SALES AND DISTRIBUTION MANAGEMENT

PGDM-104

BLOCK 1:

BASICS OF SALES MANAGEMENT AND SALES ORGANIZATION

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SALES AND DISTRIBUTION MANAGEMENT

Knowledge Management and
Research Organization
Pune

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

SALES AND DISTRIBUTION MANAGEMENT

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SALES AND DISTRIBUTION MANAGEMENT

BLOCK 1: BASICS OF SALES MANAGEMENT AND SALES ORGANIZATION

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Block Introduction

The study of sales and distribution management is considered to be very important for the students of commerce and management stream especially for those who intend to opt for sales or marketing stream in their future carrier.

In this block the whole content has been divided into two units. The first unit covers the topic sales organisation and has been discussed in very detail, whereas the second unit covers the topic salesmanship and sales management which has even been discussed in detail. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. Unit one covers the sub topics such as the Sales Organization, Centralized and Decentralized Organizations, Line and Staff Organizations, Types of Sales Force Structure. Whereas the unit second the sub topics such as What is Salesmanship?, Sales Vary in Difficulty, Theoretical Aspects of Salesmanship, AIDAS "Theory" of Selling, Prospecting, Closing Sales, Characteristics of Successful Salesmen.

Through the study of this block the students will get a very clear picture of this subject. They will get to know about the sales organisation as well as sales man ship and sales management.

Block Objective

After learning this block you will be able to understand:

- The various types of sales organisation.
- Salesmanship
- Theories of salesmanship
- Successful sales man

Block Structure

UNIT 1: THE SALES ORGANIZATION

Unit Structure

1.0 Learning Objectives

1.1 Introduction

1.2 Centralized and Decentralized Organizations

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1.4 Types of Sales Force Structure

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1.5 Let Us Sum Up

1.6 Answers for Check Your Progress

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1.8 Assignment

1.9 Activities

1.10 Case Study

1.11 Further Readings

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- Centralized and Decentralized Organizations.
- The Line and Staff Organizations.
- The Geographic-Based Sales force Structure.
- The Customer-Based Sales force Structure.

1.1 Introduction

Existence of a sales organization implies the existence of patterns of relationships among subgroups and individuals established for purposes of facilitating accomplishment of the group's aims. Organizational defects often trace to lack of attention given to sales organization during the early existence of a company. When setting up a business, management is more concerned with financing and non-marketing problems. Executives of new enterprises consider organization questions, but most often these relate to non-marketing activities. In manufacturing, for example, as products are improved, production quantities increased, new products added, and production processes developed, the manufacturing organization is adapted to changed situations. Similar alterations in the sales organization are frequently neglected or postponed.

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

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

1.2 Centralized and Decentralized Organizations

Organization structures can also be classified on the basis of delegation of authority into centralized and decentralized organizations.

Centralized Organization: A centralized sales organizations is one where there is a common sales force to sell the products of more than one division of the company. A centralized organization typically consists of a corporate headquarters and various divisions under it. The authority and decision making power lies entirely with the top management, which controls all organizational activities like recruitment, training and performance evaluation. This type of structure is common in small firms because the size makes it easy for the top management to supervise, control and ensure smooth flow of operations. A centralized organization structure is well suited when the products too are sold in similar markets.

In centralized sales organization, the sales force may not be given the authority to take decisions. This makes it difficult to for them to act independently and convert new prospects into customers. They also lack the freedom to make concessions to customers in the form of higher discounts to retain them and induce them to make repeat purchased. Let us now look at the advantages and disadvantages of this type of structure.

Advantages of centralized organization structure:

1. Since decision making is restricted to the top management, it is easier to align sales force activities with the corporate mission and objectives.
2. A centralized organization structure is suited to small-sized organizations as it allows the top management to monitor and control all activities and operations.
3. There is no conflict between different functions because decision-making is centralized and there is no possibility of difference opinion.
4. An organization with centralized structure has a centralized sales force. This is economical as it eliminates the need for a separate sales force for every product, territory or market.

Disadvantages of a centralized organization structure:

1. The retention of all authority by the top management inhibits skills development in sales personnel.
2. In this structure, top management approval is necessary for all actions. This increases the response time of the organization, which may irritate the customer.
3. The decision-making authority rests with the top management. So, decision might be taken without consulting sales personnel or taking their opinion. This could affect the latter's morale and fail to address problems at the sales front.

Decentralized organization: A decentralized sales organization is one in which each division within the organization has its own sales force to sell the products of the division alone. The top management delegates authority and resources to lower levels of the organization. The sales department functions as an independent entity and the sales force has the freedom to independently take decisions pertaining to sales accounts. This structure is suited for large organizations where it is not possible for the top management to supervise all activities and for markets that differ from each other considerably.

Advantages of decentralized organization structure:

1. Decentralization allows the sales force to take decisions on its own, based on the information it possesses, experience and judgment. Decentralization leads to better utilization of information and personnel skills at the lower levels of the organizational hierarchy.
2. This structure places the responsibility of formulating strategies on those who are closer to the scene of action. It helps increase the morale and job satisfaction of these personnel and motivates them to function with greater enthusiasm and zeal.
3. The structure allows organizations to capitalize on the expertise and knowledge of divisional managers or managers of business units with regard to products, markets, competitors and customers in the local market.
4. There is greater flexibility and the organization can adapt itself according to requirements and changes in the local business environment.
5. The top management focus on more strategic issues instead of monitoring routine matters.
6. As decisions can be taken at the divisional level rather than referring everything to the top management for approval, the response time of the organization is reduced. Such organizations can respond to environmental changes, counter threats and seize opportunities much faster.
7. A decentralized organization structure encourages innovation and risk-taking in divisional managers thanks to greater resource autonomy and fewer regulatory controls. The managers feel confident as faith has been placed in them.

