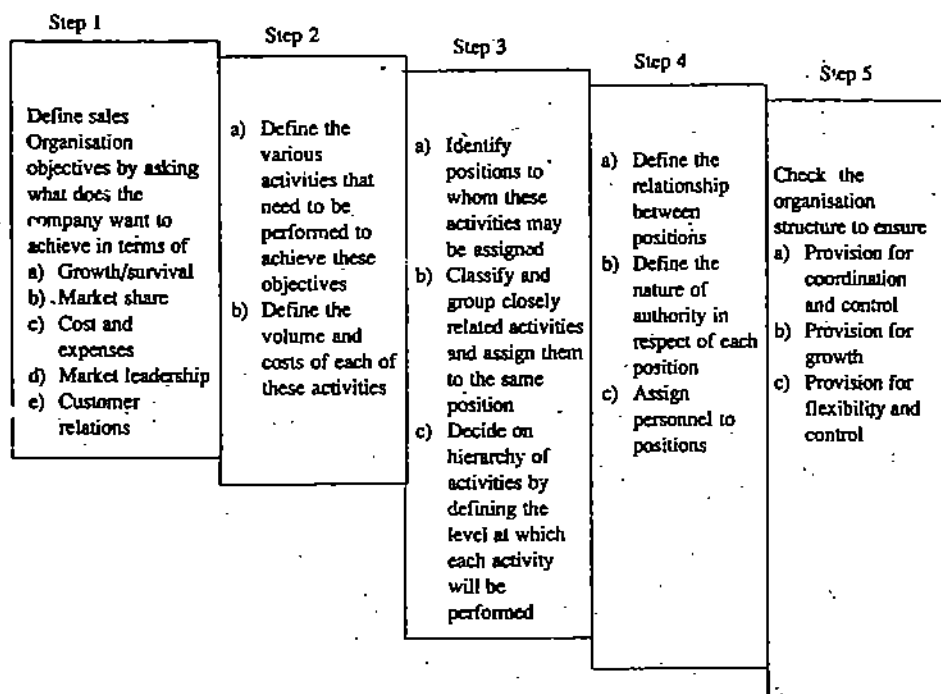


Fig. 1: Process of developing a Sales Organisation

Next, you must define the positional levels at which these activities will be performed. Similar activities and tasks will have to be grouped together and assigned the positions, such that each position has adequate tasks to perform which are also varied enough to provide challenge and motivation. The number of the different classes of activities assigned to a single position would depend upon the degree of specialisation associated with each position. The place of an activity in the hierarchy would depend upon the relative importance of that activity for the sales department, for example, in an organisation trying to sell a new product through middlemen, dealer relations becomes a crucial activity and has to be assigned to positions higher up in the sales organisation,

Once the different positions and the activities associated with them have been decided upon, these positions have to be assigned to personnel. An interesting dimension in sales organisation exercises has been whether to build positions around individuals, to take advantage of the special capabilities of a particular individual or to recruit individuals specifically to fill in the identified positions. The practice in the industry has been ambivalent. Usually the job requirements are general enough and allow the possibility of many individuals having the requisite qualifications. On the other hand, the organisation may have, or come across an individual with such unique sales-related qualities that it might be considered profitable to modify the job requirements to suit him or even create a position specifically for such an individual. Notwithstanding this, people charged with the planning of organisations prefer to let individuals adapt to, or acquire skills for particular position rather than building positions around individuals.

A decision that has to be taken along with the identification of positions, is that of the relationship between these positions in the organisation — how many individuals would a person have reporting to him, who shall be accountable to whom, which positions in the structure would have the authority to command and which shall only advise and guide. In other words, the delegation of authority, span of control and the lines of authority, both line and staff have to be decided upon. The span of control has direct bearing on the coordination responsibility of the higher level executives and care should be taken that it is not too wide to tax the capabilities of top management and lead to weaker coordination of subordinate activities.

Sales organisations have to be responsive to changing market trends, growth in both products and markets as well as to competitive requirements. While designing a sales organisation therefore a key consideration is the provision of flexibility, effective coordination procedures and defined lines of communication.

#### Activity

Assume that you are a manufacturer of a new food product which is yet to get a foothold in the market. The food is a vital diet supplement, with no direct competitors in the market. In trying to develop your sales organisation how would you,

- a) define the sales organisation objectives

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- b) identify the sales activities

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- c) decide the various positions

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## 14.4 CENTRALISATION VS. DECENTRALISATION IN SALES ORGANISATION

One of the key decisions in sales management is related to the degree of centralisation or decentralisation of the various sales functions. In centralised systems recruitment, training compensation and evaluation are all managed from the central headquarters; while in a decentralised system the field sales managers take up most or all of these functions. In organisations involving the use of a field sales force some decentralisation would obviously result, though the extent of it tends to vary across firms. The degree of centralisation or decentralisation in sales organisation may depend on size of operation, costs, effectiveness and competitive necessity.

When firms are small and have only a few sales people, operating from the corporate office may be more efficient and effective. As the size of the operations increases, a system of branch offices gradually emerges, to allow sales people to be more responsive to local consumer needs. Travel and other expenses go down. Decentralisation of operations in this case provides for greater freedom to the field sales managers allowing them to display initiative and managerial skill.

Most medium sized and large firms combine the advantages of both centralised and decentralised operations. Decentralised sales offices are utilized to ensure better customer service while training and part of recruitment function are centralised.

Managerial philosophy towards control and delegation is also an important variable affecting the extent of decentralisation of activities in sales organisation.

A recent development, which has affected the centralisation/decentralisation choice is the increased use of computers to process and handle sales data. As computers can process vast amounts of sales information at lower costs and much more speedily, the trend towards computerisation has encouraged centralised decision making.

## 14.5 BASIC TYPES OF ORGANISATIONAL STRUCTURE

You are familiar with the concept of line, staff and functional authority through your exposure to MS-1 and MS-6. Among the designs of sales organisations that prevail in Indian industry, line and staff are more common forms, while functional organisation is relatively rare.

No two firms would have identical sales organisation as their needs and expectations, markets and products, company size and marketing channels differ from each other.

The line sales organisation is the most basic forms of sales organisation, characterised by a chain of command running from the top sales executive down to the level of the salesman. All executives have line authority over their subordinates who in turn are accountable only to their immediate superior. Since lines of authority run vertically in this structure, executives at each level are generally independent of all others at the same level. Through assignment of quotas or sales targets, responsibilities are usually, clearly delineated. Figure 2 gives the sales organisation of liquor division of Jagatjit Industries Ltd., designed as a line sales organisation.

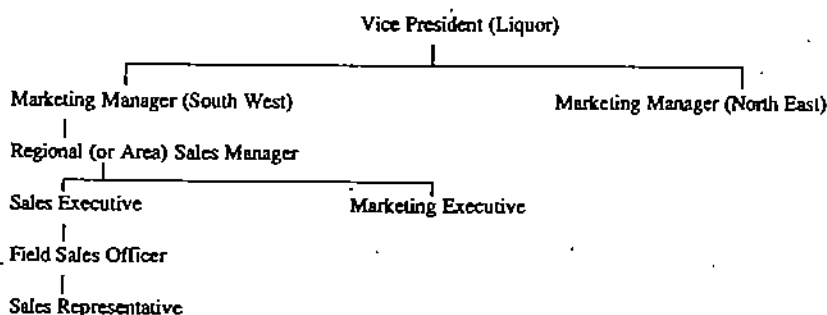


Fig. 2 : Line Sales Organisation

The liquor division is headed by the Vice President Marketing, who has two Marketing Managers looking after the South West region and North East region, reporting to him. The marketing manager has a line authority over a number of Regional and Area managers who in turn control a field staff of sales executive, field sales officer and sales representatives, each level connected to the subordinate level by scalar lines of command.

Line organisation is extensively used in smaller firms or those dealing in a narrow product line, or selling in a limited geographic area.

The line organisation places great demands on the time and abilities of the top sales executive. You can realise that with all field reporting finally coming to him through his subordinate/area sales manager, most of his time would be taken up by the task of sales supervision and direction leaving him with little time for planning and policy making. As the line organisation has no subordinate specialists, the top sales executive needs to be a person with outstanding ability and all round knowledge of every facet of the sales function. Since operational details of managing the sales department take up a large part of the line executive's time, he is at times forced to take decisions without benefit of adequate planning.

Line organisation also becomes inappropriate in case of rapidly growing organisations or those with large sales staffs, as growing departments necessitate additional layers of executives to be added. Increase in vertical levels is often accompanied by distortion directions and reduced efficiency of communication, resulting in poorer results.

Line and Staff organisations usually result as the size of the operations grows. It is characteristically found in medium and large firms with sizeable sales staff selling diversified product lines. The line and staff department is differentiated by the presence to staff specialists or staff assistants to advise and assist the top sales executive. These specialists are experts in their own fields which could be sales training, service, sales analysis and planning, dealer relations, sales promotion, sales personnel development and so on. While staff executives and assistants do not have the line authority to command, they advise the line executives through recommendations and provide the benefit of specialisation in the organisation. The inclusion of the staff component frees the line executive from the burden of detail. By delegating problem involving in depth study or detailed analysis to staff specialists, the time executive gets more time for policy making and planning. A pool of experts becomes available for providing advice and assistance in specialised fields. The activity of planning can also be subdivided and assigned to staff specialists. More information is also made available for better decision marketing. Figure 3 gives the sales organisation of Prentice Hall of India Ltd. which has both line and staff components.

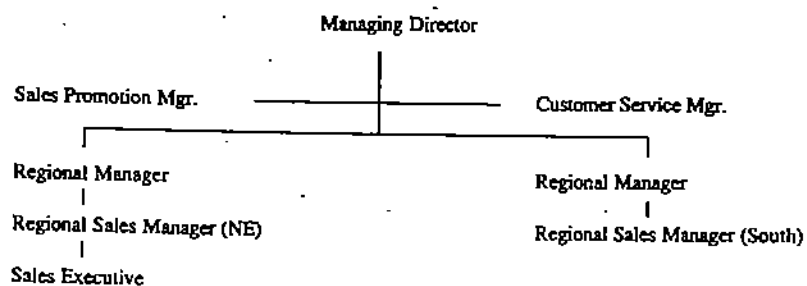


Fig. 3: Line and Staff Organisation

The organisation is headed by the Managing Director who has, reporting to him line managers called Regional Managers and staff managers who look after the staff functions of customer service and sales promotion. The Customers Service Manager is basically incharge of feeding in information and facilitating procurement of international editions for the organisation. He advises the line managers on the suitability of the various international editions and keeps them informed about the developments in this field. The sales promotion manager performs the advisory function with respect to the sales promotion activities of the organisation and coordinates with the Regional Sales managers as to the promotional needs. The Regional managers are the line executives who are accountable for the operating results in their territories and control their own field staff of sales executives and salesmen.

The problem that arises with line and staff organisation is basically one of the coordination. The work of the staff specialists needs to be actively coordinated with the operations of the line department and generally a lag develops, as reports and recommendations take time to compile.

Line and staff organisation also sometimes generate problems of interpersonal relations. The staff executives tend to overstep their advisory authority and try to assume and sometimes succeed in assuming the authority to issue orders and directions. This presents difficulties of dual subordination and may create confusion. The fact that staff specialists do not share direct responsibility for results is also resented by some line executives. Experience has shown that to a large extent these problems can be minimised if all areas in which line and staff executives have to share authority and responsibility are specifically written down as components of the job description.

The functional sales organisation is aimed at utilizing the benefits of specialisation to its fullest extent. In the functional sales organisation, all sales personnel receive direction from, and are accountable to different executives, on different aspects of their work. Somewhat in contravention to the principle of unity of command, the functional organisational structure gives all executives, each a specialist in his own field, a direct authority to command and issue orders to his functional authority therefore, simply means that at any given time, a sales person could be under instruction from a number (depending upon the functional specialisations set up) of executives. The top sales executive has coordinating responsibilities in respect of the actions of functional heads (as shown in the following figure each sales person is under direction of several executives) functional organisations have not been found to be a very appropriate structure for sales organisation. In larger firms where the size of the sales force is substantial, the degree

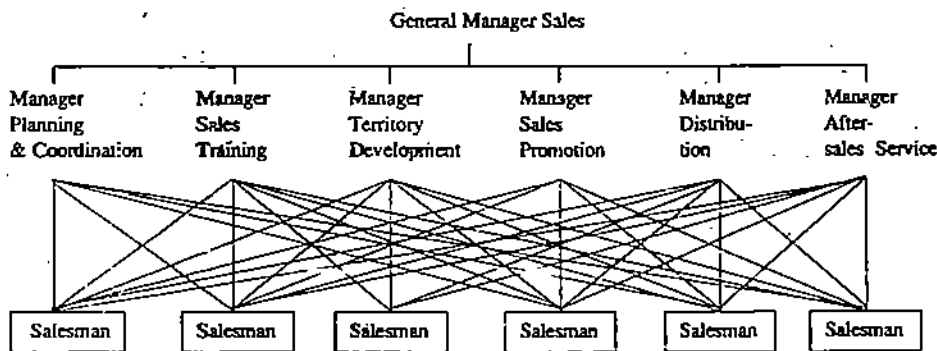


Fig. 3 Functional Sales Organisation

of centralisation necessitated by the functional organisational structure, renders the operation inefficient. Smaller and medium sized firms on the other hand find the system expensive because of the high degree of specialisation. Another weakness of the structure is that burden of coordinating the activities of highly diverse specialists is placed on a single individual. In case that individual is not capable enough in this regard, the whole structure is likely to become cumbersome and ineffective.

### Activity 3.

Study the sales organisations of a few companies, including the one that you work for. Try to analyse the organisation structure in terms of whether it is line, line and staff or functional organisation. Do you think any changes in the present organisational structure of the sales departments in these companies would improve their effectiveness? What could these changes be?

## 14.6 DEVELOPING TERRITORIES

Designing sales organisation is incomplete till territories are formally defined, because a territory is a defined part of the company's sales potential from present accounts and prospective ones that can be specifically assigned to a sales person. These accounts and prospects may be grouped to form territories according to their geographic location, industry, product use, method of buying, or channel of distribution. As a result of territorisation, organisations can achieve better coverage because it permits better planning, proper coverage of potential markets, efficient call patterns, better customer service, clearer statement of responsibility and the opportunity to match representatives to accounts. Some services, such as insurance, stocks and mutual funds are sold on the basis of social and personal contacts and such firms prefer not to develop sales territories.

The companies which opt for territorial development, design territories on the basis of sales potential or sales representatives' workload. Though in practice territories may be established arbitrarily by assigning each person a few states or cities, most of the firms today develop their territories on rational bases to maximise market coverage and sales returns. The steps followed in developing territories are discussed below.

### Determination of Basic Control Unit for Territorial Boundaries

The first step in developing a territory is to select a geographical control unit to serve as a territorial base. Commonly used units are states, countries, cities, metropolitan areas, and trading areas. A typical territory may comprise several individual units. One person's territory may consist one metropolitan area, another's may be of many districts. The unit should preferably be small because it aids the management in realizing one of the basic values of territories — the geographic pinpointing of potential. Further, the use of small control units makes it easier for management to adjust the territories.

If an organisation wants to add a little to one person's territory and reduce another's, a district unit facilitates the adjustment better than a state unit.

The political units (state, country, or city) particularly states are still used extensively as a basis for territorial boundaries. This is simply because of the availability of statewide market data. However, a marked change has occurred in their manner of use. Other market factors, such as customer buying habit and normal patterns of trade flow are also now considered in defining territories.

### Deciding on Allocation criteria

After the basic control unit has been determined, various allocation criteria may be employed by the sales manager in defining them into viable sales territories. These criteria may include basic factors like equality of opportunity, quantitative factors related to sales and potential or qualitative factors like the ability and preferences of the sales force. The idea of 'equality' in some measure appeals greatly to both sales managers and sales personnel, as it generates a sense of fair play. Further, approximately equal territories makes it easier for the sales executive to identify and reward outstanding performance.

Although equal opportunity territories are desirable, they are difficult to achieve in practice. A few firms deliberately create territories with varying workload and size, with the objective of keeping the smaller sized territories for sales trainees, a large number of middle sized territories for the experienced sales persons and a few large territories for the senior sales personnel.

There are two quantitative methods popularly used to design sales territories. One is based on the estimates of workload in the territories and the other on the estimates of sales potential. Using these methods, firms try to design territories which are either equal in workload or equal in terms of sales potential. Estimates of present rupee sales in a given area should not be used as a basis of defining territories as they do not furnish enough information on workloads and ignore potential.

### Choosing a starting point

The next step in designing a territory is to select a geographical location to serve as the organising point for the new territory. A common starting point is a large city, the sales person in an urban location has access to a large number of customers and needs less

transportation. Another alternative is to design the sales territory around the needs of major clients, i.e. the location of the largest customer in an area might be selected as the house base for the sales person and other areas are then added to complete the territory.

### Combining of Adjacent Units

After the starting points have been selected, the next step is to begin combining basic control units to get viable sized territory. To do this effectively, the manager needs to keep getting the aggregate estimates of the allocation criteria for each new territory. If the number of customers per district is the criterion, the manager first combines the districts adjacent to each starting point and keeps a track of the total number of customers in each territory. Then he assigns districts in between different starting points to balance the number of customers across new territories. The process of assigning districts to starting points continues till all control units are assigned to individual sales people. After the initial allocation of control units to the starting points is completed, the sales manager then compares the territories in terms of other criteria. In our example, since the territories have been designed such that they should have equal number of customers, the manager would need to see how they compare in terms of size. If there is a marked imbalance, he would try to switch the border districts to improve initial allocation. Size, however is not the only criterion used. The new territories need to be balanced on several criteria i.e. number and dispersion of customers, sales potential, geographical and climatic conditions etc. You will read more about these aspects of territory management in Unit 9 of this course. The two quantitative methods of territory development, the build up method and the breakdown method have also been discussed in detail in Unit 9.

### Assigning Territories to Sales People

Having developed sales territories, management is in position to assign districts to individual sales people. One must keep in mind that in any given sales force, the sales people differ in their selling effectiveness. Representatives also vary in experience, age, physical condition, initiative and creativity. Still in assigning territories management aims at placing each sales person in the district where they will contribute the most to the company's profit over the long run.

This general principle however is not simple to follow in practice. There may be situations where territories of equal size or approximately equal workload may vary in potential. Conversely, if management has been able to design territories with equal potential, the members of its sales force may differ in their relative sales abilities.

Another situation may be where management does not feel inclined to relocate sales personnel in order to prevent the disruption of established customer relationship. In still other cases certain personnel are not transferable but others can be freely relocated from one territory to another. This would mean that in certain cases the territories are redesigned to fit the ability levels of non-transferable personnel while in others sales persons are assigned to territories considered suitable to them. Coming back to the general rule however, the sales management will try to achieve optimum territorial arrangement which would result when the incremental sales per rupee of sales expenditure are equated for all territories.

Let us try to understand, through an illustration, how, in different situations, redesigning relocation may have implications for profit contribution.

**Consider Situation 1:** Where the sales potential of the territories is equal but the salesmen differ in their abilities

Territory	Sales potential	Salesmen to be assigned	Ability index	Expected* sales	Expected profit contribution (20% of sales)
1	Rs. 20,000	X	1.0	20,000	4000
2	Rs. 20,000	Y	0.7	14,000	2800
3	Rs. 20,000	Z	.65	13,000	2600
Total	Rs. 60,000			47,000	9400

\* Expected sales per territory are obtained by multiplying the sales potential with the ability index per sales person.

**Now consider Situation 2 :** Where the management in order to improve profit contribution redesigns sales territories and allocation, so that, the sales potential of the

territories varies directly with the abilities of the sales personnel. The total potential still remains the same.

Territory	Sales potential	Sales person assigned	Ability index	Expected sales	Expected profit contribution (20% of sales)
A	25530	X	1.0	25530	5106
B	17870	Y	.7	12509	2501.8
C	16600	Z	.65	10790	2158
Total	<u>60000</u>			<u>48829</u>	<u>9765.8</u>

We see that redesigning territories so that territory potentials are proportional to the abilities increases the profit contribution from Rs. 9,400 to Rs. 9765.80. We have made an assumption that the ability index of sales personnel remains the same regardless of the territory in which they operate, which may not be true. Sales personnel have different effectiveness in different territories depending upon their adjustment to the environmental conditions in the territories. In case the change, in effectiveness, with different relocations is appreciable, the management may find the relocation task considerably more complex, trying to arrive at an assignment pattern which would maximise total profit contribution. Linear programming and computer programming is then utilized to solve the assignment problem.

#### Routing the Sales Force

After management assigns territories, a formal pattern has to be established for sales representatives to follow as they go through their territories. This pattern is usually reflected on a map or list that shows the order in which each segment of territory is to be covered. It does not mean that routing is done only at some executive level, often firms ask its sales people to prepare their own route schedules as part of their job.

#### Activity 4

Analyse any two sales organisations which have developed sales territories and try to find out

- a) What are the basic control units and how were they determined?

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- b) How was the sales potential in these units estimated?

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- c) What method was used to determine basic territory?

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- d) How were territories assigned to sales personnel?

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## 14.7 FIELD SALES ORGANISATION

In most companies utilizing direct selling to retailers or consumers the development of a field sales organisation, sooner or later becomes a necessity. A field sales organisation consists of all sales personnel working away from the head office, and would include the travelling salesman, the sales supervisors, the branch and Area Managers as well as the support staff in these branch and area offices. The major purposes of setting up a field sales organisation are more adequate market coverage control of sales expenses. Better coordination with regional requirements, and in case of new products, more vigorous market cultivation.

## 14.8 SPECIALISATION IN A FIELD SALES ORGANISATION

The field sales forces are typically organised on the basis of geographic, customer or productwise specialisation, with many sales organisations combining customer and product specialisations with geographic territories.

**Geographic Specialisation :** The most common pattern of organising a sales force is by geographic territories where sales personnel are assigned to a specified geographic area, and will sell only to customers in that area. For example Figure 4 shows the field sales organisation of Food Specialities Limited, where the whole of the country has been divided into four areas and put in charge of Area Sales Managers. These areas representing North, South, West, and East regions are Delhi, Madras, Bombay and Calcutta. These major divisions are further divided into smaller geographical territories which are covered by Area Sales Officers. The area sales officers have in turn reporting to them area sales representatives who look after customers in the specific area assigned to them.

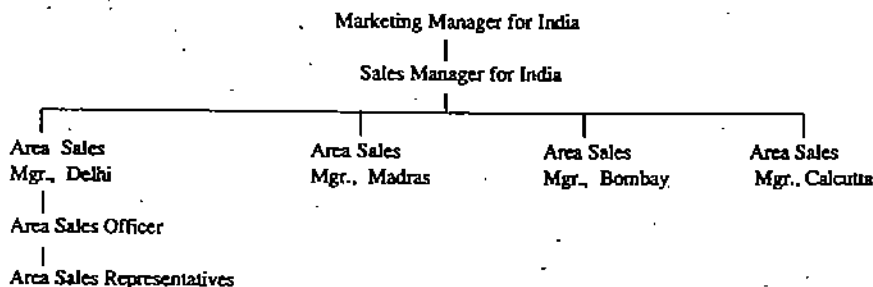


Fig. 4 : Geographic Specialisation of field sales organisation

A major advantage which characterises the geographic organisation is that the sales personnel usually have a smaller area of operation than in the other organisational schemes and over a period of time get to know their customers and markets intimately which can lead to intensive market cultivation. The organisation becomes more responsive to local needs. The geographic organisation is generally a flat rather than tall organisation and the shorter lines of communication make for greater effectiveness of supervision and control. Another advantage that follows is that travel time and expenses can be reduced if call patterns are properly devised. On the other hand, because of multiple offices being set up, administrative expenses and the burden of coordinating the sales activities of a widespread organisation become heavy. Geographic organisation is generally more effective when the product line is not too wide or consists of relatively simple, non-technical products.

The disadvantage with geographic specialisation is that the sales persons need to be responsible for the entire product line in their territory and they may not be equally knowledgeable about all products. Further within the territory, they may choose to concentrate on products and customers that are easy prospects.

**Product Specialisation :** Product specialisation is usually called for when the product line is large and diverse or when the products are technical enough to warrant specialised

applications knowledge, or when adequate technical knowledge is an important determinant of successful selling. Product specialisation is generally combined with geographic territorisation at the higher levels, while at the level of the field operators, different salesmen may be assigned to specific product lines. Instead of selling the entire product line in a specific territory, a salesperson assigned to a particular product/product group, will sell only that product to the customers in that area. Given below is the example of a company selling office equipment ranging from typewriters to computers. The initial geographic division is followed by product specialisation at the field personnel level.

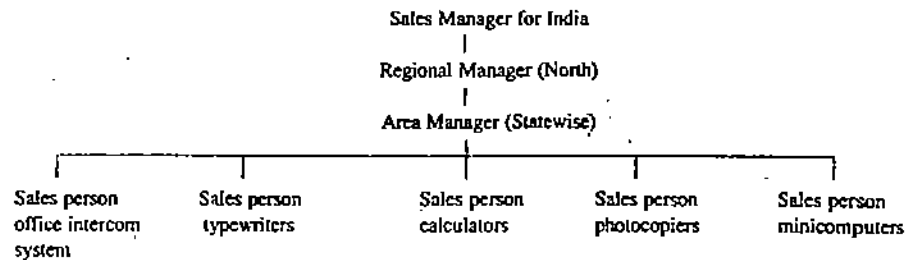


Fig. 5 : Product Specialisation of the Field Sales Force

In the above example since the product line is both technical and diverse, it is not possible for one sales person to acquire enough technical knowledge to sell the entire product line successfully. Product specialisation, as shown above would allow the sales personnel to specialise in their respective product lines which in turn would result in more effective sales performance. Customer queries and sales resistance can be handled more effectively on account of intensive product knowledge. On the other hand, each salesman in the above example would have to tour the entire state, which would result in higher travel time and expenses.

Even when the product line is not too technical but the product range is wide enough, organisations find splitting the sales responsibility productwise a more effective arrangement. At Dabur, which produces a very wide range of health and personal care products the sales organisation has initially been divided geographically but the field operators have been given charge of different product groups. The company has divided its product line into two major product groups i.e. health care products and family use products. Even though two salesmen may be assigned to the same territory, each will be responsible for only the product group assigned to him. The sales organisation is given below in Figure 6.