Disadvantages of decentralized organization structure:

1. A decentralized structure increases the organization’s costs. Maintaining a sales force for every division hikes overhead costs.
2. This structure places the responsibility for achieving organizational goals on divisional managers rather than on top management. This can lead to

organizational inefficiencies because of competition between various divisions. Competition can also cause non-cooperation between divisions, which will harm the organization.

3. There may be a loss of control over divisional managers by the top management. The former may tend to misuse their autonomy by placing more importance on the objectives of their own division rather than on organizational aims.

The top management in a decentralized organization structure might often be unaware of ground realities on the sales front. This makes it difficult for the top management to address problems faced by the sales personnel.

Check your progress 1

1. Organization structures can also be classified on the basis of _____________into centralized and decentralized organizations.

   a. delegation of authority

   b. delegation of responsibility

2. A centralized sales organizations is one where there is a common sales force to sell the products of more than _________division of the company.

   a. One

   b. Multiple

3. A decentralized sales organization is one in which each division within the organization has its own sales force to sell the products of ___________.

   a. Division alone

   b. All the division

4. In ________sales organization, the sales force may not be given the authority to take decisions.

   a. Centralized

   b. Decentralized

5. Since decision making is restricted to the _____management, it is easier to align sales force activities with the corporate mission and objectives.

   a. Top   c. middle

   b. Lower

1.3 Line and Staff Organizations

Line functions involve all activities that directly contribute to creating, developing and delivering an output. They are directly related to the achievement of organizational objectives. Production, marketing, sales and finance are examples of line functions. Staff functions on the other hand, are of a supportive and consultative nature. They support line function and, their contribution to reaching objectives is indirect. Human resources activities such as hiring, staffing, training and compensating sales force are examples of staff functions.

While deciding the sales organizational design, awareness of line and staff relationships is necessary to avoid confusion and disruption in selling activities. In a sales organizations, all primary activities related to selling, such as personal selling, sales planning, sales forecasting, budgeting and assigning sales territories, come under the line function. All related non-selling activities like gathering information, sales training and sales advertising are supporting or staff functions. A line organization is the simplest form of organization, in which authority flows from top to the lower levels. The field sales reports to a sales manager who reports to the sales/marketing director. This arrangement is known as line arrangement. A line organizational structure can exist in very small companies or within small-sized sales departments within large organizations.

Advantages of a line organization structure:

1. A purely line sales organization is less expensive and facilitates easier coordination of activities as it has a very simple structure with clear-cut demarcation of positions, authority and responsibilities.
2. It helps quick decision making because of a well-defined hierarchy.
3. It prevents conflicts from arising due to differences in thinking between personnel in charge of different functions.

Disadvantages of a line organization structure:

1. Decisions made by sales managers my lack the staff perspective. This can cause problems like unsuitable recruitment and training of personnel, inappropriate compensation and other human resource problems. Decisions on such things should be left to HR personnel who are specialists in this field.
2. It is very difficult for a line manager to handle multiple activities because of their inherent complexity. While handling multiple activities, the line manager may get too involved in operational matters and lose the strategic or competitive focus.

Nowadays sales organizations do not opt for a purely line structure due to many reasons. First, front-line sales personnel have too much responsibility. Next, since there is no staff functions to assist them, sales managers have to oversee activities other than selling, like market research, which can take away focus from their core competence. The line and staff type of organizational structure is probably the most common and popular form of sales organization structure today. It has the added advantage of staff specialization where activities not directly related to selling like market research and advertising, are handled by qualified people. Generally companies that have a large sales force, a wide range of products to be sold and which operate in various markets adopt this type of structure.

Unlike in line organizations, where the field force reports to a sales manager who, in turn, reports to the sales/marketing director, in a line and staff organization, reporting relationships vary according to the importance of staff activities. For example, in a conventional sales organization, the sales personnel report to the sales manager. In a sales organization having line and staff personnel, sales personnel sales personnel may report to an AGM (Assistant General Manager) or a Regional manager, who may not be associated with the sales department.

Advantages of a line and staff organization structure

1. The presence of staff personnel adds expertise and a staff perspective to strategic decisions made by sales managers. This improves the quality of decisions.

2. This type of structure is best suited for organizations with few products. This is because, with a large number of products, there is possibility of coordination going haywire and also an increase in conflicts between various functions.
3. This type of structure is also suited for organizations operating in a stable environment because any change that is initiated will take place very slowly.

Disadvantages of a line and staff organization structure:

1. In a line and staff organization structure, the probability of problem arising is high because of conflicting objectives of line and staff personnel.
2. Lack of coordination between different functions may lead to dilution of focus on the customer.
3. Each function may try to further its own objectives, resulting in organizational goals being ignored.
4. If there is poor coordination between departments, the chances of innovation of products and processes are reduced.

Check your progress 2

1. _________functions involve all activities that directly contribute to creating, developing and delivering an output.

   a. Line c. Functional

   b. Department

2. Production, marketing, sales and finance are examples of ______functions.

   a. Line

   b. Line and staff

3. A purely ______________ sales organization is less expensive and facilitates easier coordination of activities.

   a. Line

   b. Line and staff

4. __________helps quick decision making because of a well-defined hierarchy.

   a. Line

   b. Line and staff

5. In a ________organization structure, the probability of problem arising is high because of conflicting objectives of line and staff personnel.

   a. line and staff

   b. line

1.4 Types of Sales Force Structure

Developing a successful sales organization involves adapting organizational processes and structure to meet the demands of the ever-changing market place. A company decided on a particular type of sales force structure depending upon factors such as type of market (developing or fully developed), region or country, type of industry being operated in, customers to which it caters, level of sales desired, size of the sales force and the width and depth of the product mix.

On the basis of these factors, there can be four types of sales force structure – product – based structure, geographic structure, customer-based structure and combination structure. Usually organizations select the type by weighing the profits that can be accrued from each structure against the costs involved in coordinating the sales effort using the structure. They then choose the best option.

1.4.1 Product-Based Sales Force Structure

In a product-based structure, sales force responsibilities and activities are divided according to the type of product sold There can be a single (product/product line) sales force or a multiple (product/product line) sales force. This structure is suited for companies that manufacture a variety of complex technical products or products that are dissimilar and unrelated. 3M Corporation uses separate sales personnel to sell its wide range of product lines. IBM and Xerox have also switched over from a divisional type of sales force structure to the product type. However, while adopting this type care should be taken to avoid duplication of the sales effort.

Advantages of a product-based sales force structure:

1. In this type of structure, since the sales person simultaneously handles more than one product and can promote many products in a single sales call, it reduces the frequency and number of calls the sales person needs to make on a customer.
2. This structure is suitable when purchase rates and frequency of buying are high and customers buy from a set of closely related and complementary, competing products.
3. When the territory assigned to sales personnel is large and a lot of time is spent traveling to clients, a multi-product based sales force structure reduces costs and saves time.

Disadvantages of a product-based sales force structure:

1. There is a possibility of duplication of activities at the corporate and regional levels in the organization due to sales personnel handling multiple products. If the products to be sold by the sales persons are not clearly defined, there is a chance that more than one sales person may approach the same customer with a particular product.
2. There is also the possibility of clash of objectives between the product division and the management. Sometimes the former's aims may not be in the strategic interest of the organization. For example, there can be conflict of objectives if the product division follows a market skimming strategy to earn rapid profits at a time the organization is planning a frontal attack through a price war.

1.4.2 Geographic-Based Sales Force Structure

In a geographic sales force structure, the sales force is grouped by physical territories. It is the most widely used system in dividing responsibility and authority among sales forces. Each sales person is assigned a separate geographic territory and each territory is headed by a regional or a zonal manager. This structure is suited for companies that have mature product lines with several products targeted at the same market. It is also ideal for companies that manufacture products with a high degree of similarity. Generally, pharmaceutical, automotive and FMCG companies prefer this type of structure.

Advantages of geographic sales force structure:

1. It reduces time and expense on travel because sales personnel are based in their respective territories and limit their sales efforts to that region.
2. It is the simplest method by which a company can equalize territories among sales personnel, in terms of current and potential business. It helps companies to delegate responsibility among sales personnel equitably and ensures coverage of the entire market.
3. Every sales person has an assigned territory and customer base. This helps the company and its sales force to meet local requirements better and make changes to suit local conditions. This contributes to better relationship building and customer satisfaction.

Disadvantages of geographic sales force structure:

1. The sales personnel lace specialized training pertaining to the product and may not be as efficient as their counterparts in a product-based sales structure. As the sales personnel will handle many products in a territory, there is less chance of their developing competency and technical expertise for products.
2. In a geographic structure, local managers lack supporting staff for non-selling activities like market research, advertising and sales promotion. During these jobs is an additional responsibility for the local managers. This can lead to loss of focus on specialized marketing activities.
3. Sales personnel are limited to their respective territories, leading to poor coordination of sales efforts across different product lines. This makes integration and standardization of selling activities across product lines difficult.

1.4.3 Customer-Based Sales Force Structure

In this type of structure, the sales force is divided on the basis of customer needs. This structure is preferred when specific customer groups require special attention due to differences in their needs

In the pharmaceutical industry, organizations adopt a customer-based sales force structure to target customers in different market segments. For example, Merck along with Astra AB has formed Astra/Merck to sell drugs. The new organization has a much smaller sales force than a typical pharmaceutical company. It has only three levels of hierarchy between CEO and front-line sales people. Based on customer requirements, the sales force sells products belonging to either company. Asea Brown Boveri (ABB) is another example of a customer – based organization. In 2001, ABB recognized itself around customer groups to increase the pace of growth in a globalized market. It divided the business groups into four customer segments – Utilities, Process industries, Manufacturing and Consumer industries, and Oil, Gas & Petrochemicals. ABB was among the first in the industry to organize itself around customers rather than technologies. To build strong customer relationships, many organizations have advanced to using strategic account management. In such a sales force structure, sales personnel are allotted a certain number of high potential customers with the potential to bring business to the company. The sales personnel concentrate exclusively on meeting customer requirements with tailor-made sales programmes.

Advantage of a customer-based sales force structure:

1. This structure is advantageous when the company has a wide range of products to offer to customers. A customer-based sales force will be able to accurately assess customer needs and offer those products, which will meet customer requirements.

Disadvantages of a customer-based sales force structure:

1. In a customer-based sales force structure, the sales function and the finance and production functions may have difference emphasis, resulting in lack of coordination.

Further, some sales personnel may pressurize the management for special favours like higher discounts and credits tailor-made to specific customers. This can lead to dissatisfaction among other sales personnel. Giving such extra concessions to some sales persons makes it difficult to uniformly evaluate the sales force.