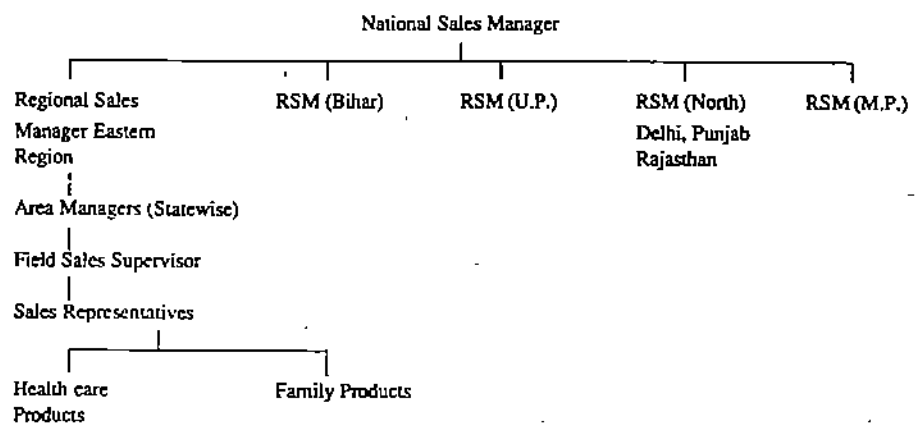


Fig. 6 : Product Specialisation in Sales Organisation

Organising the sales force by product specialisation generates additional expenses which should be carefully weighed against the benefits of such a structure. There is an obvious increase in travel and administrative expenses. There is some duplication of effort also as two salesmen from the company selling different products in the same territory may call on the same customer to which many customers may object.

**Customer specialisation :** Customer specialisation is practiced in situations when almost identical products are marketed to consumers each of which may present a

different set of selling problems. In this kind of organisational scheme each sales person sells the entire product line to the selected buyers. The sales organisation of Modi Xerox, a manufacturer of photocopiers is organised by customer specialisation. As the figure below shows, each Branch Sales Manager controls 3 Sales Managers — Major Accounts who in turn have reporting to them Major Account Managers. Each Major Account Manager is given the charge of a certain number of customers (accounts) and is supposed to service all their requirement with respect to the company's products.

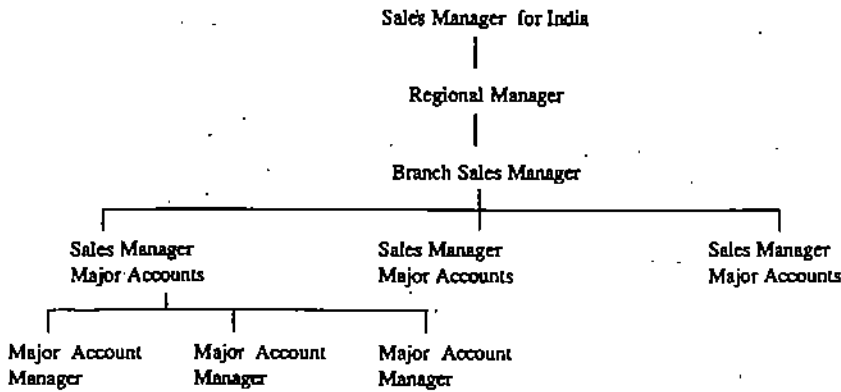


Fig. 7 : Customer Specialisation In Sales Organisation

Customer specialisation enables the sales persons to become more knowledgeable about the unique problems and needs of each group of customers. A customer oriented sales force is consistent with the marketing concept with its increased emphasis on consumer satisfaction. The greater market specialisation developed as a result of constantly working with the same set of consumers imparts a degree of professionalism to the sales task and has been found to result in lower turnover of sales personnel.

The main disadvantage of this form of specialisation is that geographical territories may typically overlap. There may be a number of the company's representatives covering the same geographical area, but serving different customers, often resulting in higher costs.

Geographic, product and customer specialisation present the basic approaches to organisation structure. As is evident from some of the examples given above quite a high proportion of organisations use a combination of these basic types, in order to achieve a sales organisation that most efficiently serves the needs of their target customers.

**Activity 5**

Study one sales organisation each with product specialisation, geographic specialisation and customer specialisation. Analyse and discuss.

a) Which factors resulted in the choice of this particular type of specialisation in each case?

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b) What are the specific benefits that the firms derive from their respective sales force specialisation?

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## 14.9 ROLE OF THE SALES EXECUTIVE

After going through the section on sales organisation, you are now aware that within the marketing organisation, the sales operations are usually put under the charge of a sales executive. Depending upon the organisation practice this position may be given different nomenclatures viz. Vice President Sales, Sales Manager, Corporate Sales Manager, National Sales Manager or Sales Executive. This section on role of Sales Executive is designed to give you an understanding on the type of responsibility the sales executive is expected to undertake in an organisation.

Sales management function in an organisation is mainly concerned with the attainment of goals related to sales volume, contribution to profits and sustained growth of the company. The sales executive who is in charge of the sales operation carries the major burden of this responsibility and is expected to make a significant contribution to these general objectives.

The American Management Association's definition of sales management, given below, gives a fair idea of the scope of the role the sales executive is expected to play in an enterprise, with respect to the sales force management.

"Sales management is the planning, direction and control of the personal selling activities of a business unit including recruiting, selecting, training, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force."

Present day sales managers however have considerably wider responsibilities than merely personnel related ones. Within and outside the organisation, they are responsible for managing the entire sales effort and coordinating it with related marketing activities as well as the overall marketing strategy. Internally, the sales executive is expected to structure formal and informal relationships to ensure effective communication within the sales department as well as with other organisational units.

Outside the company he is expected to develop and coordinate effectively with distribution network, and serve as a contact for external publics and customers.

As a line executive in charge of a vital operation, the sales executive is responsible for timely preparation of information critical to marketing decisions related to budgeting and cost planning. Depending upon the corporate policies which may vary over organisations, sales executives are also expected to participate in decisions on promotion planning, distribution channels and pricing. A sales executive therefore acts both as an operating manager and a member of the strategic planning group in the organisation.

The role and functions of the sales executive have undergone a marked change over a period of years. Through your exposure to Unit 1 Block 1 of MS-6 you are familiar with the changes in marketing orientations vis-a-vis the stages of economic development. With the changing orientation to marketing, the top management's conception of the sales job has undergone a change and accordingly the role of the sales executive has also been shifting. Some of the factors, apart from the changing marketing orientation, affecting this trend are greater concern over personal development of salesmen, a higher degree of professionalism in personal selling and the greater use of computers in sales management. Table 1 gives a representation of the changing emphasis in sales management in this century.

Table 1 : Changing Emphasis in Sales Management

	1910-1930	1940-1950	1960-70	80 onwards
Business response to perceived dominant environmental conditions	Production orientation	Sales orientation	Beginning of marketing orientation	Marketing orientation
Emphasis in management's conception of the sales job	Personality art	Systematic salesmanship (also referred as scientific) salesmanship	Professionalism	Personal fulfilment coordination with total marketing task
Emphasis of sales management	Tight supervision and control	Broadening responsibilities	Strategies and profits	Total human resource development

Source : Adapted from Leslie M. Dawson "Towards a new concept of Sales Management in Modern Marketing and Sales Management" ed. M.K. Singh, Anant Mahadevan, Discovery Publishing House, 1989.

### Functions of the Sales Manager

This changing emphasis in the role of the sales manager has implications for nearly all the aspect of his personnel related as well as other responsibilities. Let us briefly discuss the functions performed by a sales executive. The sales executive basically performs two distinct kinds of functions the operating functions and the planning functions. Figure 8 below gives the list of these functions.

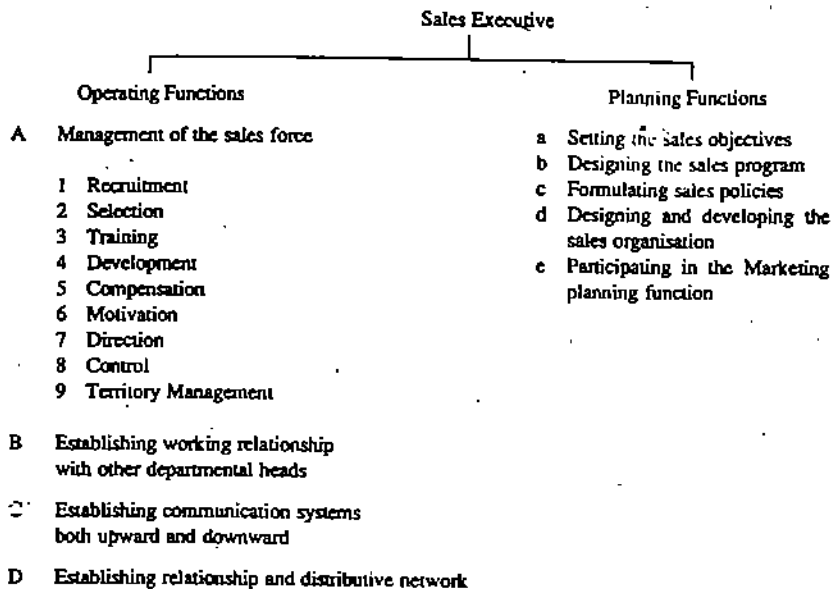


Fig. 8 : Functions of a Sales Manager

The relative emphasis given to the operating and planning function by a sales executive varies across organisations. Some of the determinants of the allocation of his time between the two types of responsibilities are the size of the company, the type of product and the top management's expectations from the sales executives. Generally the smaller the size of the company, the greater the tendency on part of the sales executive to devote more time to the operating function. In case of industrial products, operating functions take up a greater part of the sales executives time while the trend is reversed for consumer goods. Again, the extent to which the top management expects the participation of the sales executive in the strategic marketing planning also affects the time spent on the planning functions.

You will study the operating and planning functions of the sales executive in detail in Units 4, 5 and 6 of Block 2 of this course. Here let us discuss the role of sales manager as a coordinator, which is one of the important aspects of his position in the organisation.

#### Sales Manager as a Coordinator

In order to be effectively discharged, the sales function needs to be closely coordinated with related functions like pricing, promotion and distribution. An important responsibility that the sales manager has is to coordinate personal selling with the functions so that the overall marketing programme may be made more effective. Let us briefly discuss the coordination function of the sales executive.

#### Coordination with Promotion Management

Though sales managers are not directly responsible for designing the promotional policies, they provide valuable inputs in their formulation. Coordinating the promotional functions with the activities of the sales organisation is imperative because not only are the two functions interdependent, the sales executive is also responsible to quite an extent for the implementation of the promotional programmes. Sales personnel have to be responsible for coordinating dealer effects with advertising programs and for getting their cooperation for point of purchase displays.

The sales executive must also ensure that sales personnel are fully informed about the latest advertising and other promotional campaigns so that they can maximise the total promotional effort. Further, the role of personal selling, an important ingredient of the promotional mix needs to be coordinated with the rest of the promotional mix elements

in terms of total promotion cost and the expectation from personal selling. In particular, advertising efforts needs to be synchronised with personal selling, to enable the latter to capitalise on it.

**Coordination with Distribution Channels**

You have already read about the interdependence of sales and distribution function in Unit 1 of this Block. The important areas of dealer activities which need to be coordinated with the sales effort are: gaining distribution support and overcoming obstacles to product distribution, ensuring dealer identification, reconciling sales and distribution goals and sharing promotional tasks with the dealer. Even if advertising of the product has been successful in creating a pull for the company's products, no sales will result if final buyers do not have information on the local outlets that stock the product. Dealer identification becomes even more crucial in case of new products.

The perception of business goals may differ between the channel members and the manufacturing organisation and this may lead to conflict between the two entities. Through coordination between the activities of the dealer and those of the organisation, sales executives can prevent this conflict to a certain extent. Regular sharing of information with the middlemen regarding the company programmes and policies, goes a long way in reducing disharmony. Similarly, by making the information about dealer activities and needs available to the organisation, the sales executive can ensure that the organisation will be in a position to render promotional and other assistance to the middlemen.

**Coordination with the Pricing Function**

Though the sales manager's role in formulating pricing policies is only advisory, he is responsible for the implementation of the pricing policy. As price is an important variable affecting sales, all price changes need to be coordinated with sales policies as well as with related areas like distribution. The sales executive because of his intimate knowledge of the market and market behaviour, becomes an important source of information when changes in pricing policies are being planned. On the operational side, compensating changes in the marketing mix need to be made to offset the negative impact of the price change: the advertising campaign may need to be changed, sales presentations may need to be altered, even packaging may need to be changed to justify the price rise. In order to make it a coordinated effort, however, the sales executive would need to coordinate the personal selling activities with the pricing changes and its resultant effects.

**Activity 5**

Talk to sales executives of five organisations, at least two of them manufacturing industrial products, and study them to find out

- a) What are their operating and planning functions?

.....  
.....  
.....  
.....  
.....

- b) Does the proportion of time executives seem to allocate to planning and operating functions differ with their organisations? If yes, what do you think are the determinants of this variation?

.....  
.....  
.....  
.....  
.....

- c) What is the nature of the coordinating responsibility that the sales executive has in these organisations?

.....

.....

.....

.....

.....

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## 14.10 SUMMARY

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Sales management performance depends in part on the effectiveness of the sales force organisation. The organising process seeks to accomplish three basic tasks.

- 1 Identifying sales force goals and objectives
- 2 Assignment of specific tasks and responsibilities
- 3 Integration and coordination of these activities with other functions in the firm.

In this unit, we have discussed the need for sales organisation and the process of developing it. The basic types of sales organisations and the different specialisation of the sales force have also been discussed. The unit also gains an exposure to the design and development of sales territories. The last section deals with the role of the sales executive in a sales organisation.

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## 14.11 KEY WORDS

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**Span of control :** The number of employees who report to an individual at the next higher level in an organisation.

**Line organisation :** The simplest form of organisation structure where every superior has an authority to command his subordinate.

**Line and staff organisation :** The organisation structure which is characterised by some line executives who are given the authority to order and some staff executives who have an advisory role to play.

**Functional organisation :** An organisation structure where an individual receives instruction from different specialists on different aspects of his job.

**Territory :** The geographical area a sales person is assigned to cover.

**Routing :** Deciding the formal pattern of travel the salesmen are expected to follow.

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## 14.12 SELF-ASSESSMENT QUESTIONS

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- 1 Discuss the process of developing a sales-organisation. What are the factors which affect the size of the sales organisation?
- 2 Analyse the factors that favour centralisation of sales activities.
- 3 What are the relative advantages of a line sales organisation and line and staff sales organisation?
- 4 What are the bases used to design sales territories?
- 5 How can redesigning territories or reallocating territories affect total profit contribution from sales territories?

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## 14.13 FURTHER READINGS

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Richard R. Still, E.W. Cundiff, N.A.P. Govoni, 1978. *Sales Management: Decisions, Strategies and Cases*, Prentice Hall of India Pvt. Ltd.: New Delhi.

William J. Stanton and R.H. Buskirk, 1987. *Management of the Sales Force*, Irwin Homewood: Illinois.

Henry Mintzberg, 1979. *The Structure of Organisations*, Prentice Hall: Englewoods Cliffs N. J.



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## UNIT 15 SALES FORECASTING AND SALES QUOTAS

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### Objectives

After studying this unit you should be able to :

- suggest the importance of sales forecasting and sales quotas for territory management
- describe some of the managerial issues concerning sales forecasting
- explain the importance and types of sales quotas, and how they are established
- discuss some of the attributes of effective sales quotas.

### Structure

- 15.1 Sales Forecasting – Introduction
- 15.2 Sales Forecasting : A Quick Recapitulation
- 15.3 Managing Sales Forecasts
- 15.4 What to do When Sales Forecasts Differ?
- 15.5 Monitoring the Sales Forecast
- 15.6 Sales Forecasting for New Products
- 15.7 Sales Quotas – Meaning and Importance
- 15.8 Why Quotas?
- 15.9 How Quotas are Set?
- 15.10 Attributes of a good Sales Quota Plan
- 15.11 Summary
- 15.12 Key Words
- 15.13 Self-Assessment Questions
- 15.14 Further Readings

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### 15.1 SALES FORECASTING - INTRODUCTION

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The following discussion on sales forecasting is an extension of Unit 6 of Ms-6 on sales forecasting. Besides a quick recapitulation of the aspects covered in the referred unit, managerial practices of refining the sales forecast are given next. This is followed by discussion on sales forecasting for new products.

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### 15.2 SALES FORECASTING : A QUICK RECAPITULATION

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Sales forecasting is an estimation of projected sales for a time period. Simply speaking, the process of sales forecasting involves reviewing performance, history of the product or service, and relates it to the marketing and sales effort of the firm within the anticipated market environment (economic, competitive, technological, public policy etc.) and buyer behaviour.

Sales forecasts are time span related and therefore are termed as, short term forecast — covering time period of upto a year, medium term forecasts—for a time period of around five years. The exact time period for which a forecast is developed is dependent on the product/ market characteristics as well as the purpose for which it is developed and hence may vary from company to company. Notwithstanding thus the longer the time span covered, the more qualitative will be the forecast, and the shorter the time span covered, the more quantitative the forecast.

Time series (trend fitting, moving average), correlations and regression, customer/dealer surveys and executive judgement are the most commonly used methods for preparing sales forecasts. The selection of the appropriate forecasting method(s) depends upon (i) its purpose (ii) availability of reliable and relevant data and (iii) market conditions. For increased usefulness, the overall sales forecasts should be broken down by product, month, territory, geographical area, and segmentwise as per the needs of the company.

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### 15.3 MANAGING SALES FORECASTS

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The pay off of sales forecasting lies in the accuracy of the forecasts made. Since the attainment of sales forecasts require the deployment of resources in its anticipation, the manager must do his best to make the forecast come true. Evaluation of the approach and methods used for sales forecasting as well as monitoring of the actual and its comparison with the estimated performance form part of the regular activities of the manager.

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### 15.4 WHAT TO DO WHEN SALES FORECASTS DIFFER?

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Many a firms in order to minimise the error factor in sales forecasting, use multiple experts and approaches. At times this results in varying levels of sales forecasts under the circumstance, the manager may examine the differing forecasts by :

- Probing into the methodology of sales forecasting adopted by different experts.
- Looking into definition and scope of the terms used in the construction of the forecast.
- Pooling of wisdom of the experts and arriving at the most agreeable level of forecast.
- Conducting retrospective – prospective analysis of the suggested levels of sales forecasts using fine tuned historical data and executive judgement.

Experience brings out that the sales managers who have detailed market knowledge, and their companies the comprehensive marketing information system providing data on product, customer and segmentwise basis of their competitors sales, succeed in making more accurate sales forecasts.

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### 15.5 MONITORING THE SALES FORECAST

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As the sales realize for the operating period these should be monitored at a regular periodicity. The unfolding of market reality often creates the need to adjust the sales forecast. Business prudence desires that in the case of annual sales forecast, these be thoroughly reviewed at least on a quarterly basis and if need be corrected too. A similar review on an annual basis in the case of long-term forecast is felt necessary. In the process of carrying out corrections in the sales forecast emphasis should be laid on diagnosing the causes warranting such corrections so that the accuracy level of sales forecasts be improved. In any case a strong justification must be made for modifying the sales forecast so that suitable adjustment in the marketing and sales strategy be also carried out.

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### 15.6 SALES FORECASTING FOR NEW PRODUCTS

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Unlike the established products, forecasting of the sales for new products is more difficult. Depending upon the degree of similarity/dissimilarity with the existing products, sales forecast for new products are based on :

- Past records and experience
- Study of competing product's demand

- Market research findings
- Test market results
- Demand behaviour of substitute products and rate of substitution.

In addition, sales curve of such a new product in foreign markets and its analysis on a product life cycle basis provides meaningful insights.

In the case of a totally new product, a close watch on the actual sales alongwith the experts opinion, lessen to some extent the otherwise impossible task of developing reliable forecasts for such products.

**Activity 1**

Check whether the following statements are true or false :

Statement	True/False
1) A firm's sales potential and its sales forecast are normally identical	.....
2) Projecting past sales is totally unreliable for use in sales forecasting	.....
3) The key limitation of all past-sales projection methods lies in the assumption that past sales history is the sole factor influencing future sales	.....
4) Deriving a company sales forecast from an industry sales forecast requires an appraisal of company strengths and weaknesses against those of competitors	.....
5) Sales forecast of totally new products can be developed with equal degree of accuracy as of established products	.....

**Check Your Answers**

1 (True), 2 (False), 3 (True), 4 (True), 5 (False)

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## 15.7 SALES QUOTAS – MEANING AND IMPORTANCE

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A sales quota is a quantitative goal assigned to a sales unit relating to a particular time period. A sales unit may be a sales person, territory, branch office, region or distributor. Sales quotas are used to plan, control and evaluate selling activities of a company. They provide a source of motivation, a basis for incentive compensation, standards for performance evaluation of sales person and uncover the strengths and weaknesses in the selling structure of the firm. For example, a company manufacturing electronic office equipment discovered that it took twice as long as to sell an electronic typewriter than to sell other similar products in the product line. Since the electronic typewriter was considered more important by company, quotas on the electronic typewriter were set for each sales person. The result was that a sales person in a control group having a rigid electronic typewriter quota outsold the uncontrolled quota group. This example shows that generally speaking sales persons are quota achievers and their motivation may fall off if easy or no quotas are set for them to achieve.

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## 15.8 WHY QUOTAS?

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Sales quotas serve several purposes. The principal purposes include.

**Providing Goal and Incentives :** Quotas provide sales persons, distributive outlets and others engaged in the selling activities, goals and incentives to achieve certain performance level. Many companies use quotas to provide their salesforce the incentives of increasing their compensation through commissions or a bonus if the quota is surpassed and/or recognised for superior performance. Needless to mentio

to be true motivators sales quotas, set should be perceived as being realistic and attainable.

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

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

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

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

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## 15.9 HOW QUOTAS ARE SET?

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

There are four types of quotas :

- i) Sales volume quota
- ii) Financial quota
- iii) Activities quota
- iv) Combination of the above quotas.

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

**Sales Volume Quotas :** The most commonly used quotas are those based on sales volume. This type of quotas are set for an individual sales person geographical areas, product lines or distributive outlets or for any one or more of these in combination. Sales volume quotas are also set to balance the sales of slow moving products and fast moving products or between various categories of customers per sales unit. The sales volume quotas may be set in terms of units of product sales, or rupee sales or both on overall as well as productwise basis. Some companies combine these two and set quota on "Point" basis. Points are awarded on the attainment of a certain specific level of sales in units and rupee-terms for each product/customer. For example : A company might consider 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 salesforce selling multiple products to one or different types of customers.

**Methods for Setting Sales Volume quotas :**

**Past Sales :** One of the earliest methods of setting sales volume quotas is to base them solely on past sales experience. The method in this case would be to determine the percentage by which the company's market share is expected to increase and then add this into last year's quota. For example, if a company expects an increase of 8 per cent this year then the new quota for each marketing unit would be last year's quota plus 8 per cent or 108 per cent of last year's quota. This method assumes that

the preceeding year was a typical year, and if not, it suffers from the limitations of being based on unrealistic figures. An improved method is to take the average of say past three years and then add to it to the planned rate of growth.

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

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

**Net Profit Quota:** Net profit quotas are particularly useful in multiproduct companies where different products contribute varying level of profits. It emphasises on the salesforce to make right use of their time. The following figure clearly depicts a selling situation in which a sales person optimally balance their time between high and low profit yielding products. Let us look at the following figure.

Figure 1

Ratio of Sales Volume to Net Profit

Product	Sales Price per unit	Profit Margin per unit (%)	Volume per month		Net Profit per month	
			Mr. A	Mr. B	Mr. A	Mr. B
Product X	Rs. 200	Rs. 140 (70%)	20,000	60,000	14,000	42,000
Product Y	Rs. 100	Rs. 40 (40%)	35,000	25,000	14,000	10,000
Product Z	Rs. 50	Rs. 10 (20%)	75,000	10,000	14,000	2,000
			125,000	95,000	42,000	54,000

This figure illustrates how important it is for the management to ensure that its sales persons do not spend more time on less profitable products, because the sales persons are costing the company the opportunity of earning higher profits from their high margin products. In other words, it should ensure that its sales persons spend their maximum time on more profitable customer. The objective can be achieved by setting a quota on net profit for its salesforce, and thus encouraging them to sell more of high margin products and less the low margin products.

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

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

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

Figure 2  
Common Types of Activity Quotas

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

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

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

**Activity 2**

A) Check whether the following statements are true or false :

Statement	True/False
1) Quotas are quantitative objectives assigned to specific sales units	.....
2) The only ingredient necessary for effective quotas is sound executive judgement	.....
3) Usually, the smaller the selling unit for which a quota is set the more effective it is as a device for directing and controlling sales operations	.....
4) One reason for not using quotas is that the product is in such short supply	.....
5) Activity quotas are appropriate when sales personnel perform important non-selling activities	.....

B) Tick the most appropriate answer

- I) Financial quotas are particularly appropriate when :
- 1) Management wants to emphasize the inspirational value of quotas.
  - 2) added sales volume is obtainable only at greatly increased cost.
  - 3) sales people perform important non-selling duties
  - 4) new products are being introduced.

- II) Sales volume quotas specify the sales level management expects to attain under :
- a) the worst possible circumstances
  - b) the most favourable conditions
  - c) somewhat less-than-ideal conditions
  - d) the average conditions existing in the past.

III) If it is important for a company to maintain contacts with the customers who buy infrequently but in large quantities. Serious consideration should be given to using.....quotas.

- a) sales volume
- b) expense
- c) net profit
- d) activity

IV) Which of the following is NOT a reason for setting and using quotas.

- a) to motivate desired performance

- b) to provide more effective budgetary control
- c) to guarantee the attainment of objectives
- d) to provide quantitative performance standards.
- V) One of the crudest procedures for setting sales volume quotas is to base them solely on
- a) past sales experience
- b) expenses
- c) the sales forecast
- d) the market potential

**Check Your Answers**

- A) 1 (True), 2 (False), 3 (True), 4 (True), 5 (True)
- B) 1 (b), 2 (c), 3 (d), 4 (c), 5 (a)

## 15.10 ATTRIBUTES OF A GOOD SALES QUOTA PLAN

Usually, the sales department is responsible for establishing the sales quota, and no review or approval of a higher executive is needed. Within the sales organisation, the task may rest with any of several executives, depending on the size of the company, the degree of centralization in the sales force management, and the method used to determine the quotas. The chief sales executive may be responsible for setting the total company-quota, but the individual breakdown may be delegated down through the regional and branch district managers. Or territorial sales potentials may be given to the branch or territory managers, and they set the salesmen's quotas.

There are several characteristics of a well-designed quota structure. Many of these attributes are the same attributes found in good compensation plans, territorial designs, organisational structures and other aspects of sales management.

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

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

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

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

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

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## 15.11 SUMMARY

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### Relating Sales Forecast to Sales Quota

A sales forecast constitutes a critical component of the sales planning task of the company. To do this with desired accuracy, a detailed market knowledge and the existence of the comprehensive marketing information system are required.

Development of sales forecasts on product, segment, customer and geographical area basis enables a company to keep sales as planned. This leads to establishments of quantitative goals relating to an identified sales unit for a specific period of time. The sales quotas also determined facilitate the carving of profitable sales territories and their management in the most productive manner.

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## 15.12 KEY WORDS

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**Sales Forecast :** An estimate of Rupee or unit sales for a specified, future period, under a proposed marketing plan or period.

**Market Potential :** The expected sales of a commodity, a group of commodities, or a service for an entire industry in a market during a stated period.