Check your progress 3

1. __________ Type of structure, since the sales person simultaneously handles more than one product and can promote many products in a single sales call.

   a. product-based sales force structure

   b. geographical based sales force structure

   c. Customer based sales force structure

2. There is a possibility of duplication of activities at the corporate and regional levels in the organization due to sales personnel handling multiple products.

   a. Product based sales force structure

   b. Geographical based sales force structure

   c. Customer based sales force structure

3. In a_____________, the sales force is grouped by physical territories.

   a. geographic sales force structure

   b. product based sales force structure

   c. customer based sales force structure

4. ________is the by which a company can equalize territories among sales personnel, in terms of current and potential business.

   a. Geographic sales force structure

   b. Product based sales force structure

   c. Customer based sales force structure

5. __________structure is preferred when specific customer groups require special attention due to differences in their needs.

   a. Customer based sales force structure

   b. Geographic sales force structure

   c. Product based sales force structure

1.5 Let Us Sum Up

In this particular unit we studied about the centralised and decentralised organisation. We studied that a centralized sales organizations is one where there is a common sales force to sell the products of more than one division of the company whereas a decentralized sales organization is one in which each division within the organization has its own sales force to sell the products of the division alone. We even studied about the line and staff organisations along with their advantages and disadvantages.

Product wise sales force structure was also discussed here in this block. This chapter was of great help for the readers who wanted to get familiar about the organisation and its structure.

1.6 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

1.7 Glossary

1. **Centralized and decentralized -** In a centralized organization head office (or a few senior managers) will retain the major responsibilities and powers. Conversely decentralized organizations will spread responsibility for specific decisions across various outlets and lower level managers.

1.8 Assignment

1. What is Centralized and Decentralized Organization? State the differences between both.
2. What are the different types of sales force structure? Write briefly about each structure?

1.9 Activities

Write down any two advantages each of line and staff organization.

1.10 Case Study

Visit some of the organizations which are familiarized with you. Observe and find out the basic structure of sales force which is existing there.

1.11 Further Readings

1. Sales Management - by Chris Noonan.
2. Sales Team 1 - by Walter F. Spath.

UNIT 2: SALESMANSHIP AND SALES MANAGEMENT

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- What is Salesmanship?
- The Theoretical Aspects of Salesmanship.
- The AIDAS "Theory" of Selling.
- The "Right Set of Circumstances" Theory of Selling.
- The "Buying Formula" Theory of Selling.
- The "Behavioural Equation" Theory.
- The Steps in Prospecting.
- Closing Sales.
- Characteristics of Successful Salesmen.

2.1 Introduction

The fully qualified sales executive has a thorough understanding of the various activities that make up the salesman's job, is aware of the many problems salesmen are likely to encounter, and is prepared to make practical suggestions for their solution. Among other things, this means that he must have a keen grasp of the theoretical aspects of salesmanship; and he should have learned, preferably through field experience, how the theories relate to and work out in practice. Although many sales executives, some of them outstanding, have had little or no experience as salesmen, the normal progression to sales management is through selling. There are cases, however, of unusually good salesmen being utter failures as executives—the characteristics that make a man a good salesman do not necessarily make him a good executive. Nevertheless, all other things being equal, usually the man who has been, or could have been, successful as a salesman, is likely to prove successful as a sales executive.

The sales executive must be in close enough touch with actual selling situations to have a sympathetic understanding of the problems his men face daily. He realizes that they are subjected to many frustrations. He knows they have to cope with obstacles to sales that often arise unexpectedly and require great ingenuity to surmount. Equipped with this understanding, the sales executive has the background needed to recruit, select, and train salesmen for maximum productivity; he should also be able to direct their efforts efficiently, and to evaluate their achievements realistically.

2.2 What is Salesmanship?

In spite of the fact that the terms “personal selling”- and “salesmanship” are often used interchangeably, it is desirable to note the difference between them. Personal selling is the broader concept. Salesmanship may or may not be an important part of personal selling; it is never all of it. Along with other key marketing elements such as pricing, advertising, product development and research, marketing channels, and physical distribution, personal selling is a means through which marketing programs are implemented. Combined and integrated into a marketing program, these marketing elements become the strategy with which a firm seeks to achieve its marketing objectives. Whereas the broad purpose of marketing is to bring a firm's products into contact with markets and to affect profitable exchanges of products for money, the purpose of personal selling is to bring the right products into contact with the right customers, and to make certain that ownership transfers take place. Salesmanship is one of the skills used in personal selling; as defined by Professor Haas, it consists of the ability to interpret product and service features in terms of benefits and advantages to the buyer, and to persuade and motivate him to buy the right kind and quality of product.

That salesmanship is an important part of the salesman's job is emphasized by Professor Tosdal, who notes that “The basic task of the salesman is one of informing and persuading prospective buyers, of establishing in buyers' minds those attitudes which lead to buying action, either immediately or subsequently.”

Salesmanship, then, is seller-initiated effort that provides prospective buyers with information, and motivates or persuades them to make favourable buying decisions concerning the seller's product or service. Salesmanship may be implemented not only through personal selling but through advertising. Oftentimes, in fact, advertising is described as “salesmanship in print.” The definition of the American Marketing Association reads: “Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Professors Wright and Warner write that “modern advertising is planned with persuasion as the objective.”

Thus, advertising and personal selling are simply two different means sellers’ use in their attempts to inform and to motivate or persuade prospective buyers to buy—both means make use of salesmanship techniques. Salesmanship in advertising utilizes non-personal presentations; salesmanship as practiced by salesmen involves the making of personal presentations. Non-personal, advertising-type presentations are necessarily less flexible than those made by salesmen. An advantage unique to personal selling is that the personal salesman can usually identify differences among buyers, and pattern his presentation according to individual peculiarities.