**Sales Potential:** The share of a market potential which a company expects to achieve.

**Sales Quotas:** The share of the company's overall sales job, which is assigned as a performance goal to some marketing unit in an effort to aid in the planning, control and evaluation of sales activities and effectiveness.

**Financial Quotas:** Financial quotas are those which set for desired net profit as well as to control the sales expenses incurred.

**Sales Efficiency:** A measure of performance to evaluate the relationship between sales volume or value and individual and total selling cost.

**Sales Volume Planning:** A means of allocating targets, expressed in quantitative terms, to individual sales persons to achieve overall sales volume objectives.

**Sales Targets:** A performance standard against which the degree of achievement can be measured. Targets are usually set on a geographical, product or customer basis in either selling quantities or sales performance terms.

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## 15.13 SELF-ASSESSMENT QUESTIONS

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1. Discuss how sales forecasts and sales quotas relate to each other.
2. What are the distinct advantages of sales forecasting. In your opinion does forecasting help even when there is a recession in the industry. Discuss.
3. Give a comparative account of various types of sales quotas and identify the attributes of a good sales quota plan.

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## 15.14 FURTHER READINGS

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William J. Stanton and Richard M. Buskirk, 1995, *Management of the Sales Force*, Butterworth.

Richard R. Still, E.W. Cundiff, N.A.P. Geroni, 1998, *Sales Management: Decision, Strategies and Cases*, Prentice Hall, New Delhi.



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## UNIT 16 SALES BUDGETING AND CONTROL

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### Objectives

After studying this unit, you should be able to :

- understand importance of sales budget and control in sales management
- examine methods and approaches used for preparing sales budget
- discuss various methods of sales control.

### Structure

- 16.1 Meaning and Importance of Sales Budgeting
- 16.2 Purpose of the Sales Budget
- 16.3 Methods of Sales Budgeting
- 16.4 Preparation of Sales Budget
- 16.5 Budget Implementation and Establishment of Feedback Mechanism
- 16.6 Flexibility in Budgeting
- 16.7 Introduction and Purpose of Sales Control
- 16.8 Sales Control System
- 16.9 Methods of Sales Control
- 16.10 Marketing Cost Analysis
- 16.11 Usefulness of Marketing Cost Analysis
- 16.12 Sales Management Audit
- 16.13 Summary
- 16.14 Key Words
- 16.15 Further Readings

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### 16.1 MEANING AND IMPORTANCE OF SALES BUDGETING

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A sales budget is a financial plan depicting how resources should best be allocated to achieve the forecasted sales. 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. Sales forecast and sales budget are therefore intimately related as much as that 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.

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### 16.2 PURPOSE OF THE SALES BUDGET

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A sales budget generally serves three basic purposes.

- 1) Planning
- 2) Coordinating
- 3) Controlling

**1) A Planning Tool :** In order to achieve goals and objectives of the sales department, sales manager must outline essential tasks to be performed and compute the estimated costs required for their performance. Sales budgeting, therefore, helps in profit planning and provides a guide for action towards achieving the organisational objectives.

**2) An Instrument of Coordination :** As we all know selling is only one of the 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 co-ordination between sales, finance, production and purchase function.

**3) A Tool of Control :** The sales budget on adoption becomes the mark against which actual results are compared. For example look at the following figure :

Figure 1

Budget Variance

(in '000 Rs.)

	Budget	Actual	Variance	
			Favourable	Unfavourable
Sales	Rs. 7000	Rs. 8900	Rs. 1900	
Expenses				
Direct Selling	2500	2375	125	
Sales promotion	1500	1650		Rs. 150
Advertising	997	1075		78
Administrative	875	775	100	
Total expenses	Rs. 5872	Rs. 5875		03
Profit (before tax)	Rs. 1128	Rs. 3025	1897	

The above figure is self explanatory and points out to both the favourable and unfavourable variance. The analysis of the factors causing variance enables the sales manager to quickly spot potential problem areas or better plan for unexpected outcomes such as higher than budget sales.

The budget variance analysis approach thus helps in improving insights of sales manager and enables him to refine and develop realistic sales budgets in future with minimal variance.

### 16.3 METHODS OF SALES BUDGETING

A variety of methods ranging from the sales manager's gut feeling to application of management science models are used for determining the sales budgets. The popular methods are as under :

- **What is affordable :** This method is generally used by firms dealing in capital industrial goods. Also, companies giving low emphasis to sales and marketing function or having small size of operation make use of this judgemental method.
- **Rules of Thumb :** Such as a given percentage of sales. Mass selling goods and companies dominated by finance function are major users of this method.
- **Competitive parity :** Large sized companies whose products face tough competitions and need effective marketing to maintain profits make use of this method. The use of this method presumes knowledge of the competitors activities and resource allocation.
- **Objective and Task Method :** A systematic method help in determination of the sales budget by identifying the objective of sales function, and then ascertaining the selling and related tasks required to achieve each objective. Later, the cost of each task/activity 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 based budgeting :** It is relatively a new approach to budgeting. It involves a process in which the sales budget for each year is initiated from Zero base thus justifying all expenditure and discarding the continuation of conventions and rules of thumb. The method suffers from practical limitations which relate to a very elaborate and time consuming process required by it.

In practice, companies make use of a combination of the above methods and depending upon the experience gained sales budgeting approach stands refined. The status of the sales and marketing function within the organisation determines the extent of sophistication used in the approach to sales budgeting.

## 16.4 PREPARATION OF SALES BUDGET

Preparation of sales budget is one of the most important elements of the sales planning process. Generally three basic budgets are developed, the sales budget, the selling expense budget and the sales department administrative budget. Mostly sales organisations have their own specified procedures, formats and timetables for developing the sales budget. While all sales budgets relate to the sales forecast, the steps taken in systematic preparation of budget can be identified in the following sequence.

**Review and Analysis of Marketing Environment:** Generally companies prepare sales budget on the principle of bottom up planning with each echelon. To prepare a tentative budget of revenue and expenses, depending on the organisational structure of the sales department, each departmental head is asked to predict their sales volume and expenses for the coming period and their contribution of overhead. For example, in a leading tyre company each District sales manager prepares his/her district budget and submits to the Regional or Divisional office, where they are added together and included with divisional/regional budget. In turn these divisional budgets are submitted to the sales manager for the particular product or market groups. At the end of this chain of subordinates' budgets, the top executives in the sales department scan and prepare a final sales budget for the company. Now the marketing budget is combined with the budgets of the sales department and the staff marketing departments, to give a total of sales revenues and of selling and other marketing expenses for the company. Some of the common items in each sales budget include the following:

- Salaries, sales persons, administrative support etc.
- Direct selling expenses - travel, lodging, food, entertainment.
- Commissions on sales, Bonus.
- Benefits packages covering medical insurance, gratuity and retirement contribution
- Office expenses—mailing, telephone, office supplies and other miscellaneous costs.
- Advertising and promotional materials, selling aids, contest awards, product samples catalogues, price-lists etc.

This review of past budget performance helps the sales manager to minimise variances in the coming period.

**Communicating Overall Objectives:** 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 firm should encourage participation of all superiors and managers in the budgets process so that, as a part of its development, they will accept responsibility for it and later enthusiastically implement it.

**Setting a Preliminary Plan for Allocation of Resources and Selling Efforts to Different Activities:** Particularly products, customers and territories, so that revisions can be made in this initial sales budget. The sales manager must emphasize that the budgets should be as realistic as possible at each stages of its development, so that it can maximise its favourable impact on the firm. When budget goals are achieved through a co-operative team effort, a strong feeling of organisational confidence is created. In case of failure to stay within budgets, sales manager should stress on rewards and public commendations to encourage positive attitudes towards budget goals and pride in their achievement.

**Selling the Sales Budget to Top Management:** The top sales and marketing executive 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 demands for an increased allocation of funds. Unless sales managers rationally justify each item in their budgets on the

basis of profit contribution, the item may not get due consideration by the top management.

## 16.5 BUDGET IMPLEMENTATION AND ESTABLISHMENT OF FEEDBACK MECHANISM

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

- 1) 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.
- 2) To revise the sales budget by incorporating the changed allocation of the item. For example, if it is discovered that 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 changed conditions.

Sales persons 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. Figure 2 shows quarterly sales budget form that sales manager might consider using to monitor budget variances and taken timely corrective action to rectify it if need be.

Figure 2  
Quarterly Sales Budget

Line Items	January			February			March		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
<b>Sales</b>									
<b>Expenses</b>									
Salaries									
Commissions									
Bonuses									
Medical Insurance									
Retirement									
<b>Travel</b>									
Lodging									
Food									
Entertainment									
<b>Office Expenses</b>									
Mail									
Telephone									
Misc.									
<b>Promotions</b>									
Samples									
Catalogues									
Price-lists									
<b>Advertising</b>									

Source : Professional Sales Management by Anderson, Hair & Bush Page 104

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

- sales and other product/business promotional costs
- promotional allowances including discounts, rebates, etc.

The sales manager must give attention though in varying degree, to each of the above and other items. It is wise to tighten control over expenses especially under circumstances when sales forecasts are not being met or sales budgets are being exceeded. A general attitude of caution before incurring an expense is considered prudent. A leading material handling equipment company has a norm that not more than forty per cent of sales expense budget will be spent unless more than fifty per cent of the forecasted sales have been realised.

All shortfalls in budgeted sales that affect gross profit contribution must at least make a case for a thorough review of the sales and marketing programmes of the firms. Researches reveal the causes of shortfalls as : production stoppages, distribution problems, shift in market mood, competitive activity, wrong pricing, undermanning of sales staff or inexperienced sales staff, delays in new product launch, etc.

## 16.6 FLEXIBILITY IN BUDGETING

Flexible sales budget is an alternative to overcome the rigidity of the traditional sales budget which makes the sales manager merely an analyser of the financial performance of the company. Flexible budgets make use of standard costs (based on past records or managerial judgement) for different revenue forecasts. It allows the sales manager to continuously monitor financial performance in terms of standard cost ratios. For example, the standard cost for promotion materials (brochure, display samples etc. might be Rs. 5 for every Rs. 100 sales or a ratio of 0.05. After nine months Rs. 400 has been spent on promotional materials while Rs. 2400 worth of revenue has been generated. The sales manager observed that the ratio has risen to 0.166. In this case expenditure on promotional materials need to cut back reasonably. In the past use of flexible budgeting was limited to large sized companies, but now small companies also are adopting flexible budgeting technique.

There is one more dimension of flexibility in sales budget and this arises out of the very nature of sales budget. As we all know that a sales budget is an estimation relating to the future period under assumed market conditions. In the event of change in market conditions necessitating a change in the firm's expenditure of efforts the sales budget should carry flexibility of inter-item reallocation of expenses and other resources e.g. sales allowance to additional sales persons to display contest to fast cargo movement to cash discount etc.

### Activity 1

A) Check whether the following are true or false :

Statement	True/False
1) The sales budget is a projection of what a given sales programme should mean in terms of sales volume and profits	.....
2) The primary orientation in sales budgeting is toward control	.....
3) Historical cost data is of no value in the sales budgeting process	.....
4) "Top-down" approach to sales budgeting is superior to "bottom-up" approach because most sales people tend to dislike work and prefer to be told what to do	.....
5) Although there is competition for the available funds, the sales department should always get what it asks for since the most basic ingredient to success is sales	.....

B) Tick the most appropriate answer :

- 1) Preparation of the sales expense budget is primarily the

- responsibility of
- a) Finance Manager
  - b) Chief Executive
  - c) Marketing Manager
  - d) Sales Manager
- 2) The sales budget is developed with a view toward obtaining the forecasted volume of sales, and
- a) a maximum net profit
  - b) an optimum net profit
  - c) a target market share
  - d) a minimum amount of expense
- 3) The sales budget uses the ..... as a point of departure
- a) Sales quota
  - b) territory objective
  - c) sales forecast
  - d) market potential
- 4) When the budget is in error because of faulty sales forecasting one should ideally :
- a) Secure a new sales forecast
  - b) alter the various estimates by applying standard ratios of costs to the adjusted sales volume figures
  - c) Maintain close watch over current sales and expenses on a day-to-day basis
  - d) discard budgetary estimates and use figures from previous years operations.
- 5) The sales budgetary procedure ultimately leads to :
- a) the setting of goals for company net profits from selling operations
  - b) better defined sales territories,
  - c) establishment of quotas
  - d) all of the above.

**Check Your Answers**

- A) 1 (T), 2 (T), 3 (F), 4 (F), 5 (F)  
B) 1 (d), 2 (b), 3 (c), 4 (b), 5 (a)

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## 16.7 INTRODUCTION AND PURPOSE OF SALES CONTROL

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One of the most important responsibilities of a Sales Manager is to exercise control over the sales results and the performance of the selling activities. In order to ensure that the sales targets are achieved, sales need to be controlled both on an on-going basis (or continuously) as well as overall at a fixed periodicity. The sales control function assists the sales manager to ascertain what level of sales results have been attained, why there has been a variance, if any between actual and budgeted results, and what remedial action be taken to achieve the targeted results.

**Purpose of Sales Control**

By comparing the actual sales results with the objectives set and diagnosing the causes for the variance between the two, sales control assists the sales manager :

- to initiate remedial steps
- to revise the sales policy and the strategies followed.
- to implement steps for improving the productivity of the salesforce.
- to improve the quality of target setting, sales planning and budgeting functions, and
- to increase sales profitability.

## 16.8 SALES CONTROL SYSTEM

A sales control system can be set-up by a firm by instituting action on the following five steps :

- 1) setting detailed objectives (at least around key result areas)
- 2) Establishing standards for appraising performance.
- 3) Gathering information on actual sales activities and results.
- 4) Comparison of actual results with established standards.
- 5) Taking remedial actions (need based).

The existence of a comprehensive sales information system in the firm is a pre-requisite for an effective sales control system. Such an information system can be built by regularly recording sales by unit, by value, by customer, by sales person, by territory, by distribution outlet, by cash or credit. In addition to invoice, other important information sources include despatch notes, credit notes, customer call reports, daily activity (and time spent) reports, journey plans, sales quotation slips, sales expense forms, discount and allowances records, customer complaints, warrant claims settled, market intelligence including sales promotion special reports sent by sales person. In short, only comprehensive sales information system can lead to timely and meaningful sales control.

## 16.9 METHODS OF SALES CONTROL

Three most commonly used methods of sales control are :

- 1) sales analysis, 2) marketing cost analysis, and 3) sales management audit. These methods are discussed below :

### Sales Analysis

Sales analysis is a detailed examination of sales volume by territory, sales person customer, product line, etc. It works on a basic principle that the trends of the total sales volume conceal rather than reveal the market reality. Researches point out that in most sales organisations a large percentage of the customers, orders, products or territories bring in only a small percentage of the total sales volume as well as net profits. This situation is popularly referred as 80-20 principles i.e. 80 per cent of the orders, customers, territories or products contribute only 20 per cent of the sales or profit. Conversely, 20 per cent of these selling units account for 80 per cent of the volume or profit. Likewise, there are examples of Iceberg principle which show that the total sales volume may reveal only about ten per cent of the real market situation which is above the surface and the mighty 90 per cent may remain unknown. It is, therefore, strongly recommended that for unearthing the reality and gaining meaningful insights regarding company's selling strengths and weaknesses sales must be analysed on the bases discussed below :

### 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	Value in '000 Rupees Performance
East	825	850	103%
West	750	750	100%
North	890	870	98%
South	850	920	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.

#### 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 crystal 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. (Gulani) fell significantly below his sales quota with a performance of only 82 per cent :

North Territory : Sales by Sales persons

Sales person	Quotas	Actual	Performance as % of Quota
Mukherjee	95	93	98%
Singh	115	117	102%
Sinha	110	109	99%
-	106	110	104%
-	108	107	99%
-	110	112	102%
Gulani	130	106	82%
Reddy	116	116	100%
Totals :	890	870	98%

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

Sales Person : Gulani's Sales by Product Line

Product Line	Quotas	Actual	Performance as % of quota
Computers	22	23	104%
Portable Typewriters	28	28	100%
Manual Typewriters	30	06	20%
Electronic Typewriters	24	24	100%
Spares and Consumables	26	25	96%
Total :	130	106	82%

It is clear from the above table that Gulani did an excellent job of reaching product quotas with the exception of manual typewriter, where he achieved only 20 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 Gulani's territory, the sales manager should look into Gulani's customer-wise details for detecting the causes of the shortfall.

**Sales Analysis by Customer :** Customer-wise break-up of manual typewriters sales attained by Gulani showed that one important account i.e. Government department was responsible for Gulani's poor performance on that product line. Government Department was Gulani's biggest customer and has been targeted for 80 per cent of his entire sales quota for manual typewriters. With an entry of another office automation company, the customer had switched over to the same. Gulani 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 Gulani's sales by customer also validates the existence of 80-20 principle referred above.



Accounts	Quota	Actual	Performance as % of quota
Banks	2	2	100%
Financial Institutions	1	1	100%
Educational Institutions	1	1	100%
Govt. Department	24	0	0%
Industrial Undertaking	1	1	100%
Private Parties	1	1	100%
<b>Total</b>	<b>30</b>	<b>6</b>	<b>20%</b>

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.

## 16.10 MARKETING COST ANALYSIS

Attainment of targeted sales volume is only one part of fulfilment of the sales objective of the firm, the other important part being the level of selling costs incurred to attain the given sales volume. It is not mere sales rather sales with budgeted profits or expenses that really matter.

Marketing cost analysis is a detailed examination of the costs incurred in the organisation and administration of the sales and marketing function and its impact on sales volume. It is a fact finding analysis which relates costs to sales volume and resultant profitability.

It pre-supposes the existence of a good costing and financial accounting system in the firm. By relating sales, cost and financial dimension of each selling transaction and activity it can generate:

- Cost of goods per rupee of sales
- Profit per rupee of sales.
- Profit per segment, channel, territory, product pack, sales person, etc.
- Sales volume and turnover of receivables.
- Turnover of stock and profitability.
- Average value of orders.
- Average cost per orders.
- Total value of orders.
- Inquiry - order conversion ratio and cost.
- Number of inquiries generated say in response to advertisement, sales person call, Direct mail etc.
- Total operating and functional cost - product-wise, region-wise, etc.
- Sales to call ratio.
- Expense to sales ratio.
- Profit contribution, on various bases, etc.

It would be worth repeating that the above listed valuable information can only be generated by systematizing the cost accounting system in the firm. This costing system among other dimensions should be set up sales function-wise, cost centre-wise and as a criteria for allocation and absorption of selling marketing and other general management costs.

## 16.11 USEFULNESS OF MARKETING COST ANALYSIS

Successful conduct of marketing cost analysis benefits the sales manager in ascertaining:

- relative cost and profitability of sales operations.

- profitable, not so profitable and not profitable-territories, products, pack size, market segments and distribution channels.
- minimum order level quantities.
- productivity of sales persons
- profitability of different sales promotion techniques.
- profitability of different marketing mix programmes.

Trends in marketing cost analysis cover a period of time within the same firm and cross comparisons with leading competitors and the average norm of the industry provides a valuable advantage of knowing the relative strength of the firm in the industry.

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## 16.12 SALES MANAGEMENT AUDIT

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Though important, the previous two techniques focus only on routine and operational aspects of sales control. This third technique of sales control relates to the strategic dimensions of sales control.

Sales management audit is a comprehensive, systematic, independent and periodic audit of the sales policy, objectives strategies, organization and procedures followed by the firm.

The purpose of sales management audit is to evaluate the soundness of the sales management of the firm. It examines the validity of the very basis and assumptions on which the sales function is planned and managed. It appraises the suitability of the prevailing sales management system in the emerging market environment of tomorrow. By critically evaluating the strength of the sales management against the changing market environment it points out to the emerging areas of opportunity as well as the areas which need intervention.

Some of the aspects covered in the sales management audit include :

- Appropriateness of selling function objectives ;
- Role of the selling function in the promotion-mix and sales-marketing integration
- Organization and work-norms of the salesforce and its size.
- Recruitment, selection, promotion policy, compensation and motivation of salesforce.
- Basis of sales quota, sales budget, territory allocation and their market need suitability.
- Quality of salesforce, appraisal criteria and training and development of sales personnel.
- Productivity of the sales function.
- Sales planning and control system
- Commercial procedures and sales promotion method used, etc.

Sales management audit, is relatively a new technique of sales management control. Its conduct and format is yet to be standardized and so is its coverage. From the limited experience it is felt that if conducted by outside professionals it benefits the company immensely. In the case of a leading consumer durables company this audit inter alia resulted in the re-organisation of its sales department from the functional system to product manager system, as also a change in its selling system from selling through distributor to retailers. This change carried out two years ago has improved the market share as well as profitability of the company. In the case of another company dealing in vanaspati and edible oils, the sales audit brought out the redundancy of the position of Assistant Sales Officer between the sales supervisor and regional sales manager.

### Activity 2

A) Check whether the following are True or False

Statement	True/False
1) Sales analysis consists of a detailed study of sales volume performance to detect strengths and weaknesses	.....

- 2) The original source of data for sales analysis is sales forecast .....
- 3) Sales analysis are especially effective at explaining why strengths and weaknesses exist .....
- 4) Sales management audits, sales analysis and marketing cost analysis are not ends in themselves ; rather they are a means to achieve greater efficiency and effectiveness in the personal selling function .....

B) Tick the most appropriate answer :

- 1) The sales manager can assure that sales efforts are continually focused on objectives through the use of :
  - a) sales management policies
  - b) sales planning
  - c) sales control techniques
  - d) sales quota
- 2) Through regular sales analysis, management seeks insights on matters such as :
  - a) The sales territories, where it is strong and where it is weak
  - b) The products responsible for the most and the least sales volume
  - c) The types of customers who provide the most satisfactory and the least satisfactory sales volume
  - d) All of the above
- 3) The general objective of marketing cost analysis is to :
  - a) Obtain cost data for the selling expense budget
  - b) Determine relative profitability of various sales and marketing operations
  - c) Keep expenses in line with sales operations
  - d) Analyse costs by territory
- 4) In marketing cost analysis selling expenses are allocated according to :
  - a) size of order
  - b) customers
  - c) territories
  - d) any of the above
- 5) Which of the following statements about the sales management audit is false :
  - a) The sales audit provides a basis for evaluating overall selling strategy ;
  - b) Each sales manager should design the type of sales audit most appropriate to fit the needs of firm.
  - c) Proponents of the sales management audit stress the importance of focusing on the overall selling strategy and the methods used in implementing it rather than examining individual components in a piecemeal fashion.
  - d) There are several standardized formats for making sales management audit and, one of the top management's job is to select the correct format.

Check Your Answers

- A) 1) (True), 2) (False), 3) (False), 4) (True)  
 B) 1) (c), 2) (d), 3) (b), 4) (d), 5) (d)

## 16.13 SUMMARY

The sum of money required over a specified period to run a sales department is the sales budget and how much should we spend on the sales function is essence of a sales budget. The process of developing a sales budget deals with identifying ways of optional resource allocation to various selling activities. A sales budget aids in sales planning, and acts as both a standard of performance and a tool of control. While sales budget acts as a tool of salesforce evaluation and control, there is certainly a distinct need for continuous monitoring and control of the total sales function. The other methods used for controlling the sales function are—sales analysis, marketing.

cost analysis and sales management audit. For obtaining best return, from the scarce resources budgeted for the sales function, it is essential that a sales control system be established in the company. The effective use of a sales control system requires the existence of both a comprehensive sales information system as well as an elaborate cost accounting system, the systems which generate information for control purposes.

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#### 16.14 KEY WORDS

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**Budgetary Control :** The processes by which an organisation ensures that a close watch is kept on the organisation's progress towards achieving its annual budget – its revenue and profit goal.

**Natural Expenses :** The traditional expense categories (salaries, rent, depreciation etc.) used in accounting statement.

**Cost vs. Expenses :** Two terms that are often used interchangeably in describing marketing cost analysis. But costs tend to be specific and directly related to volume output, while expenses are more general or indirect expenditure.

**Sales Analysis :** The process of interpreting the pattern of sales orders obtained in the market place. This term may also refer, more widely, to the interpretation of all data – including sales orders from the market place.

**Standard Costs :** Predetermined costs based on experience and research studies for achieving certain levels of volume.

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#### 16.15 FURTHER READINGS

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Richard R. Still, Edward W. Cundiff, Norman A.P. Govaoni ( 1996 ) *Sales Management : Decisions, Strategies and Cases*, Prentice Hall of India Pvt. Ltd. New Delhi

Rolph E. Anderson, Joseph F. Hair, Alan J. Bush (1988) *Professional Sales Management*, McGraw Hill Inc.

Eugene M. Johnson, David L. Kurtz, Eberhad Scheuing (1986), *Sales Management, Concepts, Practices and Cases*, McGraw Hill Inc.

NOTES

NOTES



Uttar Pradesh  
Rajarshi Tandon Open University

MBA-2.5  
Sales Management

5

Block

5

**CASE STUDIES**

<b>CASE 1</b>	
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## BLOCK 5 CASE STUDIES

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Welcome to this block of case studies in which specific decision situations concerning Sales Management, have been taken up.

As you are aware that purpose of each course in the management programme is to familiarize you with the concepts relating to the subject but also demonstrate to you the applications of those concepts, in the areas of your study. Incidentally, your final evaluation also has atleast one fourth component on solving real life problems.

In this block 6 case studies are included, each with a focus. To some extent, the data has been disguised or the identity of organisation is concealed, due to obvious reasons. However, it will not affect the relevance of the problems discussed in each case.