Buyer-Seller Dyads: Fundamental to an understanding of salesmanship is recognition that it involves buyer-seller interactions. Sociologists use the term “dyad” to describe a situation where two people interact with one another. The salesman and his prospect, personally interacting with each other, constitute one example of what we will call a “buyer-seller dyad.” Another example is provided by the interaction of a seller using advertising with a particular prospect in the reading, listening, or viewing audience. In both the advertising and personal selling situations, the seller, generally speaking, is trying to motivate or persuade the prospective buyer to behave favourably to the seller. Whether or not the buyer reacts as the seller wants him to depend upon the resulting interaction. The opportunity for interaction is obviously less in, the advertising case than in the personal selling case, pointing up another advantage unique to personal selling. It should be mentioned, however, that in many situations, advertising and personal salesmanship supplement or support each other, and the buyer's reaction results from the combined impact of both.

In one interesting piece of research, Franklin Evans studied buyer-seller dyads in the life insurance business. This research revealed that prospects who bought insurance knew more about the salesman and his company, and felt more positively toward them, than prospects who did not buy. Furthermore, the more alike the salesman and his prospect were, the greater was the likelihood that a sale would result. This was true for physical characteristics (age, height), other objective factors (income, religion, education), and variables that could be related to personality factors (politics, smoking). These findings have considerable significance for sales management. Wherever possible, salesmen should be assigned to prospects whose characteristics are similar to their own, thus improving the chance that successful dyadic relationships will result. It should be mentioned, however, that pairing of salesmen and customers with similar backgrounds may be more easily accomplished in industrial selling, where there are fewer prospects about which information is needed, than in consumer-goods selling, where the number of prospects and customers per salesman is generally much larger.

In another interesting research project, Henry Tosi studied dyads made up of wholesale drug salesmen and retail pharmacists who made buying decisions. One apparent finding was that, when the buyer perceived the salesman's performance to be similar to his concept of “ideal” performance, the number of sources from which purchases were made was low. Although this did not necessarily result in a larger percentage of purchases from the salesman, customer satisfaction with the salesman's behaviour did at least allow him to get into the store conclusion was that, in addition to physical characteristic and objective factors cited by Evans, the customer's perception of how well the salesman's behaviour fits into the customer's conception of what that behaviour should be is a necessary condition for the continuation of dyadic interaction.9

Check your progress 1

1. The terms ___________ and salesmanship are often used interchangeably.

   a. personal selling

   b. Selling

2. ____________may or may not be an important part of personal selling.

   a. Salesmanship

   b. Personal selling

3. Salesmanship may be implemented not only through personal selling but through ___________.

   a. Advertising

   b. Selling

4. ____________use the term “dyad” to describe a situation where two people interact with one another.

   a. Sociologists

   b. Capitalist

5. ____________in advertising utilizes non-personal presentations.

   a. Salesmanship

   b. Personal selling

2.3 Sales Vary in Difficulty

The relative degree of difficulty encountered in making sales varies considerably from one situation to another. In analysing this problem, it is helpful to distinguish between two kinds of selling—service and developmental. In service selling, the objective is to obtain sales from people who are already customers, and whose habits and patterns of thought are already conducive to such sales. The objective in developmental selling is not so much the creation of sales as the creation of customers out of people who do not at the moment view the salesman's company favourably, and who are undoubtedly resistant to change. McMurry points out those individual sales positions require different amounts of service and developmental selling and classify sales positions according to their location on a spectrum involving degrees of developmental skill, from the very simple to the highly complex.

McMurry thus identifies seven main types of sales positions:

1. Positions where the “salesman's” job is predominantly to deliver the product, e.g., milk, bread, fuel oil.
2. Positions where the salesman is predominantly an inside order taker, e.g., the haberdashery salesman standing behind the counter.
3. Positions where the salesman is also predominantly an order taker but works in the field, as the packing house, soap, or spice salesman does.
4. Positions where the salesman is not expected or permitted to take an order, but is called on only to build good will or to educate the actual or potential user, e.g., the distiller's “missionary man,” or the medical “detail man” representing an ethical pharmaceutical house.
5. Positions where the major emphasis is placed on technical knowledge, e.g., the engineering salesman who is primarily a consultant to the “client” companies.

6. Positions that demand the creative sale of tangible products such as vacuum cleaners, refrigerators, siding, and encyclopaedias.

7. Positions requiring the creative sale of intangibles, such as insurance, advertising services, or education.

The more developmental selling required in a particular sales position, the more difficult it is to make sales. The amount of developmental selling required, in turn, depends upon the natures of the prospect (or customer) and the product. The easiest sales are self-send sales, which McMurry omits from his spectrum and rightly so—the customers are aware of their needs, they know which products are capable of satisfying these needs, and they sell themselves. The most difficult sales are those that involve intangibles. The customers usually are not fully aware of their needs; someone must explain the existence of these needs, and how the intangible can satisfy them. Such selling requires effective explanations of the benefits to be derived from the intangible, and the consequences of not buying it. The level of difficulty of the majority of sales falls between these two extremes. The prospect has some awareness of the need; but, before the purchase is made, the salesman must further define the nature of the need, and explain the product and its benefits.

Check your progress 2

1. In service selling, the objective is to obtain sales from people who are ______customers.

   a. Already

   b. New

2. The objective in __________is not so much the creation of sales as the creation of customers out of people who do not at the moment view the salesman's company favorably.

   a. developmental selling

   b. advertising

3. The more developmental selling required in a particular sales position, the more difficult it is to make ____.

   a. Sales

   b. Promise

4. The easiest sales are ______sales, which McMurry omits from his spectrum.

   a. self-send

   b. development

5. Before the purchase is made, the __________must further define the nature of the need, and explain the product and its benefits.

   a. Salesman

   b. Entrepreneur

2.4 Theoretical Aspects of Salesmanship

Two quite different sources have been tapped in the effort to identify and explain significant aspects of salesmanship—the process of influencing others to buy.

The first source, which was the first to be tapped, involved the distillation of so-called selling theories from the experiences of successful salesmen and, to a lesser extent, advertising professionals. Many such persons, of course, have succeeded because of their grasp of practical, or learned-through-experience psychology, and their almost intuitive ability to apply it in actual sales situations. Thus, it is not too surprising that such selling theories emphasize the 'what to do' and 'how to do' rather than explaining 'why' It is important to recognize that these theories are based on an experiential kind of knowledge that is accumulated from years of 'living in the market' rather than on a systematic, fundamental body of knowledge, are subject to Howard's dictum, "Experiential knowledge can be unreliable."

The second source, which has been tapped only comparatively, recently, includes the behavioural sciences whose research findings a growing number of marketing scholars have been attempting to apply to the problems of buying and selling. Late E. K. Strong, Jr., Professor of Psychology at the Stanford University, Graduate School of Business, was one of the pioneers in this effort, and his "buying formula" theory of selling is presented later in this section. Professor John A. Howard of Columbia University, Graduate School of Business, has been in the forefront of the group of marketing scholars concerned with borrowing and adapting the findings of research in behavioural science to the analysis of buying behaviour; his "behavioural equation" represents an attempt to develop a unified theory of buying and selling. This behavioural equation is also discussed later in this section.

The purpose of this section, then, is to acquaint the reader with four attempts to identify and explain the nature of the process of influencing others to buy. The first two, the "AIDAS" theory and the "right set of circumstances" theory, are sales manor seller-oriented. The third, the "buying formula" theory of selling, is buyer-oriented. And the fourth, the behavioural equation, emphasizes the buyer's decision process, but also takes the salesman's influence process into account. Our intention is not to provide the reader with a secret formula for successful selling; indeed, we are unaware of the existence of any such formula. Our belief is that the reader will understand the selling process better if he knows something of the four "theories" discussed below

Check your progress 3

1. The ____________source, which has been tapped only comparatively, recently, includes the behavioral sciences.

   a. Second

   b. First

2.5 AIDAS "Theory" of Selling

The first theory—popularly known as the AIDAS theory, after the initials of the five words used to express, forms the basis for many salesmanship and advertising texts, and is the skeleton around which many training programs in salesmanship are organized.

Although some support for this theory is found in the psychological writings of William James, there is little doubt that the construct is based mainly upon experiential knowledge and, in fact, was in existence as early as 1898. During the successful selling interview, according to this theory, the prospect's mind passes through five successive mental states: attention, interest, desire, action, and satisfaction. Implicit in this theory is the notion that the prospect who buys goes through these five stages consciously; thus, the salesman's presentation must lead the prospect through them in the right sequence if a sale is to result.

- **Securing Attention:**

In this phase the salesman seeks to put the prospect into a receptive state of mind so that the main body of the presentation may be started. The first few minutes of the interview are often crucial. The salesman has to have a reason, or at least an excuse, for conducting the interview. If he has made a previous appointment with the prospect, this phase should present no great problem; but experienced salesmen say that even with such an appointment a salesman must possess considerable mental alertness, and be a skilled conversationalist, to survive the beginning of the interview. The prospect's guard is naturally up, since he realizes that his caller is bent on selling him something. So the salesman must establish good rapport at once. He needs an ample supply of "conversation openers", and he must strive to make a favourable first impression. Favourable first impressions are assured by, among other things, proper attire, neatness, friendliness, and a genuine smile. Oftentimes, skilled salesmen decide upon conversation openers just before the interview so that the gambits chosen will be as timely as possible. Generally it is considered advantageous if the opening remarks are about the prospect (people like to talk and hear about themselves), or if they are favourable comments about aspects of the prospect's business. A good conversation opener causes the prospect to relax his feeling of caution and sets the stage for succeeding phases of the salesman's presentation. Conversation openers that cannot be readily tied in with the remainder of the presentation should be avoided, for once the conversation starts to wander and great skill is required to return to the main thrust of the presentation.

- **Gaining Interest:**

The salesman's second task is to intensify the prospect's attention so that it evolves into a state of strong interest. Many techniques are used for gaining interest. Some salesmen develop a contagious enthusiasm for their product, becoming so inspired that the prospect's interest is built up almost automatically. Another technique is to let the prospect handle the product, or a sample. When the product is bulky or technical, sales portfolios, flipcharts, or other visual aids serve the same purpose.

Throughout the interest phase, one of the salesman's main purposes should be to search out the selling appeal that is most likely to be effective. If the salesman is fortunate, the prospect drops hints, which the salesman then uses in selecting the best approach. To encourage the prospect along this line, some salesmen devise stratagems to elicit revealing questions. Others draw out the prospect by asking questions designed to clarify attitudes and feelings toward the product. The more experienced the salesman, the more he can rely for possible clues on what he has learned from other interviews with similar prospects. But even experienced salesmen often must resort to considerable probing, usually of the question-and-answer variety, before identifying the strongest appeal. It should be mentioned, too, that the prospect's interest is also affected by such factors as his basic motivations, the closeness of the interview subject to his current problems, the timeliness of the subject, and his mood—receptive, sceptical, or hostile—and the salesman must take all these into account in selecting the selling appeal he will emphasize.