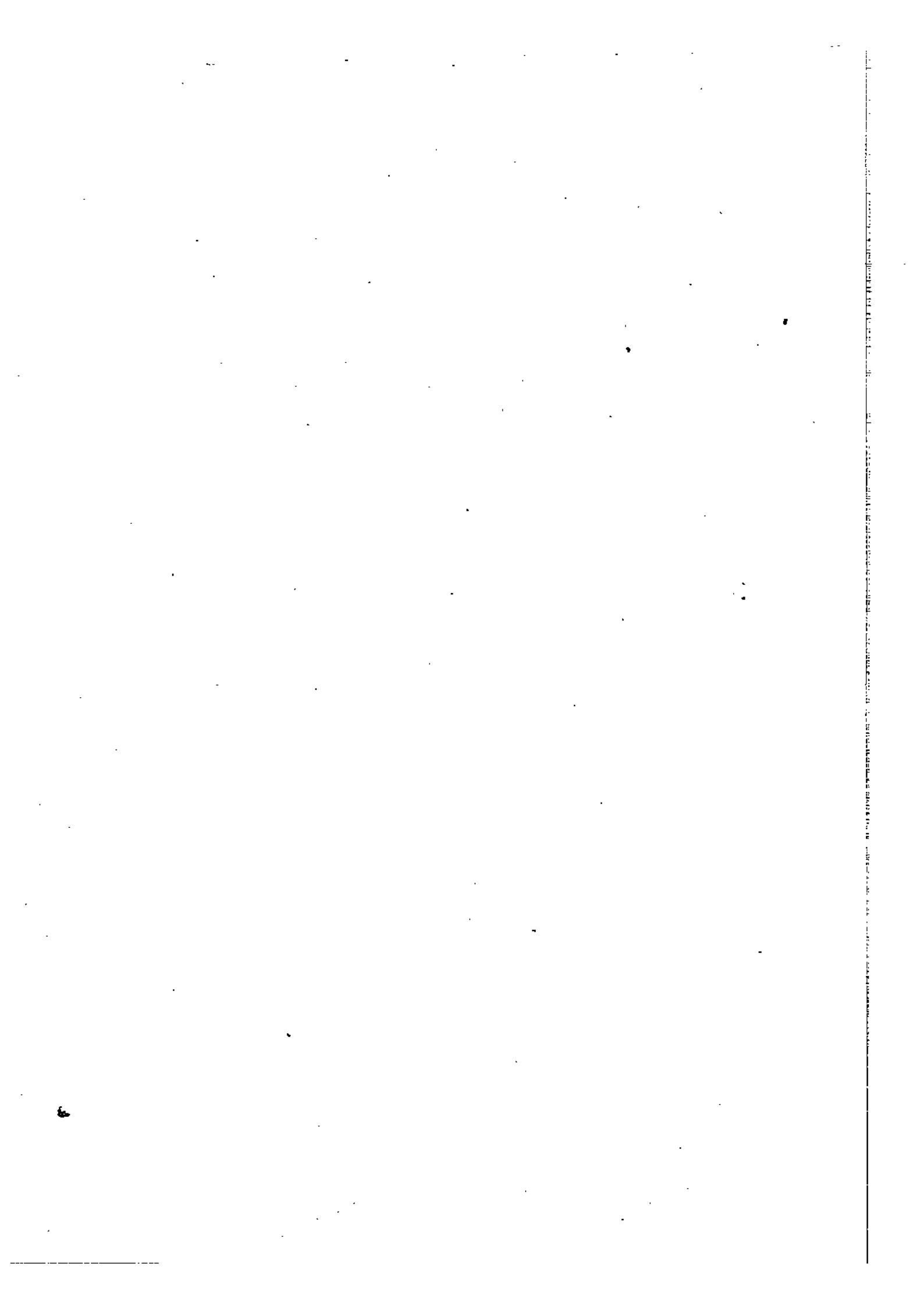
Each case study begins with an 'introduction' suggesting the scope of the case. Though each decision situation is a combination of a series of complex variables and issues, we have tried to suggest the scope of the case in relation to some specific unit(s) of your course. A detailed reading of the concepts prior to the case, would facilitate your learning, and you would be in a better position to answer the questions given at the end of each case.

List of Units suggested for each case is as follows:

Case 1	Unit 1, Unit 2
Case 2	Unit 5, Unit 7
Case 3	Unit 11
Case 4	Unit 12
Case 5	Unit 13, Unit 15
Case 6	Unit 15, Unit 16

It is hoped that this block would help you in better understanding of the concepts and their applications, discussed in the earlier four blocks.





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# CASE 1 · PURIPEN : SELECTING THE COMMUNICATION MIX

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## Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Company's Profile
- 1.3 Puripen : The Marketing Mix
  - 1.3.1 The Product
  - 1.3.2 The Positioning
  - 1.3.3 The Place
  - 1.3.4 The Price
  - 1.3.5 The Promotion
- 1.4 Timing of Launch
- 1.5 The Results
- 1.6 Discussion Questions

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## 1.0 OBJECTIVES

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This case should help you to learn the followings:

- Strategy for a new product launch
- Linkage between the communication strategy and the other marketing mix elements
- Identification of competition at various levels on the basis of needs of the consumers and the tasks of communication in sales and marketing

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## 1.1 INTRODUCTION

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The case refers to the launch of a new-to-the-market, new-to-the-company product born out of a technological innovation. Despite of being a highly innovative product with a large prospective market, Puripen - the mobile electronic water purifier was not able to make a dent in the water purifier market in India. This demonstrates the strategic importance of selection of marketing mix elements emphasising particularly the communication strategy. Marketing management aims at bringing about a productive consistency in all elements of the marketing mix including the communication mix.

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## 1.2 COMPANY PROFILE

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United International Ltd. is an Indian company established in the business of telecom instruments (phones, faxes, EPABX systems etc.). Its business is spread throughout India, supported by its strong and widespread distribution network. It also exports its products to various Asian countries. The company characterises a high degree of vertical integration with activities ranging from manufacturing of the products, their sales and distribution, to providing after-sales services to the customers. The customers comprise of mainly the commercial users (offices, PCO operators etc.) and a small share was contributed from domestic users (mainly phones).

The company can be described as a typical Indian family concern since not only the shareholders and the key employees of the company, but even the close business associates are the members of the same family.

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*The case has been prepared by Mr. Amit Gundh, Account Management Division, Bharat Marketing And Advertising Limited, under the guidance of Dr. Ravi Shanker, Associate Professor, Indian Institute of Mass Communication.*

Mr. Kalra, the chairman of the company, during one of his visits to US happened to see Mr. Jones, the Business development manager of Aqua Technologies Inc., USA, which is in the business of water treatment technology. Mr. Jones, knowing the potential of safe drinking water market in India, made a proposal to Mr. Kalra to use their distribution network and experience in the Indian market for the launch of a new innovative product - a mobile (pen-sized) electronic water purifier, which was the product of their R&D.

Both discussed the possible areas of compatibility. The main attractiveness of the proposal lay in the fact that the basic raw materials and technology required for this new product were highly similar, and in fact much simpler as compared to those of telecom instruments available with United in India. The collaboration finally agreed was of technological nature. The manufacturing and marketing of the purifier in India was to be handled by the management of United. A new company- **United Aqua International Ltd.** was formed for the purpose, under the same top management and ownership as United. Secondary data was collected to reassure the potential of the market. And within no time, manufacturing facility for the new product was set up parallel to the existing telecom instruments plant at NOIDA (industrial area) near Delhi by the end of 1996.

## Market Analysis

### ENVIRONMENT

- 80% of the diseases in India are water borne.
- 60% - 80% children suffer from water borne diseases.
- 50,000 people die every day due to water contamination.
- India has 17 million cases of viral hepatitis, and
- 8 million cases of typhoid every year.

All this happens due to water contamination, in fact, There are three types of water contamination as explained below:

### PHYSICAL CONTAMINATION

Caused due to contaminants like mud, sand, odour, colour, algae, fungus, helminths etc.

### CHEMICAL CONTAMINATION

Caused due to insecticides, pesticides, oils, excess of ions, unwanted minerals.

### MICROBIOLOGICAL CONTAMINATION

Caused by bacteria, viruses of other unicellular organisms.

## The Purified Water Market

While the mineral water market has grown many folds in all the developed economies of the world, it is only in the past few years that Indians have begun to get conscious about the water they are drinking. Taking advantage of this situation the processed water industry in the country is growing at a very fast pace. The market is also growing due to contamination and shortage of water in the metros.

There are three kinds of water that are generally marketed. These are:

- Natural mineral water with certain dissolved solids/pH value from a single source
- Distilled water
- Processed pure water

However, natural mineral water always has a separate market for itself and commands a premium. At present the Indian market is dominated by processed water. However, the Indian customer does not clearly distinguish mineral water from processed water. Also, none of the processed water brands clearly state that they are merely processed and are not mineral water. Thus to a normal customer, any bottle of water that is sealed and has a brand mark on it is a mineral water bottle.

The mineral/processed water market has trebled in the last five years with a size of Rs.400 crores and is growing at a rate of 25.5% per annum. The potential for the industry is around 70 million cases per annum. But only about 50 million cases are churned out but to under capacity in the 1 litre bottle segment Bisleri remains the market leader with about 30 other brands available in and around Delhi. At the last count there were about 160 brands available in and around Delhi. These 1-litre bottles retail at a high Rs.12/- to Rs.15/-.

Due to the high pricing of the 1-litre bottles the real expansion is taking place in the bulk water market. Bulk water is mainly sold to offices and institutes. The main players are Hello water and Nuchem Weir selling water at Rs.50 for a 24-litre bottle.- roughly a sixth of the cost of the smaller pack. Till about a year back Hello had a capacity of 1,20,000 litres per day and had plans to double it by April'97. Last year Nuchem aimed to increase its customer base from 3,500 to 20,000 in Delhi.

Though the market is booming it has attracted criticism for poor quality and operators who bottle tap water and pass it off as mineral water. At an initial investment of as little as Rs.50 lacs the sector is proving to be a boom for fly by night operators. According to a study by Sriram Institute of Industrial Research, more than half the brands do not conform to industry standards, such as mentioning the dates of bottling and expiry and the source of water.

Apart from quality, the price of these bottles is also facing criticism. The bottle accounts for 40% of the cost of packaged water. Secondly it has been established through extensive research abroad that water stored in PVC bottles, and exposed to sunlight, becomes toxic due to harmful elements present in the product, PVC, within 24 hours of exposure. Thus the only safe choice is to use either PET bottles or glass bottle. Out of the total utilisation the bottles in the industry, PET bottles figure a ridiculously small amount. Only small time manufacturers are using PET bottles to create a separate niche for themselves. Most bottles used are still made of PVC.

There is no doubt that as media increasingly criticises the 'mineral water' authenticity and laws against fly-by-night operators come into place the consumer will become more wary about drinking bottled water. But for now, the market is growing at a steady pace with little threat from anywhere.

## **The Water Purifier Market**

As is typical of a rapid evolving category, the market for water-serving gadgets has been shaped by technological strides in levels of safety, cost and convenience.

In the mid 80s Resin technology arrived with products based on two forms:

-Tap attachments such as Ion Exchange's Zero B

-Resin based cylinders such as Singer's Aquarius

The former could filter water straight out of the spout while the later claimed to be an advancement and offered to kill bacteria thus turning boiling redundant.

Towards the late 80s, the ultraviolet purifiers entered the market, led by Eureka Forbes' Aquaguard. Though it needed electricity, it destroyed all bacteria and germs with light ultra-violet rays. And that was just the beginning. Today the market is seeing new entrant everyday.

Presently, the water purifier market is worth Rs. 259 crores, with 40 million households already having turned to domestic purifiers to beat the bug every year, and is growing at a steady rate of 25% per annum. Researchers expect this market to touch Rs. 1500 crores by the end of the decade.

Basically, there are three kinds of purifiers in the market today. These are:

### **i) Ultra-violet Technology:**

The basic function of this technology is to eliminate all impurities, odour and bad taste. The main drawback of this technology is that with time the intensity of the rays gets reduced. Some of the major established brands in this market are Aquaguard, Oasis, Alfa, Ultracare and Ultrajar. The prices of all these brands ranges between Rs.3,600-5,300. Of course, the undisputed leader is Aquaguard with a market share of 80%. Today about 1,00,000 Aquaguards are sold every year by 1300 sales staff, despite its somewhat steep price tag of Rs.5,290/-. The total number of UV purifiers is about 2,00,000, which is a minuscule amount considering the potential.

### **ii) Membrane Purifiers:**

The main function of the purifier is to get rid of bacteria and insoluble impurities. Its main drawbacks are that slime forms on the membrane and bacteria clog the pores and eat away the membrane, reducing its efficiency. There is only one major player in this technology, which is Symphony from Ahmedabad, based Sanskrut Comfort Systems. It

is priced at Rs.5,000/-. Presently, it has only a 4% market share despite insisting that its technology is better than the other two present in the market.

### iii) Resin Technology:

It basically gets rid of all impurities, bad odour and taste. Its main drawback is that it cannot purify water beyond a stated limit. The prominent brands in this category are Zero B range from Ion Exchange, Purisip from Eureka Forbes and Aquarius from Singer. They are priced between Rs.2,000/- and Rs.4,000/-

There is, however, a fourth category, which is fast emerging. This is the mobile purifier category. Zero B has already launched a portable personal purifier for travellers in the name of Watermate, which uses one stage ionated resin technology. Each pouch is capable of purifying 2,500 litres of water.

There are other technologies that are entering the market. Two of these are the eco-friendly ozone technology and the membrane technology. Products from these technologies will cost anything between Rs.2,000 to Rs.5,000/-.

Whatever be the present market size today, one thing is for sure-this is just the beginning. Once the consumer becomes more hygiene conscious the size of this market is bound to grow, rapidly.

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## 1.3 PURIPEN : THE MARKETING MIX

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### 1.3.1 The Product

The idea of a mobile water purifier was a novel concept in the market of water purifiers. All the means of water treatment available even for domestic usage, were fixed. They required either to be installed to the source of water (tap), or were in the form of storage filters, while this one was in the shape of a pen small enough to be easily carried in a pocket! and therefore was named as- 'Puripen'.

The product was based on 'silver-ionization' method commonly used on ships for large-scale water purification. As a matter of interest, an old Indian myth highlights the purification properties of silver and suggests that water should be stored in a silver vessel for at least one night before consuming it the next morning in order to stay healthy. Puripen could be used to purify water by immersing its electrodes in a glassful of water for 39-50 seconds. It automatically kills viruses and bacteria present in the water with the help of an in-built 6V battery which causes a light current to pass through its silver electrodes and shed silver ions in the water. The basic experimental design for evaluating the water purification was based on the US Environmental Protection Agencies Guidelines. The results were tested as per "Standard Methods for the examination of water and waste water" -APHA, 1995 and verified by a number of Indian research institutes like University of Roorkee, Shriram Institute for Industrial research, etc..

### 1.3.2 The Positioning

Since drinking water is the need of every human being, the Chairman's decision was "I want to see Puripen in the pocket of every person in India, be it a small businessmen, a working woman, a traveler, a mobile salesman, a rich business executive and even school students; since they all need clean drinking water, and Puripen provides it any where, anytime, easily!"

### 1.3.3 The Place

The management decided to make use of its huge existing distribution and dealership network to support all India launch of Puripen. Another level was added in the existing supply chain by involving retailers of consumer products to reach the potential customers on a profit margin basis. A base of 200 distributors, 40,000 retail outlets all over the country was all set to take up the new product impressed by attractive presentations made to them showing the market potential and high profitability of Puripen. The product was to be made available in nearly 25 (about 7 large and rest mini metro) cities and over 100 towns (with population above 0.5 million each) in India which were mainly urban to semi-urban class, extensively through chemist shops, superstores, and even small general stores.

It was also suggested to appoint about 500 direct selling agencies in selected cities which was however, delayed due to unfruitful negotiations between the management and the agencies which was a result of multiplicity of undesired interventions and unprofessional ideas from the management.

### 1.3.4 The Price

The Price was kept at Rs.594 with big margins to skim the market being the first to introduce such a product.

Retail Price	:	Rs.594
Retailer's margin	:	Rs.175
Dealer's (wholesaler) margin	:	Rs.95
Variable Cost/unit	:	Rs.160 (approx.)
Manufacturer's Contribution/unit	:	Rs.164

A special in-built battery (price Rs.50) was inclusive, good enough for purifying about 5000 glasses (nearly equal to an adult's annual drinking water requirement) costing merely 1 paisa (1/100 of a rupee) per glass to the consumer; cost of pen excluded, having an average life of 10 years.

### 1.3.5 The Promotion (refer Appendix)

The promotion for the product was handed over collectively to an advertising agency Nav-Bharat Marketing & Advertising Co. Pvt. Ltd. (NBMA), along with its sister concern Media India Pvt Ltd (specialised in media planning and buying). These agencies prepared its launch phase advertising strategy after doing a study on purified water and water purifier market in India. An annual advertising budget amounting to Rs.60 million was estimated out of which Rs.30 million were sanctioned for the first three months (launch phase).

#### Advertising strategy- Puripen

<b>TA's DEMOGRAPHICS</b>	Sex : male/ Females Age : 25.+ Sections : A+, A, B Monthly Income : Rs. 8,000 + Education : SSC+
<b>TA's PSYCHOGRAPHICS</b>	Urban, Mobile health conscious, someone who doesn't mind spending on things which ensure a good quality of life/ health. understands the meaning of water purification and probably has an Aquaguard at home. But since he is on the move when outside the house, cannot ensure that he gets pure water to drink. ( So he usually carries a water bottle or has mineral water which he finds expensive ). He is a serious, planned person, someone who is aware of the ill effects of having contaminated water, is well read person, reads newspapers and is therefore aware of the havoc contaminated water can cause. (Aware of the diseases spread by water contamination).
<b>Secondary T.A</b>	Corporate Houses
<b>Desired Consumer Response-</b>	"I'll have to check it out." "It's sure sounds convenient"
<b>Key Promise-</b>	Mobile, Safe water purifier
<b>Supports</b>	<ul style="list-style-type: none"> <li>• Product life of 10 years</li> <li>• Purifies 5,000 glasses of water at about paise/glass and hence it is most economical.</li> <li>• Collaboration with Aqua pure technologies inc. Virginia USA</li> <li>• Uses a method of silver ionization for purifying water</li> <li>• Tested at leading labs in India</li> <li>• Fits into one's pocket and as such, is a personal water purifier.</li> </ul>
<b>Tone and Manner-</b>	Caring and concerned.

Long meetings were held between the management and the agency. During these meetings the members of the management team comprising mostly the family members used to storm the agency proposals with their own perception and ideas from all directions on issues like the colour scheme of posters or the necessity of a female model to make the PoPs (Point-of-Purchase material) attractive. This ended up distorting the integrity of the

proposals. From the various options provided, the 20 second TV commercial selected was one with an element of humour in it since the majority of management found it amusing (see story board).

The agencies, however, were facing high market depression and could not afford to lose United Aqua as a client and therefore chose to consent to please the management by appreciating their comments and altering the advertising material accordingly.

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## 1.4 THE TIMING OF LAUNCH

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The product was launched deliberately planned in the summer season (June '97) when the market demand is at its peak for purified water/ water purifiers.

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## 1.5 THE RESULTS

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Puripen was launched, and for the first few weeks the retailers and dealers were quite optimistic about the product owing to its high profitability and a huge advertising back up provided by the company. However, very soon it was realised that the product was not showing movement off the shelf as expected.

The management called the advertising team and insisted for changes in the advertising content. A survey was done by the agency to check the customers' perception only to find that-

1. A majority of people who were aware of the product considered it as an accessory item or a complicated electronic gadget (like a cell-phone, which is more of a status symbol in India) and did not actually understand the use or benefits of the product.
2. Out of people who were inquisitive enough to get detailed information from a retailer, or where the retailer himself volunteered to demonstrate the product, 60% appeared to be interested in the product or had already bought it. This was mainly in the upmarket shops/superstores.
3. Rest 40% were not convinced since Puripen did not filter the water and the effect of purification was not visible as it only killed the microscopic germs and not the visible impurities and therefore, the source of water still remained an important consideration for the consumer as against the other substitute products. Many people were not amused by the idea of 'killing' the germs 'in the glass' and not filtering them out. Moreover, they found it ludicrous to use the gadget and wait for more than half a minute every time for a glass of water with visible impurities still not removed.

By this time, most small retailers had started offering discounts at the expense of their own margins in order to clear their stocks.

The agency then suggested a strategy to hit the customers' emotions with a wave of fear based upon water borne diseases spreading in India during summer. A new series of press ads were released highlighting Puripen as a tool to prevent such diseases. The product also appeared in a number of consumer fairs and exhibitions. This invoked interest in the product and led to an increased number of informed customers, but by this time, the retailers had lost faith in the product and were reluctant to stock it any longer. Even the direct selling teams had not fully come into operation by then.

The payments to the advertising agency were delayed due to highly unfavourable results of the launch and the agency stopped doing any further work for the brand and later suffered huge losses in the form of bad debts. The venture was finally called off for the time being without the customer even recognising the innovative product or the brand.

The management was still surprised by the failure of such an innovative product. Analysts said that the strategy lacked the basic requisites of an innovative new product launch in terms of:

- Product features- eg., unable to filter, lack of time indicator
- Vaguely defined target audience and therefore unclear positioning
- Irrelevant and inconsistent promotion strategy; i.e., insufficient product demonstration, poor creative content
- Inappropriate distribution channels; i.e., small retailers selling a consumer durable product worth Rs.600 per unit.

Was the failure of Puripen just-related to the launch strategy or were there larger issues involved? Firstly, the core competency of United in the telecom instruments business, which was related to catering to the needs of corporate/enterprise sector rather than serving the domestic/personal segments, and secondly, the very basis of conception of a new product- whether market/consumer based or production/resource based could be questioned.

The management is trying to look for the possibilities of a re-launch in India. The pricing of the product is also being reconsidered.

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## 1.6 DISCUSSION QUESTIONS

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1. Do you think that the promotional strategy was appropriate to create a pull for the product/brand, i.e., to make customer walk into a store and ask for Puripen?
2. What were the reasons for the failure of discounts offered by the retailers to the customers in promoting the product? How did it affect the brand?
3. If you are the sales and marketing head, what strategy would you adopt for the re-launch. Justify your recommendations. Also consider the competition that may intensify further, soon after the product is launched.
4. Would you recommend a team of door-to-door sales professionals, engaged in sales communication, explaining the product features, answering to the prospects' queries, for achieving sales? Justify your answer.



## Appendix I

### PURIPEN : MEDIA STRATEGY, PLAN & COST DETAILS 1997

#### THE TARGET CONSUMER:

Demographics :	Rs.2500+MHI Men and women SSC +.35 S.E.C. A+A.B. urban/ semi-urban Habitat
Psycho-graphics:	Health conscious, serious , planned Doesn't take life too easily Mobile, contemporary.

#### THE PRIME TARGET TERRITORY

To define the prime target territory it would be essential to describe the potential consumer in terms of his habitat and attitude.

#### HABITAT

The habitat is almost uniform across the urban country in terms of availability of pure uncontaminated drinking water. The need for pure drinking water is felt across all major cities with exceptional variations in few cases. However the phenomenon is more acute in the large cities where the population density is higher.

#### ATTITUDE

Sensitivity towards the need for a safer life distinguishes one person with another and in our case the major determining factor for opting our product. However the metropolitan inhabitant is relatively modern in his/her life style and attitude which makes him a stronger potential target for such products.

Following the above assumption, it would be wise to define the potential hierarchy as under:

- A+ Markets: Major metropolitan cities: Bombay, Delhi, Calcutta, Chennai, Hyderabad, Bangalore, Ahmedabad.
- A Markets: Mini-metros: Pune, Nagpur, Jaipur, Kanpur, Lucknow, Surat, Kochi, Coimbatore, Vadodara, Indore, Patna, Madurai, Bhopal, Vizag, Varanasi, Ludhiana.
- C Markets: 101 towns with population between 5-10 lakhs.

#### THE ADVERTISING OBJECTIVE:

A sequential transformation of the consumer's mind is expected to occur as a result of the campaign.

- Stage I: Creating Awareness-  
This is expected to be achieved at a fast pace keeping in mind the novelty value of the product.
- Stage II: Creating Top of the Mind Awareness-  
Media Hype will create TOM Awareness to create a desire to possess the product.
- Stage III: Converting desire to Sales-  
In this particular stage, a persuasive distribution infrastructure is critical to enable growth of Impulse and actual product experience.

**Two Dangers-**

- **The Not for Me syndrome:**  
Even after firm conviction, consumers often drift away with a residual resistance that it is a good product but may be not for me. At this stage it is important to repeatedly highlight different occasions of usage.
- **The Inertia Syndrome:**  
A significant proportion of the consumers remain in the inertia of not buying the product though thoroughly convinced on its virtues. Repetition of product virtues is the only route.

**Media Objective-**

- Create Top of Mind Awareness through high Reach and OTS
- Maintain Top of Mind Awareness through consistent and diverse media presence.
- Create urgency by Innovative scheduling to obtain better quality of OTS.

**Media Strategy and Vehicle Plan-**

- Use Television as the primary media vehicle to obtain high Reach, OTS and Immediacy. Consider a mix of various channels to:
  - a) Cater to different sub-segments of Television viewers
  - b) Heighten per capital OTS as an important measure of Impact.
- Stimulate Impact through Press at the launch phase
  1. Daily Newspapers for making wide coverage and motivating Dealers/Retailers
  2. Magazines for adding qualitative impact.
 Use a combination of English and vernacular publication to increase width of coverage. Emphasise with women interest magazines to make focused Reach to the housewives/working women.
- Devise Hoarding Sites as a constant reminder medium particularly in the small urban centres and selectively in the metropolitan cities. Selective Prime sites in metropolitan cities to create News Value and as a supplementary medium for reach in the relatively media-starved small towns.
- Use FM Radio in the Metros to make specific focus to the young/young Adult Contemporary City Dwellers.

**Media: A qualitative discussion-**

Television	<ul style="list-style-type: none"> <li>• Stimulates Impulse</li> <li>• Generates Collective response: critical for Household Products</li> <li>• Creates high impact, therefore Top of Mind Awareness</li> </ul>
Press (Newspapers)	<ul style="list-style-type: none"> <li>• Quick Propagator</li> <li>• Facilitates Source – Credibility</li> <li>• Ensures Dealers/Retailer satisfaction</li> </ul>
Press (Magazines)	<ul style="list-style-type: none"> <li>• High longevity</li> <li>• Facilitates Family readership</li> <li>• Reaches a more receptive situation.</li> <li>• Enables focused coverage to key target segments.</li> </ul>
Hoarding	<ul style="list-style-type: none"> <li>• Creates News Value</li> <li>• Provide Continuous reminders</li> </ul>
Radio (FM)	<ul style="list-style-type: none"> <li>• Niche environment</li> <li>• Reminder ability</li> </ul>

# Storyboard for Puripen TV Commercial (20 sec.)

## Visual

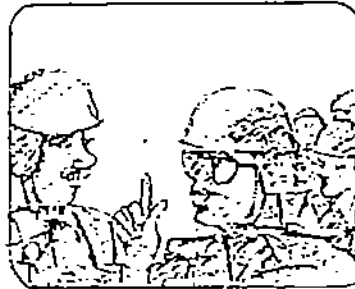
## Audio

- 1 Battlefield at dusk.  
Unit under attack.  
Everyone is clueless  
Shells travel over-head



SFX : Battle sounds  
Music denoting defeat begins

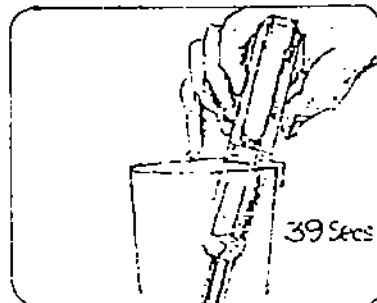
- 2 The Lieutenant has an idea-  
He takes out a Puripen



O.C. : Sir ! give me 39 seconds  
O.C. : Why?  
O.C. : 39 seconds that could  
make a difference . . . between  
life and death.

Music becomes suspenseful

- 3 Water is poured  
  
The Pen is inserted  
In ECU we see the  
lights blink



Music continues

- 4 The Major is distraught  
  
The Lieutenant calms  
him



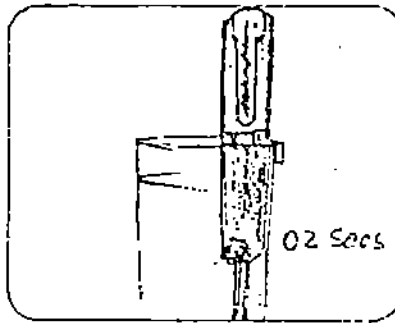
O.C. : What now?  
O.C. : Just 15 secs. to go sir!