- **Kindling Desire:**

The salesman’s third goal is to kindle the prospect’s desire to the point where he is ready to buy. The salesman must remain in control of the situation, and he must keep the conversation running along the main line toward the sale. The development of sales obstacles, the prospect’s objections/external interruptions, and digressive remarks are a few factors tending to side-track the presentation during this phase. Obstacles have to be faced, and ways found to get around them. Objections need answering to the prospect's satisfaction. Time frequently is saved, and the chance of making a sale improved, if objections are anticipated and answered before the prospect, has a;-chance to raise them. External interruptions cause breaks in the presentation; and when conversation resumes good salesmen normally summarize what has been said earlier before continuing. Digressive remarks should generally be disposed of tactfully and with finesse, but sometimes distracting digression is best handled bluntly, for example, “Well that's all very interesting, but to get back to the subject.....”

- **Inducing Action:**

If the presentation has been perfect, the prospect is ready to five his order. However, this action is not usually automatic and, as a rule, must be induced. Experienced salesmen rarely try for a close until they are positive that the prospect is fully convinced of the merits of the proposition. Thus, it is necessary for the salesman to sense when the time is right to induce the prospect’s buying action. Such devices as the trial close, the close on a minor point, and the trick close are used to test the prospect's reactions to the proposition. ‘Some salesmen never ask for a definite “yes” or “no” for fear of getting a “no” from which they think there is no retreat. But it is usually better to ask for the order straightforwardly. Most prospects find it easier to slide away from hints than from frank requests for an order.

- **Building Satisfaction:**

After the customer has given the order, the salesman should reassure him that his decision was the correct one. The customer should be left with the impression that the salesman merely helped in making the decision. Building satisfaction means thanking the customer for the order, which should always be done, and attending to such matters as making certain that the order is correct as written, and following up on any promises made. Because the order is the climax of the selling situation, the possibility of an anti-climax should be avoided—customers sometimes un-sell themselves, and the salesman should not linger too long.

2.5.1 "Right Set of Circumstances" Theory of Selling

Often a salesman comments, "Everything was right for the sale to take place"; and this sums up the popular version of the second theory. This theory, sometimes expressed by the formula "situation-response," had its psychological origin in experiments with animals, and holds that the particular circumstances prevailing in a given selling situation cause the prospect to respond in a predictable way. More specifically stated: If the salesman succeeds in securing the attention and gaining the interest of the prospect, and if he presents the proper stimuli or appeals, the desired response (that is, the sale) will result. Furthermore, according to the theory, the more highly skilled the salesman is in handling the total set of circumstances, the more predictable will be the response.

The relevant set of circumstances, which the theory suggests that the salesman should try to control, includes factors external and internal to the prospect. To use a simplified example, suppose the salesman says to the prospect, "Let's go out for a cup of coffee." The salesman and his remark represent external factors. But at least four internal factors related to the prospect affect his response. These are the presence or absence of desires: (1) to have a cup of coffee, (2) to have a cup of coffee now, (3) to go out for a cup of coffee, and (4) to go out with the salesman for a cup of coffee.

Proponents of this theory have been inclined to overstress the external factors, and to neglect the importance of the internal factors. They have devoted their major efforts to seeking out selling appeals that can be depended upon most often to evoke desired responses. Salesmen who try to apply this theory commonly experience difficulties traceable to prospects' ingrained habits and instinctive behaviour. Although it is relatively easy to control the external factors in many selling situations, the internal factors do not readily lend themselves to manipulation by salesmen. Thus, this is a seller-oriented theory, and from that emphasis derive its chief drawbacks—it stresses the importance of the salesman controlling the situation, does not adequately handle the problem of influencing factors internal to the prospect, and fails to assign appropriate weight to the significance of the response side of the situation-response formula.

2.5.2 The "Buying Formula" Theory of Selling

In marked contrast to the two theories just discussed, the third places heavy emphasis on the buyer's side of the buyer-seller dyad. The buyer's needs or problems receive major attention, and the salesman's role is conceived as being one of helping the buyer find solutions. This theory purports to answer the question, what thinking process goes on in the prospect's mind that causes him to buy or not to buy? The buying formula itself is a schematic representation of a group of responses, arranged in feasible psychological sequence. The buying formula theory, in other words, emphasizes the prospect's responses (which, of course, are strongly influenced by internal factors) and de-emphasizes the external factors, on the assumption that the salesman, being naturally conscious of the external factors, will not overlook them. Since the salesman's normal inclination is to neglect the internal factors, the formula is a convenient way to help him remember. The origin of this theory is somewhat obscure, but recognizable versions appear in a number of early books on advertising and selling by authors who evidently had experiential knowledge of salesmanship. Several psychologists also advanced explanations substantially similar of that contained in the buying formula.

The name "buying formula" was evidently given to this theory by the late Dr. E. K. Strong, Jr., and the following step-by-step explanation is adapted from his teachings and writings.

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

Need (or Problem) → Solution → Purchase

Because the outcome of a purchase affects the chances of whether or not a continuing relationship will develop between the buyer and the seller, and because nearly all sales organizations are interested in such continuing relationships, it is necessary to add a fourth element to our analysis of a purchase. The four elements, then, are:

Need (or Problem) → Solution → Purchase → Satisfaction

Whenever a need is felt, or a problem recognized, it means that the individual is confronted with some difficulty or is conscious of a deficiency of satisfaction. In the world of selling and buying, the solution to such a difficulty will always be some product or service. And the product or service will belong to some potential seller.