## Visual

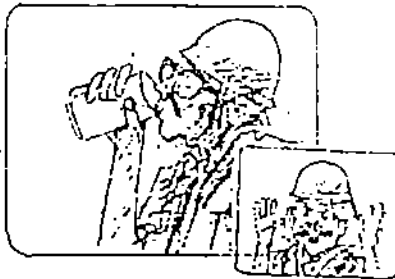
5 ECU product in action

The water clouds

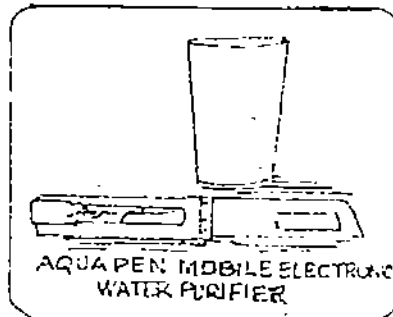
It's done. The Major is hopeful



6 The Lieutenant drinks it



7 Pack shot. Glass enters frame



8 Battle - scarred but victorious Lieutenant putting in Aqua Pen in pocket



## Audio

Music becomes upbeat:

O.C. : Will you throw it on the enemy?

The Major is stunned

FVO : You can also do it on highways, offices and restaurants

O.C. : Aqua Pen - Get your life-saver today!

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## **CASE 2 DEVOX (INDIA) LIMITED : A LESS EXPENSIVE BUT COMPLAINING CUSTOMER**

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### **Structure**

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Company Profile
- 2.3 Sales Interaction
- 2.4 Post Sales Consultation
- 2.5 Discussion Questions
- 2.6 References

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### **2.0 OBJECTIVES**

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The specific objectives of this case are to:

- Identify the reasons for a conflict in a sales situation both from the point of view of a customer and the organisation
- Identify the bridging factors in resolving a conflict.
- Learn the negotiation process by observing that each situation is a unique situation.

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### **2.1 INTRODUCTION**

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In this case an attempt has been made to describe a sales interaction between a sales person and a complaining customer.

To familiarise you about the organisation, in the beginning of the case the profile of the organisation has been given. In addition, the 'Indian Sports Shoe Industry' scenario, has been detailed as an annexure to the case.

After going through the case you may like to attempt answering the questions, given at the end of this case study.

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### **2.2 COMPANY PROFILE**

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Devox is the Indian subsidiary of the \$3.6 billion Devox International. In June 1998, Devox unveiled one of the bigger incentives for its weak markets of U.P. and M.P. - a Rs.990 all-leather shoe named Racer. It is the company's first serious attempt to break the Rs.1,000 price barrier, that often comes in the way of ensnaring prospective customers. The first attempt in June 1996 -- a canvas shoe for Rs.490 -- had an image problem. It was cheap for a Devox but expensive for a canvas that looked much like any other. On trade demand, its price was brought down to Rs.290, recalls a distributor, after which it was withdrawn. In the process, it provided enough meat to critics to casually dismiss what they dubbed as Devox's 'mass market aggression'.

Sales in the first six months of 1998 were Rs.20 crore (including apparel). A major push came from the two-week-old exchange scheme launched at some 20 outlets in Delhi wherein any old pair could be exchanged for a Devox on discounts ranging from Rs.500 to Rs.1,300.

It is believed that the exchange scheme alone might touched sales of Rs.1.25 - 1.5 crore as against the nearly Rs.1 crore of average monthly sales in all the outlets put together in the capital.

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*This case is prepared by Dr. Mukesh Chaturvedi, Professor of Marketing, MDI, Gurgaon, for classroom discussion.*

Devox had estimated market potential of 5 lakh pairs in the Rs.1,100 plus sports shoe category for 1996-97. Details on the Indian Sports Shoe Industry are given in the Annexure. It was easier said than done. But, Devox though it knew the answer: trade. Get in distributors and begin placing Devox at shop-in-shops and 'A' class dealer outlets.

When the first distributor was appointed around June 1996 for Gujarat, Maharashtra and Punjab (servicing some 80 dealers), Devox's product range was not geared for the trade. The Classic range of shoes sold from Rs.1,990 onwards in showrooms, much higher than, say, a Rs.1,155 Woodland. Apparel started at Rs.500. Distributors were not ready to accept that.

So the first change Devox made was to bring down the entry-level price to Rs.1,090. The other was a compromise on returns. Since both did not know what exactly could sell in the mass market, distributors were sceptical. Devox agreed to take back goods for the first six months.

Since 1994, Devox International's sales have not moved much beyond \$3 billion (from \$3.3 billion in 1994 they were up to \$3.6 billion in 1997, a period in which Nike sped past it from \$3.8 billion to \$9 billion). Devox was pipped to the second spot globally by Adidas. Again, the US has been Nike's stronghold (sales of \$3.8 billion and a market share of 47 per cent); followed by Japan. Devox's US footwear sales have dipped from \$1.4 billion in 1995 to \$1.3 billion in 1997.

#### What Devox did :

- Launched affordable canvas shoes as a new fashion statement
- Retailed initially at Rs.490, then down to Rs.290 on trade demand, creating lot of dissonance
- Started with sportstar-centred advertising that did not click
- Opened to trade to address the problem of availability without reconfiguring the product portfolio and logistics
- Became bold on discount sales to shed the premium image.

#### What Devox corrected :

- Launched a Rs.990 all-leather shoe which clearly addressed affordability without losing out on the essence of a Devox, plus also started working on high-end shoes
- Turned to product-related advertising
- Carefully separating product portfolio for showrooms and dealer outlets
- Trying novel stock liquidation schemes and for small time periods.

#### What Devox now needs to focus on:

- Selective retailing and a control over the retailing environment
- Better co-ordination between marketing and production to tap trade-spotted gaps
- A cohesive aspirational campaign, probably on a higher budget, but on a non-premium platform so as to relate to youth beyond metros

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## 2.3 SALES INTERACTION

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Sunday, around 11.40 a.m., the showroom of Devox sports shoes and sports wear in a posh market of a metro city. Mr. Oberoi walks towards it from the parking lot with a box of Devox shoes along with his wife. Mr. Oberoi is sporting a brick red T-shirt on side of a pair of khaki long shorts and sandals. Mrs. Oberoi is wearing a light blue plain salwar suit. She has a shopping bag on her and a small money bag. Mr. Oberoi enters the shop first as Mrs. Oberoi decides to stay on for a while to do some window shopping. Mr. Oberoi is an HRD executive with a multinational company. On his entering the shop, he is greeted by Rahul, the young sales executive trainee who is on a visit to this showroom from the headquarters.

Rahul: Good morning sir! May I help you.

Mr. Oberoi: Oh, yes. Well, I had taken this pair last Sunday. I have just worn it twice. I have a feeling that they are from a "seconds" lot. (Tries to hand over the box, but Rahul has his hands behind the back).

Rahul: Sir, we don't have "seconds" stock in this showroom.

Mr. Oberoi: (Opening the box of shoes) It did strike me here itself but I was more keen on the colour; may be, therefore, I overlooked it. (Pointing at the toes of the shoes) There is a difference between the two shoes here. The strips are not aligned identically. It seems to be a manufacturing defect.

Rahul: (Looking at the shoes but still with his hands behind the back) Sir, this is the way they are designed. It is not a manufacturing defect.

Mr. Oberoi: (Getting closer to Rahul and trying to hand over the pair to him to have a look himself from his side) This can't be design. It is an alignment defect and it looks a "second" pair.

Rahul: (Still not taking the pair) Sir, I can show you other pairs also. They are all made the same way. (He asks one of the shop assistants to get a couple of more pairs of the same make, and moves on to attend to other customers. When he returns after about six minutes, he finds Mr. Oberoi trying a different colour pair) See, I said that they were all made the same way. It is design, not a manufacturing defect.

Mr. Oberoi: Then, I have a feeling that this showroom is selling defective pieces. They are not fresh stocks.

Rahul: I told you. As a policy, we do not keep "seconds" pairs in company's showroom. In fact, we don't have much of "seconds" stock because our production line is most modern.

Mr. Oberoi: (Picking up his pair of shoes) Any way I want to return them. I don't want to wear a defective pair.

Rahul: Sorry sir. We can't take it back. We don't have a policy of accepting sold goods back.

Mr. Oberoi: What ! (Raising his voice) First you are not accepting that this is a defective pair. And, then, you are telling me that I can't return it. What kind of shop you are?

Rahul: (Looking grim but speaking steadily) Sir, I told you that they are not defective. Secondly, you have already used them. How can I take them back?  
[At this moment, Mr. Sharma, the showroom manager, coming from behind the shop notices them and walks up to Mr. Oberoi.]

Mr. Sharma: May I help you, gentlemen.

Rahul: He is Mr. .... (trying to introduce Mr. Oberoi).

Mr. Oberoi: (Interrupting Rahul) I'm Oberoi. I bought this pair (showing him the shoes) last week from your showroom. I find that there is something wrong with the design at the toes. In fact, a couple of my friends pointed it out.

Mr. Sharma: You had not seen it at the time of buying them?

Mr. Oberoi: I had noticed it but didn't bother much.

Mr. Sharma: Why?

Mr. Oberoi: May be I was more busy deciding the colour.

Mr. Sharma: Well, Mr. Oberoi, this is no design or manufacturing defect. On the contrary, this is the way they are made to look. You can see that all of them (pointing at the pairs lying on the floor) are having the same pattern.

Mr. Oberoi: But, they look old. And, I don't want to wear some thing, which can be taken as "seconds".

Mr. Sharma: Mr. Oberoi, we don't have a policy of.....

Mr. Oberoi: (Interrupting him) Then, I am leaving them here (drops them at the floor). Please do whatever you want to do with them.

Mr. Sharma: (Looking down at the pair for a while) Do you have the receipt?

Mr. Oberoi: (Searching for a while in his wallet and the box of shoes) Let me check with my wife (and turns to look for her; she is coming towards them only) You have the receipt for these shoes?

Mrs. Oberoi: No, I don't think you gave it to me (and starts looking into her money bag). No.

Mr. Oberoi: I don't know. May be I have left it at home.

Mr. Sharma: Please give us a moment (and asks Rahul to accompany him to his chamber on the backside of the showroom).

Mrs. Oberoi: What are they saying? (asking Mr. Oberoi)

Mr. Oberoi: They don't have a policy to take the sold goods back.

Mrs. Oberoi: I told you; they won't take them back.

Mr. Oberoi: Is it? They will have to take them back; you will see.  
[In the meanwhile, Rahul emerges from behind the shop and approaches Mr. Oberoi].

Rahul: See, we will have to check with our head office regarding (his. You may find out after two days.

Mr. Oberoi: I can't come on week days.

Rahul: Then, on next Sunday?

Mr. Oberoi: But, I don't have just this to do on every Sunday.

Rahul: Then, you can find out over phone (and gets him a card of the showroom with phone number from the counter).

Mr. Oberoi: (Instead of taking the card, he takes out his own business card from the wallet and gives it to him) Why don't you inform me?

Rahul: (Taking the card) Sure, we will, but, in case we are not able to get through to you, you could also try.

Mr. Oberoi: (Reluctantly) O.K. (take the card and turns to exit).

Rahul: (Picking up his pair from the floor) You may keep them with you in the meanwhile.

Mr. Oberoi: (Moving back towards him) What will I do with them?

Rahul: Sir, unless and until I hear from my head office, I can't accept them back. Secondly, in absence of any receipt, they might just get misplaced.

Mr. Oberoi: (Looking hard at him and thinking for a while) O.K. But do let me know soon.

Rahul: (Packing the pair back in its box and handing it over to him) Sure.



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## 2.4 POST SALES CONSULTATION

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On the advice of Mr. Sharma, next day, Rahul speaks to Mr. Khare General Manager (Sales) at the headquarters. Mr. Khare asks him to fax the details. Rahul sends the following communication:

Dear Sir,

One customer, Mr. Sunil Oberoi, wants to return a pair of shoes, which he had bought from this showroom a week back. He says that there is a manufacturing defect, which shows in the design. In fact, he is accusing us of selling "seconds" from this shop. Mr. Sharma and I told him about our policies and tried to make him see the point; but, all in vain. Finally, to prevent him from making an ugly scene, we promised that we would let him know our decision after consulting the head office. I have also been successful in convincing him to take the pair back with him. But he will certainly want to get an answer from us within a couple of days.

Please advise.

Regards

(Rahul)

The following day being Tuesday, Rahul left the station as he was on tour. On Wednesday morning, Mr. Sharma found the following message from Mr. Khare on the fax machine:

"If he is a Rs.4,500-rupee customer, don't ask any questions, take the shoes back, give a new pair, and salute him. But if he is a Rs.1,250-rupee customer, then tell him clearly that it is not possible.

Please remember that customer is king; but, kings are also big & small and rich & poor."

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## 2.5 DISCUSSION QUESTIONS

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1. What do you think is the real reason why Mr. Oberoi wants to return the pair of shoes?
2. Was Rahul able to handle Mr. Oberoi's complaint competently?
3. What do you think of Mr. Khare's fax? Would you like to advise Rahul differently?

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## 2.6 REFERENCES

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1. Business Standard THE STRATEGIST, 30 June 1998, pp.1&3.
2. The Financial Express BRAND WAGON, 20 December 1996, p.1.
3. BUSINESS WORLD, 7 August 1996, pp.42-43.

## Annexure

### THE INDIAN SPORTS SHOE INDUSTRY

Rs.5,100/- crore Indian shoe industry includes the global contenders, Nike, Adidas and Reebok, well-matched in product excellence and formidable brand equity.

Reebok appeared in Phoenix-owned Sports Infiniti stores in October 1995, with Nike following suit in March 1996 followed by Adidas in November.

The Sports Infiniti stores stock both Reebok and Adidas products, while Nike gear is to be found in either exclusive outlets, premium Bata stores or shop-in-shops like Shopper's Stop and Vama. Sports World, a sports supermarket located in the capital, is the only store in the country which stocks all three brands, in addition to equipment for cricket, golf, soccer and tennis.

The three mega-brands have come into the country through diverse routes. Adidas, the German sports giant, is here with a \$2.5 million joint venture with Delhi-based Magnum International, a Rs.350 crore export house, while Nike has a licensing arrangement with Sierra Industrial Enterprises. Reebok has tied up with Phoenix to set a subsidiary in India, with the Indian company holding 20 per cent of the stake.

Not surprisingly, each of the three dismisses the threat from the others. Adidas, because of the earlier tie-up with Bata, is better known to Indians than the competition is, except perhaps to the select few who have links with the US, which is where the other two players are really strong. Despite having been here longer than Adidas, neither Reebok nor Nike has been able to establish itself in India. In fact, they're making the same mistake that some of the other multinationals have already made in India -- providing outdated, sub-standard products at affordable prices or good products at absurd prices which the middle-class Indian can't afford.

Adidas prefers to sell its shoes through multi-brand stores, since that is how the world shops. In India, sales are divided along these lines: 60 per cent of the shoes sold are Reebok, Nike is 20 per cent and Adidas is 20 per cent. Sports World, however, sells an average of 12 to 15 pairs of shoes of each brand daily.

While Nike is sourcing all its shoes from Moja Shoes, Reebok has spread its net wider, sourcing its canvas shoes from Lakhani, and the others from Bata and Phoenix. Adidas is sourcing its entire shoe range from Lakhani.

Worldwide, Nike outsells Adidas which in turn outsells Reebok. The German brand is number one in Europe, but the other two are dominant in the US, which accounts for 45 per cent of the world's sports shoe market. Unhappily for Adidas, it has only a six per cent market share in the US, that too garnered only in the last three-four years. "But going by its current growth pattern, Adidas hopes to be No.2 in the US by 2000. At present, Adidas has only five per cent market share in the US compared to Nike's 32 per cent and Reebok's 25 per cent share.

There are two outstanding features of the Indian market. First, there are few takers for sports shoes. So, a few tennis and cricket players might wear their shoes but that is about all. The second and vital point to remember about the local market is that it is very price sensitive. Keeping this in mind, Reebok is the only premium shoe company in India which sells shoes from Rs.990 to Rs.4,990.

Today, the country's sports shoe manufacturers have realised they have put their collective foot in their mouth. Plunged into a slowdown that was supposed to be a thing of the past, the notoriously seasonal Rs.300 crore industry has been witnessing sliding sales, rising inventories and production cutbacks.

Nearly every major sports shoemaker has been feeling the pinch though few are willing to admit it. Liberty's Geosport range of speciality shoes, which was launched in 1995, was selling, in 1996, only 8,000 pairs a month, against anticipated sales of 15,000 pairs; its Force 10 range was suffering 40% lower volumes every month.

While long-standing multinational brands such as Lotto and Puma have virtually disappeared from shopshelves, even a high-profile new entrant like Reebok is believed to be selling well below expectations. To top it all, though the American shoe major launched operations only in October 1995, the sluggish off-take forced it to recently hold a seconds' sale in Bangalore. Nike, too, has been moving in slow motion, at about 200 pairs a day.

Industry sources point out that a large chunk of Nike's initial sales could be attributed to customers' urge to try out a new product. Otherwise, there are fewer takers for high-priced sports shoes (Rs.1,000 and above). The downturn has not spared cheaper brands either. The slowdown makes a mockery of claims made by industry observers and

sports shoemakers over the last few years that the domestic market was sprinting at over 30% every year; growing health awareness was fuelling a fierce demand for specialised footwear; and that the industry's seasonality (summer and rainy months always see a drop in sales) was gradually coming to an end.

Footwear dealers have attributed slow sales to a range of factors -- from the obvious, to the somewhat farfetched. In Delhi, they say, one reason has been the reintroduction of lotteries after a gap of one-and-a-half years. Dealers point out that the high price of lottery tickets, up to Rs.2,000 each, has left many middle-class households with less money for 'luxuries' like sports shoes. But, there's no doubt that the financial crunch in the economy is affecting this industry too.

Between 1993 and 1995, the production capacities of several manufacturers had more than doubled. In June 1996, for instance, Lakhani Footwear raised Rs.50 crore from the market to expand its production capacity of non-leather shoes from 3 million pairs to 6.165 million pairs. Before that, Phoenix industries also added new capacities for its sports; today, it can make up to 10 million shoes a year.

Though exact figures are hard to come by, one estimate places the total installed capacity of the industry today is not less than 40 million pairs. Domestic sports shoemakers raised capacities on the basis of two assumptions: first, that Reebok and Nike would source their shoes from them both for the domestic as well as the export market. Second, that the global giants would pump in money to expand the existing market for sports shoes in the country. But, both expectations failed to materialise. Reebok and Nike have not sourced the anticipated volumes from domestic manufacturers (by end 1996, Reebok had exported only 500,000 pairs from India), nor has the domestic market grown. Sports shoe sales peaked at 15 million pairs in mid-1994 and then plateaued; one year later, they began to tumble. By March 1996, less than 10 million pairs had been sold. Phoenix has not utilised even 5% of its installed annual capacity of 10 million pairs. And Lakhani Footwear is suddenly saddled with an idle capacity of over 3 million pairs. Even market leader API Polymer is scaling down the production of its Action shoes to about 300,000 pairs a month, against an installed capacity of about 500,000 pairs.

To make matters worse, the sports shoe has not really created its own specialised niche as yet; the Indian buyer continues to perceive sports shoes as casual footwear. In other words, sports shoes find themselves thrown into the same segment as casual shoes, where the competition is even greater. In the case of premium-priced models, they are considered fashion statements. In these cases, the market is very small. Either way, the industry is in a jam.

It's not as though sports shoemakers can quickly shift gear, by adopting other styles to bypass the jam. To do that, they will have to rejig their entire assembly lines. So, they have no other option but to push sales of existing styles. Not surprisingly, manufacturers are adopting all manners of techniques to move their ware. Liberty recently started an exchange offer: buyers bringing in any old pair of sport shoe receive a Rs.100 discount on a Liberty shoe that costs more than Rs.495.

Some of them are eyeing the rural market. Lakhani Footwear and API Polymer have begun making forays here in a small way. Even Liberty has been thinking on similar lines. But that still leaves them saddled with premium-priced models. If the market continues to slide, they may have to scale down prices. The reason? Indian buyers still don't want to spend more than Rs.500 on a pair of shoes -- especially sports shoes.

Reebok appears to have already read the writing on the wall and has launched a range of sports shoes at Rs.990 per pair. While the introduction of a range substantially lower than its usual range may not entirely be a fallout of the downturn, it could soon become a trendsetter. As one shoe manufacturer says, "It's like white-water rafting. All you can do is to try not to hit the next rock". That's easier said than done, especially when the market itself is careering into obstacles. Clearly, for the sports shoemakers, the race against time has begun.

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## **CASE 3 NATIONAL ELECTRICAL ENGINEERS LIMITED: SALES CONTEST FOR SALES STAFF MOTIVATION**

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### **Structure**

3.0	Objectives
3.1	Introduction
3.2	The Company's Profile
3.3	Competition
3.4	The Customer and Price
3.5	Promotion
3.6	Field Sales Force
3.7	Company's Performance
3.8	The Proposal
3.9	Discussion Questions

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### **3.0 OBJECTIVES**

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The objectives of this case are as follows:

- What is a sales contest and how is it different from a compensation plan?
- What are the sales objectives in a sales contest?
- How do sales-contest fulfill individual needs for achievement, recognition and esteem?
- What is a role of contest in developing team spirit, morale and belongingness?
- What are the issues in sales contests that need managerial attention? What could be the formats, themes and prizes in a contest?
- What should be the duration of a contest and how should it be promoted to the participants?
- What are the short and long-run effects of contest on sales and morale of the sales force?
- What are the standard objectives to a sales contest? How valid are these objections.

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### **3.1 INTRODUCTION**

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Mr Ramesh Chauhan General Manager of National Electrical Engineers Limited (NEEL) Jaipur recommended a sales-contest to improve declining sales performance. This was his response to first-quarter results that saw sales fall substantially below quota. Mr Chauhan believed that a sales contest would, among other things, provide the incentive to get sales up to or beyond territorial quotas.

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### **3.2 THE COMPANY**

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NEEL was a distribution company operating within the State of Rajasthan since 1954. It distributes a complete line of electrical motors, water pumps, electrical hardware, switchgear, cables, parts and accessories. NEEL represent as an authorized reseller for well known brands in the market.

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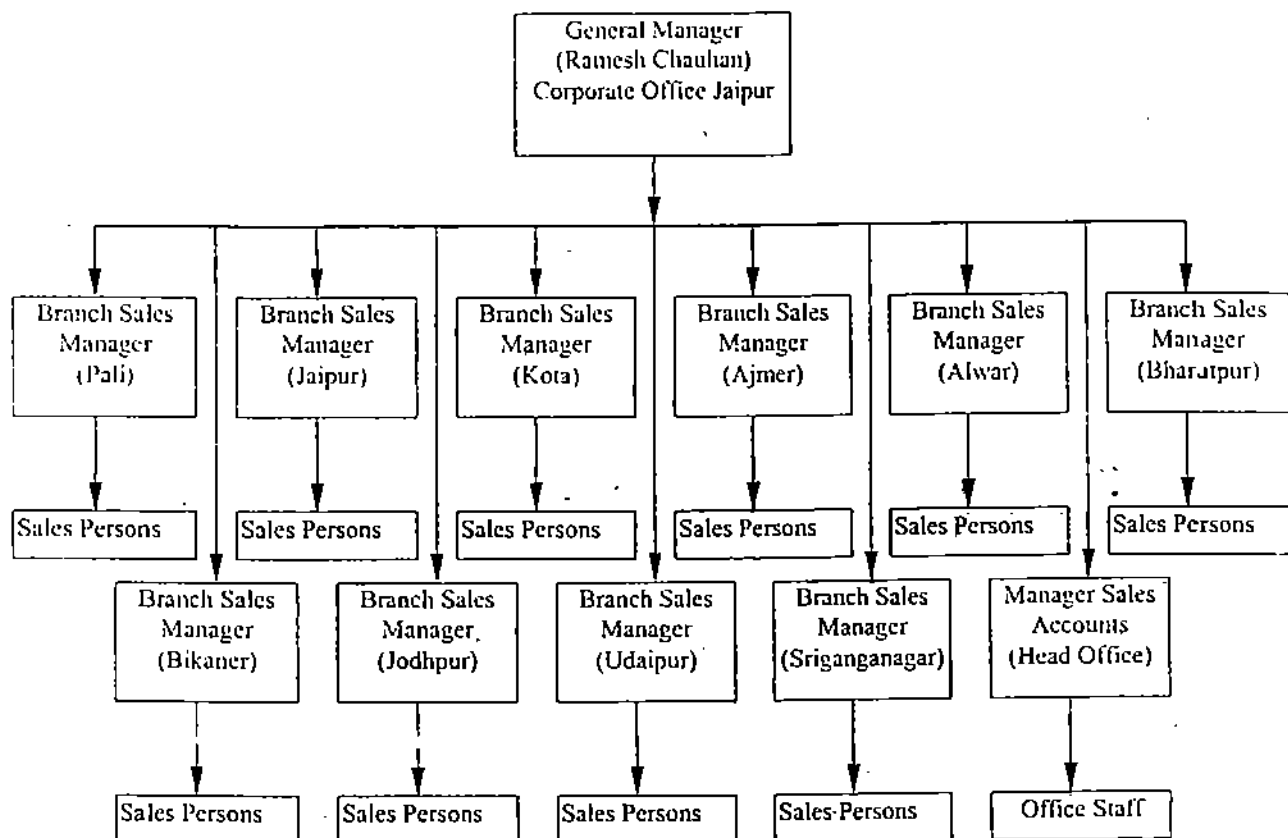
*This case has been prepared by Dr. Mukul P Gupta, Professor of Marketing at International Management Institute, New Delhi. Cases are prepared to serve as a basis for classroom discussions rather than illustrating correct or incorrect handling of an administrative situation. The identity of the company and its officials has been disguised at the request of the company. No useful purpose will be served in trying to unmask the real identity of the company.*

The company operated with ten branch outlets located at Jaipur, Ajmer, Jodhpur, Bikaner, Udaipur, Alwar, Sriganganagar, Bharatpur, Kota and Pali. The corporate head office of the company is located at Jaipur.

NEEL had adopted a geographical organizational setup where in each branch had a geographical area market for its operations. The sales department of NEEL is shown in Exhibit - 1.

Neel has long been recognized as a progressive distribution channel partner by all reputed manufacturers of electrical goods. It is treated as the quickest and most efficient way to enter the markets in Rajasthan.

NEEL has built a reputation of being a professional distributor. Every year it is approached by many new entrants to the electrical goods' markets to represent their products in Rajasthan.



*Exhibit-1: Sales Department of National Electrical Engineering Limited*

### 3.3 COMPETITION

There are no other distributors comparable to NEEL in Rajasthan excepting the leading manufacturers, like Kirloskars, Batliboi, Jyoti, etc., who have their own distribution setups. Even these setups do not have the penetration as that of NEEL and are forced to use NEEL as one of their distributors to reach deep into the markets.

### 3.4 THE CUSTOMER AND PRICING

From an ordinary household to large industries - that is the profile of customers for NEEL. Due to a variety in product-lines, farmers, small electrical mechanics, service and maintenance contractors, all are customers of NEEL.

NEEL is trusted for genuine goods in a market that is saddled with fakes and counterfeits.

NEEL abides by the price-lists and pricing policies of the principals it represents. There are no allegations of any overpricing by NEEL in the market.

The customers however find the goods purchased from NEEL as more expensive than what are available in the market. This happens because NEEL space resort to price-cutting or selling superiors or substandard products, a trend widely prevalent in the market.

Customers seem to know this. They seem to reconcile to the idea of firm and "higher than market" prices of NEEL for its reliability and service.

### 3.5 PROMOTION

NEEL space advertise in the mass media. Its name was mentioned as a point of supply in the advertisements inserted by the principals that NEEL was representing. NEEL was mentioned in wall-writings, hoardings and press-advertisements. This was the usual media-mix adopted by the principals.

### 3.6 FIELD SALES FORCE

Neel employed sixty field-sales personnel at the end of year 1996 - 97. These included ten branch managers, each heading a branch of NEEL.

Depending on the sales potential and territory assigned to a branch. Sales personnel were allocated to a branch. The number of such personnel varied from two for a small branch like Bikaner or Bharatpur to ten persons for a large branch like Jaipur.

The sales force's compensation plan consisted of a base salary and bonus. The bonus was based upon the territorial quota, which was set by the general manager, in consultation with the branch sales manager.

Exhibit - 2 gives the sales budgets followed by NEEL. NEEL receives a gross operating margin of about 18% on its turnover. It expects to make about 10% of its turnover as net profits.

Exhibit - 2 Sales Expenses Budgets

	1995-96		1996-97		1997-98
	Budget	Actual	Budget	Actual	Budget
<i>Sales</i>	550.00	542.00	650.00	648.00	735.00
<i>Sales Compensation</i>	16.50	17.40	19.50	19.10	22.00
<i>Sales Bonuses</i>	5.50	4.90	6.50	6.15	7.00
<i>Fringe Benefits</i>	2.75	2.63	3.25	3.15	3.50
<i>Travel Expenses</i>	8.25	8.42	9.75	10.10	10.50
<i>Sales Administration</i>	11.00	11.15	13.00	14.00	14.00
<i>Total Selling Expenses</i>	44.00	44.50	52.00	52.50	57.00
<i>Net Profits</i>	55.00	3.06	65.00	64.14	75.50

### 3.7 COMPANY'S PERFORMANCE

A look at Exhibit - 2 indicates that NEEL has been able to achieve its sales targets and kept the sales expenses within budgets to a fairly large extent. This has happened in spite of an increase in the sales targets by about 15 percent.

The first quarter (April - June) sales have usually been on the lower side when compared to the annual sales. The company has budgeted an increase in sales of 13% during 1997-98 over its previous year. Exhibit - 3 shows the branch performance during the first quarter of 1996-97 as well as 1997-98. The overall growth in

April - June 1997 over the same period in the previous year has been only 9% and this shortfall is the cause of worry for Mr Ramesh Chauhan.

**Exhibit - 3 Branch Performance at NEEL**

Branch (Year Established)	Branch Sales (Rs. Lacs)		
	April - June 1996	April 1996 - March 1997	April - June 1997
Jaipur (1954)	32.65	182.00	35.35
Ajmer (1960)	113.35	61.40	13.00
Jodhpur (1958)	20.15	96.50	20.48
Bikaner (1968)	2.40	11.20	1.84
Udaipur (1961)	6.00	31.40	8.16
Sriganganager (1969)	6.13	28.65	6.58
Alwar (1972)	15.52	83.20	16.48
Bharatpur (1978)	1.85	10.75	2.24
Kota (1963)	17.55	113.50	21.82
Pali (1993)	5.90	29.49	6.05
Total	121.50	648.00	132.00

### 3.8 THE PROPOSAL

Mr Chauhan proposed a sales contest which would, in his opinion, motivate sales personnel to achieve their quotas

The details of the contest were as under:

- (A) The duration of the contest would be a quarter, that is, 13 weeks, beginning October 1997.
- (B) There would be monthly sales volume quota for each salesperson determined by the general manager and respective branch manager.
- (C) Each of the ten branches would also have a branch sales volume quota for the quarter.
- (D) A cash bonus of Rs. 1000 each month would go to the sales person exceeding his quota by the greatest percentage. Mr. Chauhan wanted to use total sales volume instead of percentage but settled for the percentage eventually.
- (E) Each sales person who achieves the quarter-quota would get a bonus of Rs. 2000.
- (F) A cash bonus of Rs. 3000 would be paid to the sales person exceeding his/her quarterly sales quota by the greatest percentage. Bonus of Rs. 2000, Rs. 1000 and Rs. 500 would go to sales persons in second, third and fourth places respectively.
- (G) In the competition amongst branches, the branch exceeding its quota by greatest percentage would receive Rs. 6000 as prize that would be shared equally among the salespersons associated with that branch. Second, third and fourth places in the inter-branch competition would receive Rs. 4000, Rs. 2000 and Rs. 1000 respectively.
- (H) All salespersons, who achieve their quotas and those who are to receive bonuses at the end of the quarter, would be invited for a grand award function at Hotel Rajputana Sheraton, Jaipur, a leading 5-star hotel. The awards would be handed out by Mr Naresh, the Executive Director of NEEL.

When Mr Chauhan formally proposed his plan for a sales contest, many objections were raised. All these objections are related to usual objections in sales contests like, disappointment and frustrat

salespersons who would not win, disruption in normal pace of work, over aggressiveness amongst some people, the likely fall in sales during the quarter succeeding the contest-quarter and so on.

Mr Chauhan felt that a contest would correct the poor sales performance, raise and kindle a competitive spirit amongst the sales force, give them an opportunity to get their achievements recognized, and raise the morale of the entire sales force.

In spite of a disagreement, Mr Chauhan scheduled a meeting of his staff and branch managers to discuss the feasibility/viability of conducting a sales contest.

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### 3.9 DISCUSSION QUESTIONS

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1. Should National Electrical Engineers Ltd. go ahead with a sales contest to motivate its sales personnel to better sales performance? Why or Why not?
2. What is the purpose of organising a contest amongst branches? Should individual performance based contests be run concurrently with group-performance based contests? Why or why not?
3. Could you suggest some other proposal to motivate sales personnel to achieve their sales quotas? Give your reasons with details of the proposal, as to how would it be better than the sales contest?



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## **CASE 4 THE GENUINE CHARCOAL FILTER : SALES MONITORING & CONTROL SYSTEM**

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### **Structure**

- 4.1 Objectives
- 4.2 Introduction
- 4.3 About The Company
- 4.4 Distribution System
- 4.5 The Cigarette Industry Structure
- 4.6 The Launch of Genuine Charcoal Filters (GCF)
- 4.7 Tracking and Monitoring of Sales of The New Brand
- 4.8 Evaluation of The Launch Scheme
- 4.9 Conclusion
- 4.10 Discussion Questions

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### **4.0 OBJECTIVES**

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After going through the case, the students will be able to:

- Appreciate the need and nuances of sales monitoring system
- Get an exposure to planning a sales monitoring system
- Understand the evaluation criterion for sales tracking

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### **4.1 INTRODUCTION**

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Albetross India Ltd. a cigarette Company had launched a new brand of cigarette with the intention of expanding its market share. In order to monitor the progress of the brand launch a sales monitoring system was introduced which also enriched the role of the salesman of the company.

The case on 'Genuine Charcoal Filters' (GCF) is a disguised case on 'Sales Monitoring and Control'. The names of some of the organisations and the data have been altered for purposes of confidentiality.

Inherently there is no best or correct answer to a case.

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### **4.2 ABOUT THE COMPANY**

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Albetross India Ltd. is the no.2 cigarette company of India having a market share of around 13%. It is the market leader in North India & Rajasthan. First established in 1936 at Calcutta as a subsidiary of Albetross (UK), it is well-established now. Its first factory came at Bombay in 1944. Before 1973 its selling operations were handled by Columbus & Co., after which they both got merged. And since 1979 the House of Sisodias looks after its management.

Albetross India Ltd. (AIL) at present has a turnover of around Rs. 1000 Cr. and a sales turnover of around 135000 million units. Its 3 factories are located at Mumbai, Ghaziabad & Hyderabad & its seven sales branches are at Delhi, Chandigarh, Mumbai, Ahmedabad, Hyderabad, Bangalore & Calcutta.

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*This case has been prepared by Dr. Harish Chaudhry, Associate Professor, School of Management, IIT Delhi.*

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## 4.4 DISTRIBUTION SYSTEM

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The product reaches the company godown / C & F Agent from the Factory. The Wholesale Distributor collects the material from the godown and then passes on to the Dealers or the Salesman, who then separately sell their stock to the retailers. Retailers are classified into 4 categories A, B, C, D on the basis of the amount of sales / day.

The 'A' class has a sale of Rs 1000 or more per day while 'D' class has sales less than Rs 200 per day. All over India AIL has 4000 Wholesale Dealers (WDs) & 2200 salesmen to make its brands available to the market. The salesman channel is preferred by the company over the Dealer channel because it is the active channel while the latter is a passive one.

Through the salesman channel the company can push slow-moving brands, create brand shifts, introduce new brands, enhance brand visibility at the outlet and get feedback from the market. The salesman channel is also more effective in the replacement of dented, damaged and out of date cigarette. The under sale Distributor, on the other hand, is more concerned with immediate benefits. For him selling through the dealer channel is easier. He is able to sell larger volumes through this channel with much less effort. Hence a vertical conflict exists between AIL & its wholesale Distributors.

A Horizontal channel conflict also exists, this is between the dealers and the salesman. Both of them are trying to sell the stock to the same retailers. Dealers are in a position to offer a cut rate on their sales, since they operate in high volumes. They are also able to give higher credit to the retailers. The salesman, on behalf of the company, gives schemes, displays, glow - signs and point of sale material to decorate the outlets. They also give model outlet to the retailers. The salesmen sell stock at market prices which can vary consequently both the channels remain attractive to the retailer.

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## 4.5 THE CIGARETTE INDUSTRY STRUCTURE

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Cigarettes are one of the highest taxed products in the country. They contribute about Rs 4000 Cr per annum to the national exchequer. At present there are four major companies who manufacture and sell their brand of cigarettes in India.

In March 1987, the government of India imposed excise duty based on length, instead of the earlier ad-valorem duty based on the printed price. The change helped increased relaxation's as duty was fixed and reduced litigation. The Budget '98 continued to target the non-premium, non-filter segment - below 60 mm - which commands a 19 percent share of the market. In fact., the 11 percent hike in excise is actually a relief after two backbreaking budgets (excise hike in Budget '96 - 25% & Budget '97 - 20 %). Over the past two years, the growth rate of this segment had dipped sharply : from 177% to 25%. While bidi-manufacturers have the benefit, most domestic companies are hit as the non premium segment accounts for 85% of their sales. In particular the companies which are the key players. in the price sensitive micro-cigarette segment are hit hard. With stiff competition in the segment, as well as a losing volumes battle with the bidi - segment, there is only a slim chance of these companies passing on the hike to the consumer. The Indian Market for Cigarettes has been expanding constantly, however the cause of concern for most cigarette companies is that although their sales in absolute numbers are increasing, they are constantly losing market share to the industry leader - ITC.

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## 4.6 THE LAUNCH OF GENUINE CHARCOAL FILTERS (GCF)

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It was in this backdrop the 'Genuine charcoal filter' a new brand was launched by AIL this July in Hyderabad. The reason for selecting Hyderabad for the launch was that it is a vibrant town that is socially and economically upcoming with a substantial number of people having a high disposable income. Hyderabad was also witnessing a metamorphosis under the leadership of the dynamic Chief Minister and was becoming a base for a number of MNCs which were opening shops there. Consequently there was a lot of influx of young executives in Hyderabad, who worked in these companies. Hence a fair proportion of the 5.2 million population was comprised of young and trendy males who were aware of what they wanted and style was an integral part of their being. The population growth rate also was 9.5%. The 260 sq. km city was 93% urbanised. Another reason for the management's choice of this city was that it serves as a very good test market since it does not affect other markets. (Indore,

Bombay and Pune are far off from Hyderabad). The other brands prevalent in the same segment was GFK of ITC. A packet of GCF costed Rs 12.50 but when sold loose it costed less than Rs 1.50 per unit.

The packaging was made very different from the conventional design and colour combinations and given a new very attractive look.

The existing sales set up had 6624 retailers, of which 5604 were covered daily by a strong sales force of 114 salesmen. There were 6 depots, 3 sales officers and 1 ASM in AIL Hyderabad.

A multipronged strategy was carried out for promotion of the new brand. The idea was to create an excitement about the brand and ensure a lot of visibility and induce maximum trial of the new cigarette. Six prominent hoardings of 30 X 15 ft were put up at prime locations, half page coloured ads were given in local newspapers twice a week for 3 months. Free passes were given for movies, cultural evenings were organised at prestigious hotels. A team of 12 smart young girls were hired and trained to carry out brand-switching through direct marketing at corporate offices. The total promotion budget exceeded 100 lakhs.

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#### **4.7 TRACKING AND MONITORING OF SALES OF THE NEW BRAND**

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A unique method of sales tracking was introduced for the first time. The objective was to track the daily sales of GCF cigarettes and also identify the brands which were loosing ground to it. A daily retail buyout log book was maintained by keeping a sales book so as to monitor and analyse retailer wise sales on weekly as well as monthly basis. This facilitated immediate corrective measures to be taken to maintain the sales and availability targets. A culture of retailer - wise analysis of the sales team could also be developed.

Retailer wise and class wise analysis was started for Genuines, in which low buying / non buying retailers and those not keeping sufficient stocks were tracked. A few other activities were also usefully tracked. Stock placements with the help of credit extension, Facings and Merchandising, awarding of displays. With the help of this the depots prepared daily and weekly reports giving the status of the availability, sales and productivity of Genuines.

Initially a verbal commitment had been taken from the salesmen for maintenance of the sales book. The success of the programme developed on the acceptability level by the salesmen. In order to maximise this they were given special training and all support by sales officers who used to cover each depot once a week. Weekly meetings were held to take stock of the matters pertaining to salesman books and GCF performance. Strict actions were taken against the salesmen who were not taking the initiative to develop the sales of Genuines. Training was also imparted to those salesmen who were unable to sell the Genuines.

#### **The Conclusions Obtained from This System of Sales Monitoring**

It was found that Genuines GCF had a very high level of distribution and availability (84%) but the brand movement was slow. The productivity of the depots was found to be ranging from 9% to 27% with an average of 17% and productivity of outlets was 10%.

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#### **4.8 EVALUATION OF THE LAUNCH SCHEME**

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A survey through questionnaire was done to assess the status of Genuines in the market ( in Hyderabad). Genuines was found to have made maximum brand conversions from Gold Flake & GFT, (Perhaps due to similar appeal). Majority purchases of GCF was loose (due to the trial factor) Majority of the customers were below 30 yrs. 70% of the respondents had been using GCF for more than 20 days hence it had influenced repeat purchase. The reason quoted for dropouts were Brand Loyalty, Strong and tasteless.

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#### **4.9 CONCLUSION**

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The expenditure on sales promotion and creating brand awareness had been enormous but still the results have not been upto the expectations. The top management is at a loss as to how to draw out a one to one correlation between various sales promotion schemes and the actual sales and what should be the proper mechanism for tracking sales.

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## 4.10 DISCUSSION QUESTIONS

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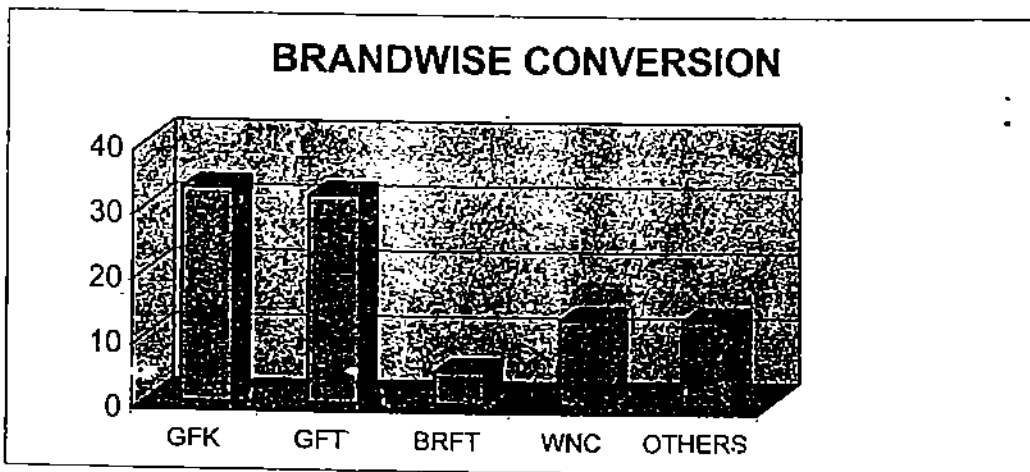
1. What are the success factors for such a launch ?
2. Can the sales tracking mechanism be improved?
3. What factors should be tracked and how?
4. How can the performance of a brand be evaluated ?

## APPENDIX

### Retention Rate Tracking for OCF

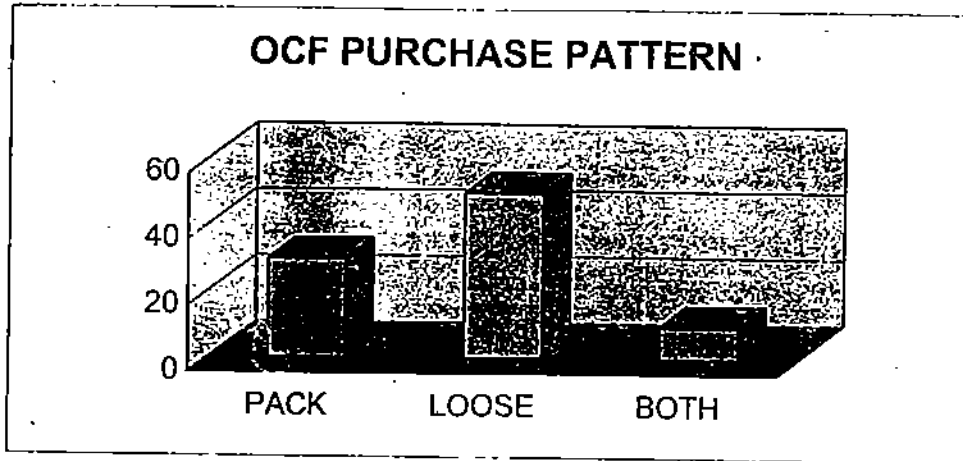
A questionnaire-based study was done to track the retention rate of OCF in Hyderabad. The details of the project are as follows:

- \* Total Mandays: 21
- \* Duration of Study: 4 days
- \* Total contacts: 260
- \* Found Smoking OCF: 26 (10%)
- \* Contacts per manday: 12
- \* Brandwise Conversion

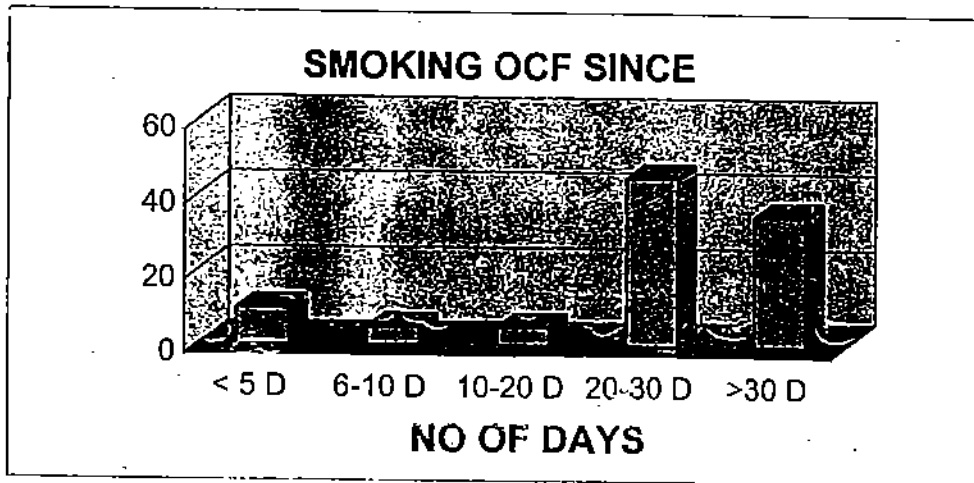


It can be observed that the basic cannibalisation has been from the ITC brands of Gold Flake. The appeal has been such that the smokers of Gold Flake find appealing enough reason to switch to a cigarette with a similar appeal.

- OCF smoker purchasing pattern in percentage:

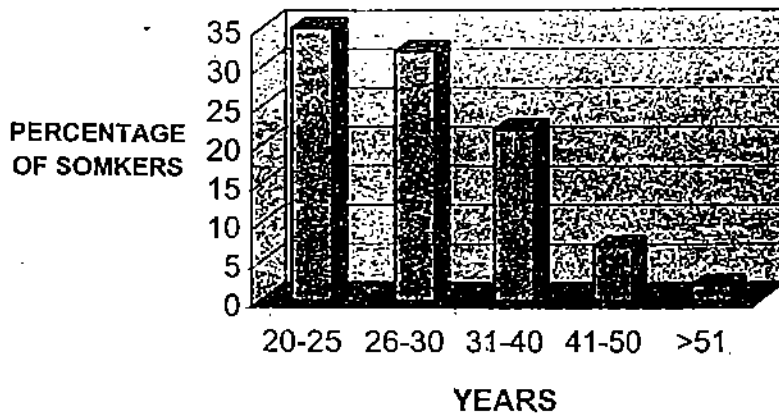


A majority of the purchase has been in loose cigarettes as can be expected of a new brand because of the trial factor. One would not generally buy a full pack of what is not his regular brand.



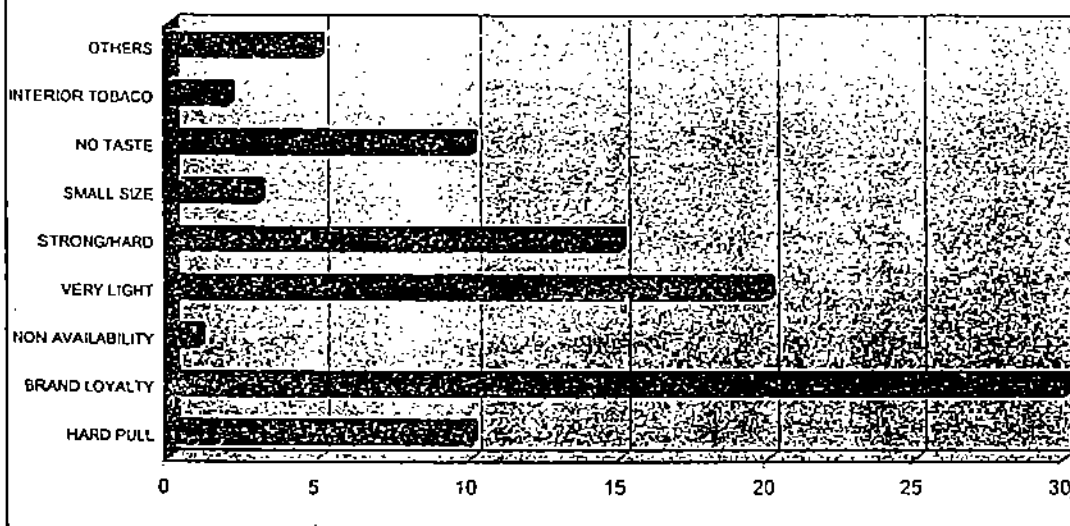
More than 70% of the respondents have been smoking OCF for more than twenty days. The brand has generally been able to influence repeat purchase after the initial trial phase.

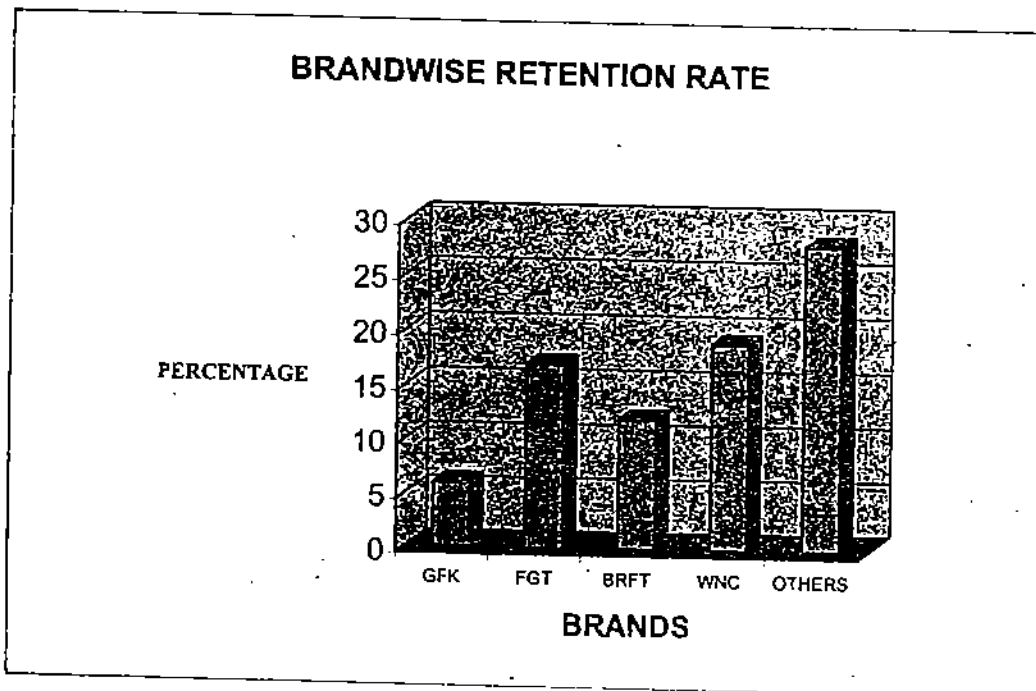
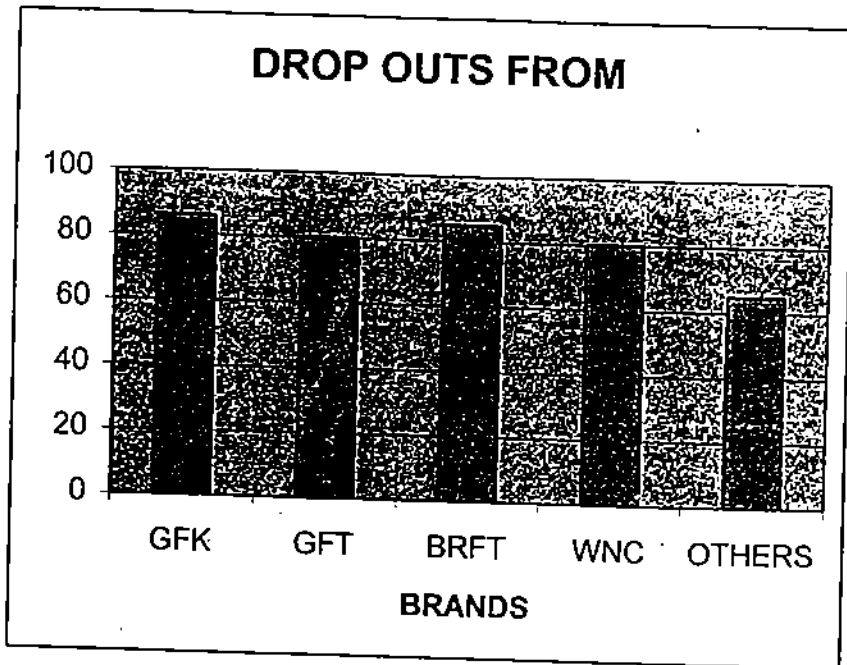
## AGE PROFILE



The demographics of the smokers are true to the intended brand appeal towards the youth and the not so old generation. 65% of the smokers are below thirty years of age which reflects that the purchases have indeed been in the segment where the brand was positioned.

## REASONS FOR DROPOUTS

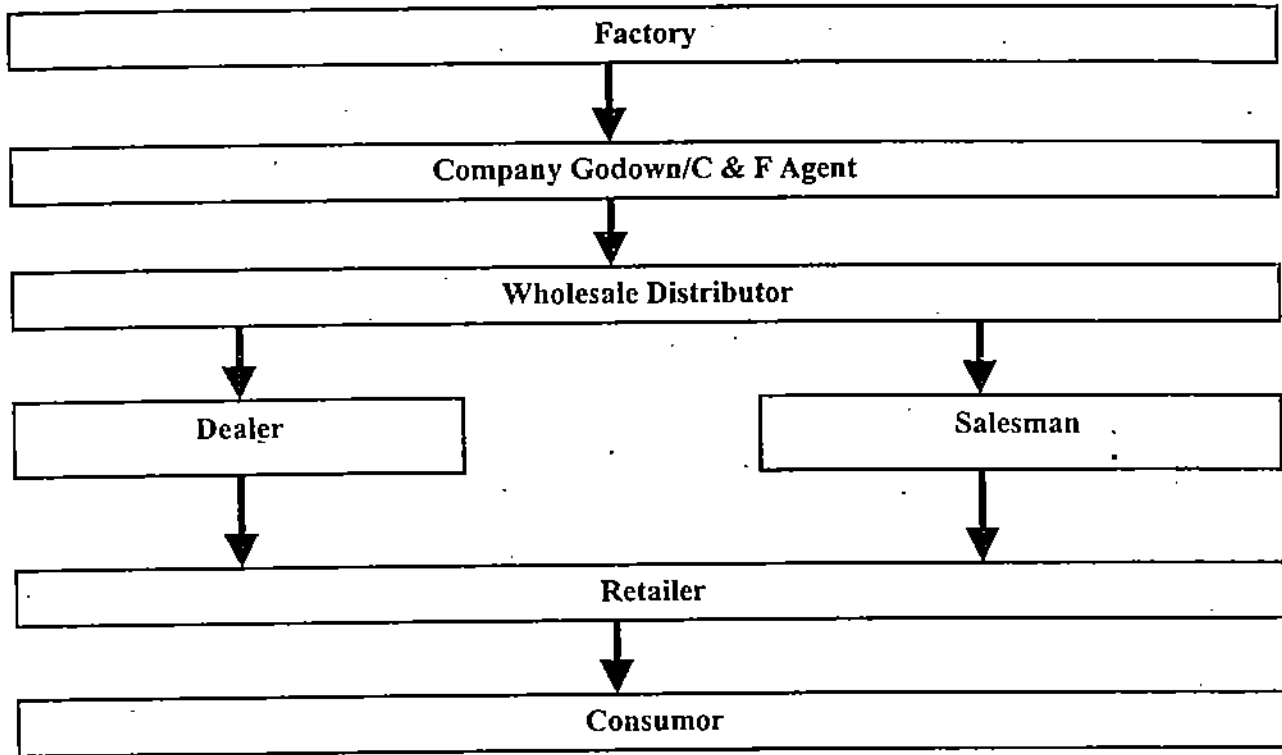






# Exhibit 1

## Distribution Channels



## Exhibit 2

Excise structure for the tobacco industry:

Segment	Length	Excise Duty (1998-99)	Excise Duty (1997-98)
King Size	From 76 to 85 mm	Rs. 1200 per 'm'	Rs. 1100 per 'm'
Mini King Size	From 71 to 75 mm	Rs. 900 per 'm'	Rs. 820 per 'm'
Regular Filter	Upto 70 mm	Rs. 550 per 'm'	Rs. 500 per 'm'
Regular Plain	From 61 to 70 mm	Rs. 370 per 'm'	Rs. 350 per 'm'
Mini Plain	Upto 60 mm	Rs. 100 per 'm'	Rs. 90 per 'm'

Where 'm' stands for 1000 sticks.

## Exhibit 3

### Company-wise Trends in Production: 1991-92 to 1996-97

	Units	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
ITC	Mln. Nos	32953.0	33278.0	34551.0	37653.0	42251.0	46094.0
Godfrey Phillips India	Mln. Nos	15802.0	13095.0	11755.0	12646.0	12332.0	12896.0
VST Industries	Mln. Nos	14900.0	14171.0	12711.0	13469.0	15143.0	13545.0
GTC Industries	Mln. Nos	1856.0	2219.0	2374.0	2942.0	5562.7	5562.7
International Tobacco Co.	Mln. Nos	5042.0	4056.0	4475.0	3901.0	4055.0	4959.0
Nava Bharat Enterprises	Mln. Nos		693.5	693.5	23.2	7.5	7.5
Raghurath Tobacco Co.	Mln. Nos						14.1
RDB Industries	Mln. Nos				830.4	830.4	
Laxmi Ventures (India)	Mln. Nos			2763.0	4700.0	4700.0	
<b>Total Production</b>	<b>Mln. Nos</b>	<b>70563.0</b>	<b>67513.0</b>	<b>69355.5</b>	<b>76164.5</b>	<b>84881.5</b>	<b>83078.3</b>

### Company-wise Trends In Sales: 1991-92 to 1996-97 <sup>2</sup>

	Units	1991-92	1992-93	1993-4	1994-95	1995-96	1996-97
ITC	Rs. Crore	2230.70	2752.90	2981.45	3335.72	4105.98	4927.07
Godfrey Phillips India	Rs. Crore	670.49	656.30	630.53	698.92	726.95	803.71
VST Industries	Rs. Crore	508.91	585.70	557.67	597.10	595.73	536.88
GTC Industries	Rs. Crore	155.80	128.18	147.17	183.39	250.21	250.21
International Tobacco Co.	Rs. Crore	8.07	8.52		0.16	0.76	0.77
Nava Bharat Enterprises	Rs. Crore		10.07	10.07	0.33	0.75	0.75
Raghurath Tobacco Co.	Rs. Crore						0.17
RDB Industries	Rs. Crore				14.78	14.78	
Laxmi Ventures (India)	Rs. Crore			1.62	2.79	2.79	
<b>Total Sales</b>	<b>Rs. Crore</b>	<b>3573.97</b>	<b>4141.67</b>	<b>4328.51</b>	<b>4833.19</b>	<b>5697.95</b>	<b>6519.56</b>

### Trends In Market Share: 1991-92 to 1996-97 <sup>2</sup>

	Units	1991-92	1992-93	1993-4	1994-95	1995-96	1996-97
ITC	Percent	62.39	66.45	68.82	68.93	71.96	75.42
Godfrey Phillips India	Percent	18.75	15.84	14.55	14.44	12.74	12.30
VST Industries	Percent	14.23	14.14	12.87	12.34	10.44	8.22
GTC Industries	Percent	4.36	3.09	3.40	3.79	4.38	3.83
International Tobacco Co.	Percent	0.23	0.21		0.00	0.01	0.01
Nava Bharat Enterprises	Percent		0.24	0.23	0.01	0.01	0.01
Raghurath Tobacco Co.	Percent						0.00
RDB Industries	Percent				0.30	0.26	
Laxmi Ventures (India)	Percent				0.06	0.05	
Import	Percent	0.04	0.03	0.08	0.13	0.14	0.20
<b>Total</b>	<b>Percent</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### Key Industry Statistics: 1991-92 to 1996-97 <sup>2</sup>

	Units	1991-92	1992-93	1993-4	1994-95	1995-96	1996-97
Production	Mln. Nos	70563.0	67513.0	69355.5	76164.5	84881.5	83078.3
Export Value	Rs. Crore	2.3	8.7	35.4	16.4	16.7	53.2
Import Value	Rs. Crore	1.3	1.2	3.5	6.2	8.1	17.9
Sales Quantity	Mln. Nos	88484.6	83534.7	82171.7	82537.0	95421.4	101109.5
Sales Volume	Rs. Crore	3574.0	4141.7	4328.5	4833.2	5697.9	6519.6
Market Size (Quantity)	Mln. Nos	88484.6	83534.7	82171.7	82537.0	95421.4	101109.5
Market Size (Value)	Rs. Crore	3575.2	4142.8	4332.0	4839.4	5706.1	6532.4
Domestic Consumption (Qty)	Mln. Nos	88484.6	83534.7	82171.7	82537.0	95421.4	101109.5
Domestic Consumption (Val)	Rs. Crore	3572.9	4134.1	4296.6	4823.0	5689.4	6479.2

Industry totals are likely to be marginally higher than the totals indicated above. Official sources underestimate the size of this industry, and as a result have been rejected. Data for New Tobacco Co. (earlier a division of Duncans Industries) is not available. International Tobacco manufactures cigarettes for Godfrey Phillips, the

holding company. Sales of International Tobacco is lower as it manufactures cigarettes for Godfrey Phillips for a fee.<sup>2</sup>

### GPI Cigarette Brands

BRAND	LENGTH	BRAND	LENG.
JAISALMER KS	84	RED&WHITE SUPER	59
FOUR SQUARE KS	83	RED&WHITE SELECT FT	69
FOUR SQUARE SPECIAL	69	CAVANDERS FILTER	69
FOUR SQUARE PRINCE	69	CAVANDERS GOLD LEAF	69
FOUR SQUARE PREMIER	69	CAVANDERS MAGNA	59
FOUR SQUARE SUPER	59	NORTH POLE FILTER	69
RED&WHITE FLAKE FT	69	COMMANDO	59
RED&WHITE PLAIN	67	ORIGINALS FT	69

### Competitor Cigarette Brands

BRAND	LENGTH	COMPANY
INDIA KINGS	84	ITC
CLASSIC KS	84	ITC
GOLD FLAKE KS	84	ITC
GOLD FLAKE PREMIUM	69	ITC
BENSON & HEDGES	84	ITC
WILLS NAVY CUT LIGHTS	84	ITC
WILLS FT	74	ITC
WILLS FLAKE FT	69	ITC
CAPSIAN FT	69	ITC
CAPSTAN STD	69	VST Industries
CHARMS FT	69	VST Industries
CHARMINAR PLAIN	68	VST Industries
CHARMINAR STD	59	VST Industries
VIJAY PLAIN	59	VST Industries
PANAMA FT	69	VST Industries
PANAMA PLAIN	68	GTC Industries
CHANCELLOR KS	84	GTC Industries
CHANCELLOR FT	69	NTC
NO. 10	69	NTC
REGENT	69	NTC
HALLO	69	NTC
ESQUIRE	69	NTC
DELUX	59	GTC Industries
HERO	59	NTC
		ITC

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# CASE 5 ASIA PACIFIC ELECTRICALS LIMITED : TERRITORY PLANNING AND MANAGEMENT

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## Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Celebration : 40 Years of Growth
- 5.3 Two Months After
- 5.4 The Company
- 5.5 Excellence Through Collaborations
- 5.6 Marketing and Sales
- 5.7 Marketing Excellence Through Staff Motivation and Development
- 5.8 Customer Mix
- 5.9 Dealer Network
- 5.10 Sales Operations and Management
- 5.11 Discussion Questions

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## 5.0 OBJECTIVES

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After analysing this case you should be able to

- Understand the issues and problems in territory planning
- Learn the alternate approaches to territory planning
- Decide whether to have a separate field force for different product lines or the same, considering the sales costs and allocated budgets.

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## 5.1 INTRODUCTION

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In this case an attempt has been made to illustrate source of the issues concerning sales planning. The most important task which a sales manager has to do, as a part of the sales planning is the territory planning. Also at times a sales manager, has to decide whether to have a product wise sales team operating in common territories, or to have one sales person, handling more than one products where customer is common for all the products. The case deals with some of these issues in relation to electrical switchgears.

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## 5.2 CELEBRATION : 40 YEARS OF GROWTH

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It was a great evening and a very glorious occasion for the families of G. Ramesh and P.Muthuswamy, the founders of Asia Pacific Electricals Ltd (APEL), perhaps no less for the dealers of the company or the proud workforce of its five factories, as well. It was a day of thanks giving to customers, vendors, collaborators, well-wishers, and the like.

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*This case has been prepared by Dr J D Singh, Professor of Marketing, International Management Institute, New Delhi. The name and select facts of the case has been disguised to mask the identity of the company. The case is prepared as a basis for class room discussion rather than to illustrate either the effective or ineffective handling of the administrative situation.*

It was also an occasion of paying tribute to Mr. G Ramesh whose spirit was very much alive in the company though unfortunately he was not. It became also an opportune time to finally give absolute powers of management at the helm to the five foreign educated sons of the two founders who were now ready to take the Group to unprecedented heights.

The Board meeting held on the eve of the fortieth anniversary had adopted the growth targets for APEL as that of Rs 200 crore by 2005 from its present turnover of Rs 85.6 crore.

### 5.3 TWO MONTHS AFTER

The year 1997-98 had closed with a happy note. APEL's turnover was 18 per cent higher than its own target. Its MCBs sales had grown at 26 percent over the industry growth rate, and had reinforced its leadership position with a 42.6 percent share of the organized sector market. Its overall profitability target had, however, gone unmet and it was lower by 12 percent than the previous year. Its sales & marketing expenses had risen disproportionately to the sales and so did the bank interest obligation. The credit outstandings too were high. Its dealers had shot up and were about Rs.6 crore, of which over Rs. 3.2 crore was lying unsettled for over a year and a-half.

It was with a view to take stock of situation as well as to take remedial measures that this meeting attended by Executive Director (Marketing & Strategic Planning), General Manager (Sales & Marketing), Product Manager, and four regional managers, was in progress. ED had also invited a marketing consultant to participate in the marketing. The consultant had carried out a marketing diagnostic study for APEL and submitted his report about a month ago.

The disappointing financial results for the year had dampened the mood of the meeting inspite of stellar sales performance of 48 per cent over the previous year (incl. 18 per cent over its own targets set for the year) by its sales team. The marketing profitability and cost analysis unmarked many holes in APEL's sales & marketing operations. While *Northern* region registered a satisfactory growth in both sales and per salesman productivity, *Eastern* region sales (at 12 per cent of all India sales) were not only lower from 16 per cent but also accounted for the highest amount of Rs 1.10 crore outstandings, of which 86 lakhs were pending for over a year. This region also earned the dubious distinction of the lowest productivity per sales person in the company. The sales growth in *Southern* region was marginally lower than the all India growth registered by APEL, with an average level of sales productivity per person, but it had incurred an over 50% increase in its sales & marketing expenses, and had made 34% increase in outstandings beyond 60 days. *Western* region recorded the highest growth in sales but carried the highest amount of outstandings beyond 120 days, followed by between 90-120 days. There was a rise in outstandings in the *Northern* region too, but over 75 per cent of its outstandings were lower than 60 days in duration.

MCB sales had risen satisfactorily and now constituted 62% (up from 48 per cent) of APEL's total sales. The increase was, however, not accompanied by sales of Distribution Boards. Highly depressing performance was put up by ELCBs, Cubicles, and MCCBs. Major shortfall of these products were noticed in the Southern region.

Geographical analysis revealed that APEL improved its penetration in the cities of Delhi, Chandigarh, Jalandhar, Indore, Mumbai, Ahmedabad, Goa, Hyderabad, Chennai, Bangalore and Trivendram. APEL's sales were much lower in non-metros in general and had suffered a major loss in market share in Coimbatore, Vizag, Belgaum, Pune Lucknow, Mirzapur, Patna, Surat, Vadodara, Kohlapur, Ranchi, Cochin, Anantpur and Vijayawada.

In the discussion on the performance results, Mr. V Balachandran, the product manager, pointed out to the inadequate attention given to non-MCB products by the sales team as the reason for their poor sales. GM (Sales & Marketing) prefaced his comment by pointing out towards rising growth potential of MCBs, and suggested the creation of a separate cadre of sales officers and sales executives exclusively for selling of MCBs and distribution boards to the household segment. He advocated that MCB sales now deserves FMCG orientation and hence deployment of extensive retailing, merchandising, door-to-door selling and direct-marketing techniques, and given the strong pull of the APEL's brand name, the MCB sales could triple from its present level in the next two years. Intensifying competition, growing number of quality complaints esp. in

ELCBs and MCCBs, and persisting complaints of "dolly-free" and "non-continuity of circuits" in APEL's MCBs and consequently the need of sales engineers/ officers to spend more time with dealers, customers, and electrical contractors etc, was the sole cause of decline in salesmen productivity, in the opinion of Southern Regional Manager. RM (west) observed that APELs dream to surpass all previous sales growth records left them with no option but to offer more liberal incentives as well as credit terms to dealers. Inadequacy of T.A., and D.A. rates offered by APEL to meet the travel, boarding and lodging expenses might be a factor for neglect of non-metros coverage by field force observed another regional manager.

ED intervened and urged all to think positive. The fact that APEL is growing at a higher than the industry rate confirms customers and dealers confidence in its products. He suggested the need for the marketing consultant's assistance in developing a plan for increasing marketing productivity and profitability of APEL. He asked the Consultant to look *inter alia* into whether APEL should consider restructuring of its sales territories on the lines of geographical contiguity (as a crow flies), away from political state boundary as of now. Also, given APEL's high brand equity of its MCBs accompanied by the highest market share, should it consider cutting down hefty margins offered to dealers in favour of both lowering the retail price of its MCBs as also increasing its spend on media advertising and sales promotion & retail merchandising campaigns.

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## 5.4 THE COMPANY

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Two friends, G Ramesh, an electrical engineer, and P Muthuswamy, a commerce graduate with a flair for selling and marketing, joined hands to start Asia Pacific Electricals which was set up on 11 February 1958. They aimed at developing and marketing import substitutes as well as innovative LT switchgear products. They commenced their operations with the production of rewirable (switches and fuses) from a rented shed in the T.Nagar SSI complex of Chennai. Good quality of their products as well as focus of GOI to build India as a modern industrial state, provided APEL with an encouraging response. It resulted in capacity expansion, enlargement of product-mix, the setting up of sales offices/arrangements all over India, and later an entry into foreign markets.

From a partnership firm, it became a private limited company in 1963. A year later, it set up its first own factory in Chennai. It went public as Asia Pacific Electricals Ltd. in 1975. From a modest turnover of Rs 30,000 in 1958, it grew up to R. one crore in 1971, Rs 10 crore in 1975, Rs 25 crore in 1985, and Rs 85.6 crore in 1997-98, and aimed at climbing to Rs. 110 crore by 1999 - 2000.

Launch of a Miniature Circuit Breaker (MCB) with a German collaborator was a turning pointing in the evolution of APEL. As much as, today, it is the largest manufacturer of MCBs in India and offers the widest range incorporating many innovations in designing, breaking capacity, mounting and installation ease, besides championing the cause of safety for everyone and every electrical product. Crossing the one crore mark of the MCBs made by it in 1987, its brand enjoys a premium at the marketplace beside being supplied as OE to various electrical consumer durable manufacturers and even to two MNCs who sell it under their own brand names.

APEL, today, has five factories, four of which have state-of-the art machinery and assembly lines and also ISO 9001 certification. The factories are based in Tamil Nadu (two); Karnataka (two), and Andhra Pradesh (One). These factories produce a very wide range of sophisticated products which include MCBs, MCCBs, ELCBs, Cubicles, Fuselinks, Motor Starters, Distribution Boards (Powder Coated / Insulated), rewirable Push Button Starters, and Ballasts, besides electricals switches, fittings and accessories.

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## 5.5 EXCELLENCE THROUGH COLLABORATIONS

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Committed to safety and growth through innovation, its founders believed in joining hands with the best players of the world to provide the Indian Consumers higher value than money through its superior quality products and services. It enjoys very successful and cordial relations with the seven globally known names in LT switchgear industry (one collaboration almost three decade old) who are based in Germany, Japan, China, and Netherlands. In addition, its two R&D centres facilitate in faster technology absorption, adapting products to Indian needs, and bringing in new products.

APEL, winner of numerous export awards, regularly participates in all the major international trade fairs. Exports constitute nearly ten percent of its total turnover and reach its regular customers in Australia, Bahrain, Iran, Indonesia, Jordan, Kuwait, Malaysia, Spain, Sudan, and Singapore year after year.

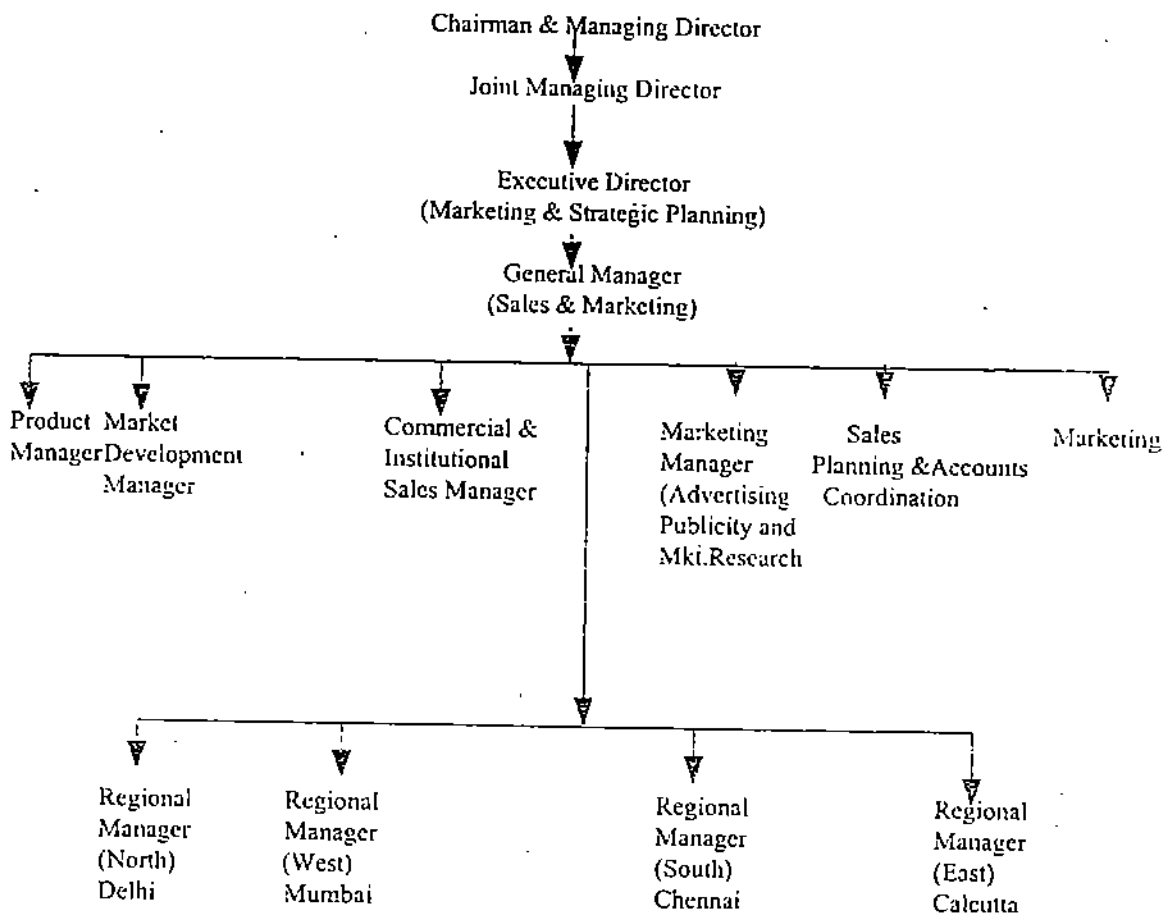
## 5.6 MARKETING AND SALES

Winning customers through obtaining product certifications, approvals, recommendations, seminars, customer and electricians education, brand pull and trade push have been, an integral part of APEL's marketing approach from its inception.

Given the nature of its products as well as the vast distribution and customer service requirements of the Indian market, APEL depends primarily on its own all India team of sales and marketing personnel for demand generation, along with a well established network of dealers, sub-dealers and retailers for order service. Annexure I for APEL's Marketing & Sales Organisation at the Corporate Office, Regional level and District level are given in figure 1 to 3.

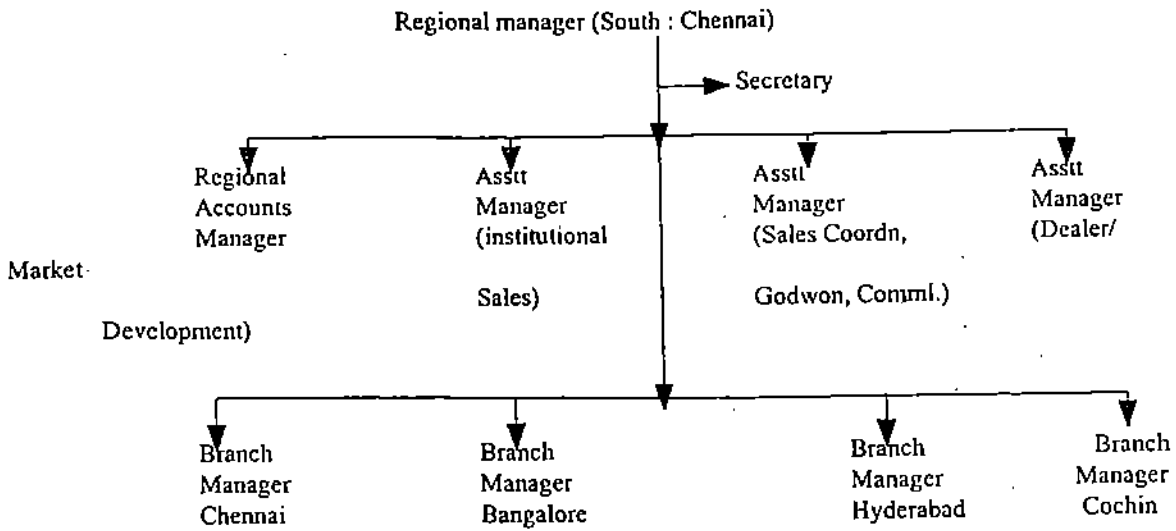
Figure 1

### APEL: Marketing & Sales Organization at Corporate Office





**Figure 2**  
**APEL : SALES ORGANIZATION AT REGIONAL LEVEL**

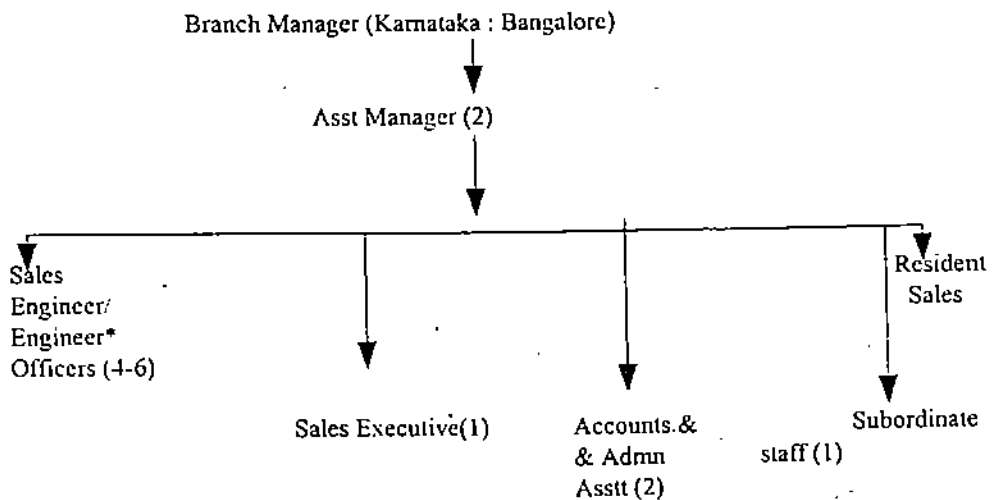


Similar sales organization structures were in existence at the other three regional offices with branch offices at North : Delhi, Chandigarh, Bhopal, and Lucknow;

West : Mumbai, Ahmedabad, and Goa; and

East : Calcutta, Patna, and Bhubneshwar

**Figure 3**  
**APEL : Sales Organization at the branch level**



- APEL has Resident Sales Executives, based at Coimbatore, Trichy, Vizag, Belgaum, Pune, Surat, Gawahati, Jalandhar, Jammu and Meerut

## 5.7 MARKETING EXCELLENCE THROUGH STAFF MOTIVATION AND DEVELOPMENT

APEL employs the largest sales & Marketing team in the LT switchgear industry in India. It believes that only a well educated and trained manpower can truly serve the customers in a professional manner. Organization of in-company training programmes for its sales personnel (two times a year), regional and an all India sales conference, dealer training programmes, dealer meets every year at regional level and once in two years at All India level, participation in national/international seminars by its senior managers, and incentives, prizes and awards based on performance as well as unique attainments, are the regular part of its annual sales activities.

## 5.8 CUSTOMER MIX

APEL's products find usage with households, factories, railways, electricity boards, and the like. Given the diverse buying needs and the purchase frequency of its targeted customers, it uses the following distribution and sales arrangements:

CUSTOMER GROUP	PERCENT OF TOTAL SALES	PRIMARY RESPONSIBILITY	SUPPLY SOURCE
Government Depts: PWD, MES, P&T, DGS & D, Railways, Electricity Boards, etc	30%	Company Sales Team	Tender Sales by APEL, and by Dealers
Project sales : thro NTPC, EIL, BHEL, NIDC, etc	20%	Company Sales Team	Tender Sales by APEL, and by Dealers
Industry & Builders	30%	Company Sales Team	OEMs sales by APEL, rest by Dealers
Households	20%	Dealers and Company sales promoters	Dealers/ Retailers

## 5.8 DEALER NETWORK

APEL's dealers account for nearly 75 per cent of its total annual domestic sales. Its All India Dealer network comprises of 46 dealers, 85 sub-dealers, and 24 authorised retailers, spread all over the country. In addition, a large and growing number of electrical goods retailers, carry and sell its products - mainly MCBs, and distribution boards. Its regular and top performing dealers are invited to join the prestigious APEL Chairman club, and APEL Executive Director club, where they are entitled to quite a few profit-enhancing commercial privileges. All dealers get the support of company sales engineers/officers and managers in pushing sales, ensuring supplies, motivating local electrician, and responding to customer complaints, queries and suggestions. Attractive packaging of APEL products provides the necessary pick me up appeal on the retailers/dealers besides shelves the name boards, posters, glow signs, etc.

The commercial package for the dealer includes competitive margins, turnover discount, cash discount, and a few need-based special discounts, besides total replacement of any of its defective products. Dealers also get additional commission for giving leads / following up on government/project sales. The commercial terms are made more attractive for members of The Chairman Club and Executive Director Club.

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## 5.10 SALES OPERATIONS AND MANAGEMENT

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Sales Engineer/officer is the key link of the company with its customers and dealers. The job responsibility of a sales engineer/officer includes attaining their own targets as well as their dealer's sales targets by calling on consultants, electrical contractors, panel fabricators, architects, and builders. He also coordinates supplies with dealers, displays and merchandising at retail points besides assisting in door-to-door campaigns and market development activities. He is also required to join in the conduct of implant seminars, electrician meets & training programmes, and trade fair/exhibition activities. Regular Reporting of market feedback and competitive intelligence forms yet another part of his job responsibility.

Its current sales team of 46 persons comprises of : 16 sales Engineers, 8 Sales officers, 4 Sales Executives, 10 Resident Sales Engineers who work alongwith 6 Assistant Managers from its 4 regional offices. Administrative convenience of Indian administering States constituted the territory for its sales force under each region. Each sales engineer/officer looked after the business in his one State. This has been the way APEL's sales have grown all along and also more or less provided equal sales opportunity and assured of equal workload to each sales engineer/officer, in the opinion of Executive Director (Marketing & Sales) strategic planning. However, when the wide disparity between the sales attained in Delhi, Maharashtra, Karnataka, Madhya Pradesh Gujrat and Rajasthan were brought to the notice of ED by GM (sales & Marketing), he attributed it largely to the failure of regional managers in not being able to motivate and control their sales team and their territorial performance than due to varying potential or geographical size of the territories. Regional Managers partially attributed the dissimilar state-wise sales performance to the stronger competitive position of the two MCBs players esp in the Southern States; territorial poaching dealers of lower tax rate States, greater usage of unethical practices by competitors, and also the recent slowdown in new project activity in Western and Southern States.

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## 5.11 DISCUSSIONS QUESTIONS

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1. How important is the right structuring of sales territory for attaining the best sales performance? Why? Should sales engineers/officers/executives be consulted before any revision in sales territories is made?.
2. Examine the relative merit/demerits of deploying sales engineers on State-wise territories versus territories carved out on consideration of :
  - i) geographical contiguity of towns in adjoining states, and
  - ii) on equal demand potential basis.
3. How will you convince dealers for a "cut in dealer margins" on the sales of MCBs. What would you suggest the management of APEL to do to protect current level of dealer profitability on MCBs despite a proposed cut in dealer margins?
4. Looking at the product range of APEL, do you think it should deploy product specialist sales force i.e., separate field force for MCBs and separate for Non-MCBs, while all its products are stocked by the same dealers as well as through the common electrical shops. Why or Why not?.

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## CASE 6 RQL LIMITED : BUDGETING AND COST CONTROL SYSTEMS

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### Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Company Background
- 6.3 Domestic Competition
- 6.4 Budgetary Process at RQL
- 6.5 Marketing Costs
- 6.6 Sales and Distribution Costs
- 6.7 Developmental Costs
- 6.8 Cost Control Exercise at RQL
- 6.9 Market Scenario
- 6.10 Issues before the Company
- 6.11 Discussion Questions

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### 6.0 OBJECTIVES

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After going through the case, the students will be able to :

- a) Appreciate the dilemmas and difficulties in sales budgeting and cost control
- b) Get and exposure to planning a sales budget and cost control system.

Inherently, there is no best or correct answer to a case.

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### 6.1 INTRODUCTION

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The case on RQL Ltd. is a disguised case on 'Budgetary and Cost Control'. Mr. Dhanpat the CFO of RQL is brooding over the ways and means of reducing and controlling expenses of the company. The company which till last year was increasing the Budgetary allocation for marketing costs by an average of 15% per year, now wants to freeze the allocation for this year at the last year's level, hence the headache for CFO.

The names of some of the organizations and the data has been altered for purposes of confidentiality. Students may like to read units 15 and 16 for conceptual clarity, before attempting this case.

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### 6.1 COMPANY BACKGROUND

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RQL came into being in 1961, when its founder Mr. Suresh Sharma, at that time a non-resident Indian working in England, nursed a vision. A vision to pioneer the manufacture of superior quality electronic products in the country. The vision became a reality with the setting up of a factory for the manufacture of Black & White televisions in an industrially obscure place, Palghat, in Kerala. Thus a tradition of firsts emerged, along with a commitment of quality.

Today, with over 35 years of experience, RQL has solidly established its position in the Consumer Electronics Industry. Its spectacular growth is reflected in its modern and comprehensive manufacturing infrastructure that harnesses the power of superior technology to mass-produce quality products.

Today Company is divided into three divisions

- 1. Color Televisions
- 2. Home Appliances
- 3. Refrigeration

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*Case prepared by Dr. Harish Chaudhry, Associate Professor, School of Management, IIT, Delhi.*

Rs.1300 cr. CTV division deals in different models of CTV's. Rs.200 cr. Home Appliances division deals in washing machines and Rs.290 cr. Refrigeration division in refrigerators. The company manufactures 16 models of CTV's; 5 models of washing machines and 6 models of Refrigerators (Details of models are given in Exhibit - 1). Over the years such a large range has been necessitated by the ever-increasing competition and to cater to the specific needs of different consumer segments.

#### EXHIBIT NO. 1.

##### COLOUR TV :

MODEL'S AVAILABLE	SIZE (INCHES)
KTR	14"
KSR	14"
LCR	14"
LVR	20"
LXR	20"
FTR/FWR	20"
FPR	21"
FDR	21"
FNR	21"
FXR	21"
FQR	21"
BXR	25"
BQR	25"
NQR53QD3	29"
NQR53QB3	29"

##### WASHING MACHINES

MODELS	TYPE
BS 50	Semi automatic
BS 40	Semi automatic
BL 40	Semi automatic
BS-35	Semi automatic
DX-30	Semi automatic

##### REFRIGERATORS

MODEL	CAPACITY
3504	350 litres
3503	350 litres
3102	310 litres
2503	250 litres
2502	250 litres
1852	185 litres

### 6.3 DOMESTIC COMPETITION

The market for both consumer electronics and white goods has become crowded in the past two years with the launch of several transnational brands such as Samsung, Akahi, Thomson, LG, Panasonic, Whirlpool, GE and Electrolux, Added to this is the competition from home players like Videocon and Onida, In such a scenario RQL will have to match the financial strengths and marketing clout of it's domestic and transnational counterparts. Moreover RQL has to cut costs as its net profit margins are being hammered. For instance, RQL's

net margins dropped from 7.33% in 1994-95 to 3.72% in 1996-97 for its color TVs' division (see exhibit - 2 for RQL's last year performance).

### EXHIBIT NO. 2

#### RQL'S 1996-97 PERFORMANCE

(Rupees Crores)

	Ctv Division	Home Appliances	Refrigerator Divn.
Total Income	1290.60	198.21	288.82
Net Profits	48.46	6.21	5.18
Reserves & Surplus	271.34	25.19	89.43
Debt	380.09	75.81	121.1
NET MARGIN	3.72 %	3.13 %	1.79 %

Not surprisingly, RQL spent whole of 1996-97 trying to slash its costs. For starter RQL introduces the Japanese management technique kanban, which enables a company to control inventory levels. Despite such cost cutting exercises, RQL has found it extremely tough to improve its profitability levels: as exemplified by its falling net margins. Now another area, which the company is looking at with hope, is the reduction in the costs of its marketing set up. The company thus is trying to tighten the screws on the budgetary process and wants to strictly control the expenses.

## 6.4 BUDGETARY PROCESS AT RQL

RQL works on profit-center basis whereby every division, every region and every branch is a profit center for the company and has to justify its existence in terms of expenses and earnings.

RQL has divided the whole country into four regions. It has 20 branches across the country and nearly 3000 dealers. (exhibit - 3 gives list of branches)

### EXHIBIT NO. 3

#### RQL'S Distribution Set-up

REGION	CORRESPONDING BRANCHES	TOTAL NO OF DEALERS
Eastern Region (Calcutta)	Calcutta, Patna, Bhubhaneswar, Guwahati	461
Western Region (Mumbai)	Mumbai, Pune, Ahmedabad, Nagpur, Panaji, Indore	992
Northern Region (Delhi)	Delhi, Chandigarh, Jaipur, Karnal, Lucknow, Ghaziabad	857
Southern Region (Bangalore)	Chennai, Cochin, Hyderabad, Bangalore	685

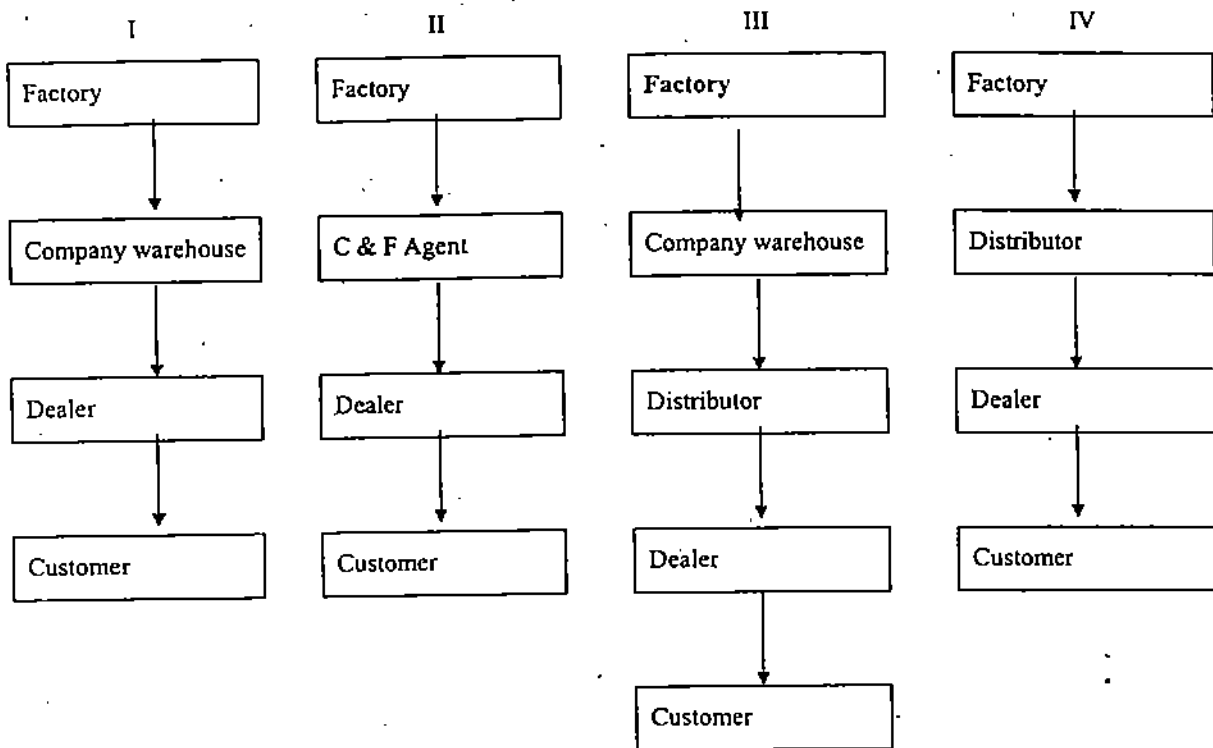
The distribution channel, being used by the company typically involves : factory, Central marketing organization (CMO), regional warehouse, distributors, dealer and customer - in the following order.

Factory → Central Marketing Organization (C.M.O) → Regional Office → Distributor → Dealer → Customer

The distribution channels of most of RQL's competitors are slightly different. The distribution channels typically used by them are shown in Exhibit 4. Most of the RQL's competitors use one of these channels or a combination of them.

**EXHIBIT 4**

**Distribution channels being used by the competitors of RQL Ltd.**



Since RQL operates on a profit center basis, therefore, each entity in its distribution channel passes the material onto the next element of the channel, for a price after keeping some margin for itself. These transfer prices for all the products are enumerated in Exhibit 5.

**EXHIBIT NO. 5**

**STOCK TRANSFER PRICES**

Amount in Rupees

Products	Cost to CMO	Cost to Regional Office	Cost to Distributor	Cost to Dealers	Selling Price
<b>COLOUR TVs</b>					
14"	8450	8765	9230	9670	10125
20"	12500	13290	13886	14215	14798
21"	15517	16140	16787	17315	18077
25"	19500	26075	21090	22712	24224
29"	21815	24215	26112	27897	30989
WASHING MACHINE (ALL MODELS)	6500	7150	7300	7570	8100
<b>REFRIGERATORS</b>					
3504/3503	31200	33720	35215	34914	36970
3102	21716	23215	24846	26117	27825
2503/2502	16987	18795	20053	21817	23678
1852	13987	15053	15917	16817	17985

Now the budgeting at RQL starts with preparation of budget proposals in all the branches and regions. These proposals enumerate the branch-wise/region-wise sales targets, expenditures and expected profits.

The budget proposals are then sent to the head office, which is entrusted with the task of preparing overall budget. Thereafter begins the budgeting exercise at the head office, which starts with fixing the sales targets (in numbers) for all the branches, for the next financial year. These targets may or may not be the same as projected by the regions, in their budget proposals. This is followed by determining stock transfer prices among various constituents of the distribution channel. Thus the company arrives at the budgeted total contribution margins which would be earned by both CMO and the regions.

For example if the company's target for 29" CTV's is 2 lacs sets and contribution from each set is Rs.2,400 for the CMO. Then the budgeted contribution for CMO from the model would be Rs.48 Cr. Similarly total contribution would be calculated after finding budgeted contribution from each model of CTVs, Washing machines and Refrigerators. Likewise budgeted contributions for regions are calculated.

The budgeting exercise then is divided into two parts :

- 1) CMO : Wherein corporate level budgeting for expenses is done
- 2) Regions : Wherein budgeting for regional expenses is done.

This way the budgets for CMO & regions are prepared at the corporate office. These budgets provide for fixed as well as variable costs, which can be incurred by the CMO and regions. The constituents of fixed costs are the normal establishment costs, maintenance, salaries of permanent staff etc. and the prime variable costs are ;

- 1) marketing costs
- 2) sales and distribution
- 3) developmental costs

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## 6.5 MARKETING COSTS

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These costs are incurred at two levels at RQL i.e. corporate and regional levels. At the corporate level, it is primarily the corporate training, renovation and advertising costs. The advertisements are placed across the nation on a variety of media (TV, Print, Hoardings etc.). Some other costs incurred by the C.M.O. are on account of rebates, which are given to the regional offices for promotional purposes.

At the regional level these costs are incurred on account of local advertising, local promotional schemes, gifts and giveaways etc.. These costs are incurred entirely at the discretion of regional marketing heads but within the budgets given by the corporate office. Further, the branches have their own marketing costs which might be used for advertising in vernacular press and other promotional schemes.

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## 6.6 SALES AND DISTRIBUTION COSTS

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The costs incurred in this category are primarily trade discounts, transportation, insurance and merchandising etc.

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## 6.7 DEVELOPMENTAL COSTS

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The costs under this head are generally costs towards marketing research, manpower training and new-markets' development.

Other costs incurred by regional offices are service expenses and travelling expenses of the staff.

In order to keep track of the expenses, RQL has implemented a control mechanism so that actual expenditure does not go haywire vis-à-vis budgeted provisions.

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## 6.8 COST CONTROL EXERCISE AT RQL :

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RQL has put in place a control mechanism to monitor its costs. As per this system the yearly budgets are broken down to month-wise budgets. And every branch is required to send to the regional office, the reports on monthly basis wherein the actual expenses are compared to the budgeted provisions (format of the report is shown in exhibit - 6). The regional office in turn sends the collated results to the head office.



## EXHIBIT NO. 6

### Monthly Performance Report Format

Particulars	Budgeted	Actual	Variance	Remarks
1. Sales				
a) CTV				
b) Washing Machines				
c) Refrigerator				
2. Expenses				
a) Marketing				
b) Sales and Distribution				
c) Developmental Costs				
d) Others				
3. Profit				

In the whole process, the erring branches or regions are questioned in case of excessive costs are incurred or if targets are not achieved or any other type of variance is noticed.

The company believes that this control system keeps the marketing team on its toes, which the company feels is necessary to check the rising competition in the market place.

The company now plans to tighten its cost control system further, because the company believes that key to the survival in the competitive environment is reduced cost and increased sales-volumes. Although the sales of the company are increasing but it is showing downward slide on profitability and market share fronts. Therefore the company has started feeling the heat of the competition.

## 6.9 THE MARKET SCENARIO

Competition is here to stay. The consumer durable industry is under severe attack from multinational competition and it is likely that things will get only worse in the coming years. Using their deep pockets and strong marketing muscle, new multinational entrants into the market like Akai, Sony, Samsung, Daewoo & LG etc. have increased their share of color TV market to about 26% in the last two years. Situation for RQL is no better in case of the washing machines and refrigerators markets.

In refrigerators market all the big names of the industry are here : Godrej, Electrolux, Whirlpool, LG, Samsung, etc. in addition to competing with these giants, RQL has further limited its market by choosing to be only in the frost free segment. The total demand for Refrigerators is 1.8 mm per annum of which around 6% constitutes the frost free refrigerators' demand.

In the washing machines' market, the main players are Godrej, Whirlpool, Videocon, RQL, LG, Onida and Voltas. Here RQL has products in the semi-automatic segment. Total annual demand for washing machines is 0.75 mm of which 95% constitutes the semi-automatic machines demand.

Despite all this RQL has been able to increase its sales primarily because the demand for consumer durables is increasing at about 20% per annum and RQL is still a strong brand in almost all the products it has launched. This can be seen from the fact that RQL is number one in CTV market with 24% market share. It has 45% of market share in the frost-free refrigerators and it has 15% share in the semiautomatic washing machines market. But this is not the time for RQL to be complacent as the multinationals are eating into market shares of all the Indian players including RQL.

Under the onslaught of the multinationals, profit margins of all the Indian companies including RQL are on the decline on account of the extra effort each has had to put in for marketing, while not raising prices. In case of RQL'S CTV division the profit came down to 3.72% in 1996-97 from 7.33% in 1994-95. This year is expected

to be worse keeping in view the fact that in order to counter competition from foreign brands in the domestic market, the company has been incurring higher selling expenses in the form of dealer discounts and advertising leading to drop in margin. This trend if not arrested will lead to the end of a leader, hence the emphasis on cost cutting in the company.

## 6.10 ISSUES BEFORE THE COMPANY

Although RQL has a strict expenditure control system but the company is unable to understand from its control exercise, whether or not the system is getting the required results in terms of market share, brand image, availability of the material in the market, visibility of its products in the market etc. The company is also unable to figure out whether the budgeted costs are doing justice to all the regions and the brands it has in its stable.

Mr. Dhanpat, who is now preparing the budget for the year 1997-98, wants his budget to be fair to all quarters. The issues he has to address are :

- a) Freeing the marketing expenses at the last year's level while increasing the sales by at least 15% in each region.
- b) Properly distributing the expenditure budget among the four regions and products.
- c) Best possible distribution of costs under various heads viz. marketing costs, sales and distribution costs, developmental costs, etc.
- d) The helping tools that Mr. Dhanpat has at his disposal are :
  - 1) Last year's budget (exhibit - 7)
  - 2) Last year's actual performance - figures (exhibit - 8)
  - 3) Budget proposals of the four regions (exhibit - 9) for next year.

### EXHIBIT NO.7

#### Budget for the year 1996-97

Particulars	Eastern Region	Western Region	Northern Region	Southern Region	Total	CMO
1. Sales						
a) CTVs	27000	37000	33500	31000	128500	91100
b) Washing machines	3500	6500	5500	4500	20000	14130
c) Refrigerators	2500	12000	8000	5000	27500	16150
Total Sales	33000	55500	47000	40500	176000	121380
Transfer Price	22960	37560	32670	28190	121380	97100
Contribution	10040	17940	14330	12310	54620	24280
Marketing Expenses	2060	3850	3250	2520	11680	6500
Sales & Distribution	1500	2700	2150	1850	8200	3600
Developmental costs	515	2120	940	600	4175	3250
Other Costs	1050	1800	1500	1250	5600	3650
Fixed Costs	2010	3600	2900	2550	11060	6250
Net Contribution	2905	3870	3590	3540	13950	1030

**EXHIBIT NO.8**

Actual performance for the year 1996-97

Particulars	Eastern Region	Western Region	Northern Region	Southern Region	Total	CMO
I. Sales						
d) CTVs	26183	37667	34209	31001	129060	91687
e) Washing machines	3192	6571	5509	4549	19821	14747
f) Refrigerators	2235	12896	8722	5029	28882	16457
Total Sales	31610	57134	48440	40579	17763	122891
Transfer Price	21465	39873	33211	28342	122891	98762
Contribution	10145	17261	15229	12237	54872	24129
Marketing Expenses	2032	4029	3629	2817	12507	6523
Sales & Distribution	1729	2862	2563	2129	9283	3960
Developmental costs	627	1653	826	478	3584	3243
Other Costs	1362	1962	1772	1356	6462	3721
Fixed Costs	2092	3722	3102	2563	11479	6343
Net Contribution	2303	3033	3337	2894	11567	339

**EXHIBIT NO. 9**

Budget proposals for the year 1996-97

Particulars	Eastern Region	Western Region	Northern Region	Southern Region	CMO
I. Sales					
g) CTVs	28800	41000	37600	34100	105450
h) Washing machines	3250	7200	6050	5000	17100
I) Refrigerators	2400	14100	9550	5500	18950
Total Sales	34450	62300	53200	4460	141500
Transfer Price	23395	43475	36470	31150	113720
Contribution	11055	18825	16730	13450	27780
Marketing Expenses	2350	4650	4150	3140	7370
Sales & Distribution	1895	3290	2950	2450	4475
Developmental costs	595	1800	950	550	3665
Other Costs	1470	2100	1800	1560	4150
Fixed Costs	2150	3750	3310	2820	6977
Net Contribution	2595	3235	3570	2930	1143

**6.11 DISCUSSION QUESTIONS**

1. How can Mr. Dhanpat design a better budgeting and cost control system that would :-
  - i) Enable RQL to tap market opportunities at the optimal cost.
  - ii) Empower the marketing and sales teams to function effectively.
  - iii) Provide timely and adequate information to the top management on the budget and cost studies on a regular basis.
  
2. How should such a system be monitored?

NOTES

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