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

In buying anything, the purchaser proceeds mentally from need or problem to product or service, to trade name, to purchase; and, upon using the product or service, he experiences satisfaction or dissatisfaction. Thus, when a definite buying habit has been established, the buying formula covering the elements involved in buying can be diagrammed as follows:

Need or Problem → Product or Service → Trade Name → Purchase → Satisfaction Dissatisfaction

To insure purchase, the product or service and the trade name (i.e., the source of supply) must be considered adequate, and the buyer must experience a (pleasant) feeling of anticipated satisfaction when he thinks of the product or service and the trade name. In a great many cases, a commodity viewed as adequate is also liked, and vice versa; but this is not always the case. Some products and services that have been found quite adequate are not liked, and some things are liked and bought that are admittedly not as good as competing items. Similar reasoning applies in the cases of trade names—some sources of supply are considered both adequate and liked, others are adequate but not liked, still others are liked but patronized in spite of the fact that they are inadequate compared to competing sources.

When adequacy and pleasant feelings are included in the buying formula, the following diagram results:

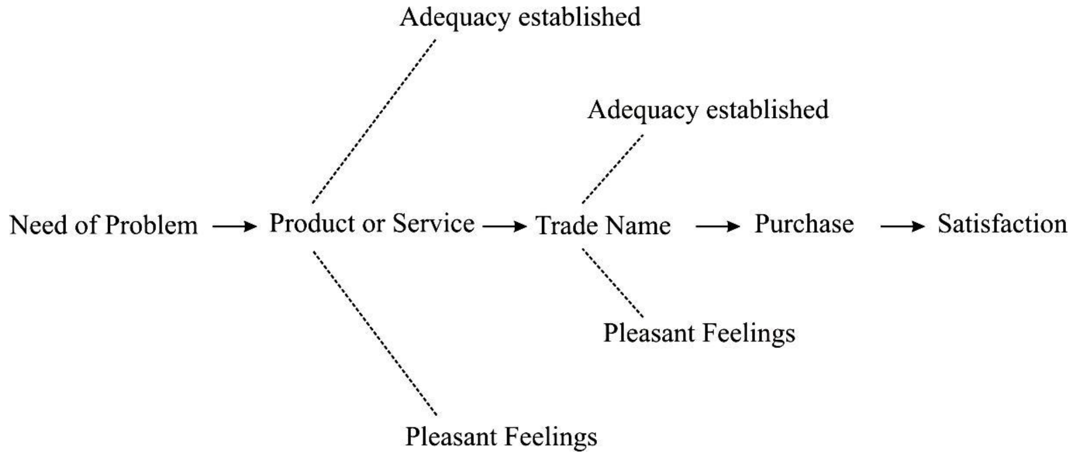

Fig 2.1 buying formula

When a buying habit is being established, the buyer must be able to tell himself why the product or service is an adequate solution to his want or problem, and why the particular trade name is the best one to buy from. It is also necessary that he have a pleasant feeling toward the product or service and the trade name.

Then, whenever his buying habit is challenged by a friend's remark, a salesman's presentation of a competing article, or a statement in an advertisement, it is essential that the buyer have reasons with which to defend his action, and that, in addition, he have a pleasant feeling toward both the product or service and the trade name. All this is represented by the dotted lines in the formula.

The primary elements in a well-established buying habit are those connected by solid lines, on the central line of the formula. Probably the majority of purchases are made with scarcely a thought as to why, and with a minimum of feeling. And it should be the constant aim of the salesman and advertiser to form such direct associations. Reasons, and pleasant feelings, are related to elements on the central line by dotted a line to indicate that they constitute the elements of defines in the buying habit. As long as they are present, buying will continue as in the past.

The solution to each selling problem is implied in the buying formula, and the differences among these various solutions are merely differences in the emphasis that is put upon the elements in the formula.

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

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

2.5.3 The “Behavioural Equation” Theory

Using a stimulus-response model (which is a much-refined and highly sophisticated version of the “right set of circumstances” theory discussed earlier), and incorporating numerous findings from behavioural science research, Professor Howard explains buying behaviour in terms of the purchasing decision process, viewed as phases of the learning process.

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

I. Drives are strong internal stimuli that impel the buyer’s response. There are two kinds of drives:

   a) Innate Drives. The physiological needs such as hunger, thirst, pain, cold, and sex.

   b) Learned Drives. These drives, such as striving for status or social approval, are acquired when paired with the satisfying of innate drives, and represent elaborations of the innate drives, serving as a façade behind which the functioning of the innate drives is hidden. In so far as marketing is concerned, the learned drives are probably dominant in economically advanced societies.

II. Cues are weak stimuli, as distinguished from the strong stimuli underlying drives. Cues determine when the buyer will respond.

a) Triggering cues serve as activators of the decision process for any given purchase.

b) No triggering cues influence the decision process but do not activate it, and may operate at any time even though the buyer is not contemplating a purchase at the moment. There are two kinds:

(i) Product cues are external stimuli received from the product directly, e.g., colour of the package, weight, price, etc.

(ii) Informational cues refer to external stimuli that provide the buyer with information of a symbolic nature about the product. Such stimuli may come from advertising, conversations with other people (including salesmen), etc.

c) Specific product and information cues may sometimes also function as triggering cues. This may happen when price triggers the buying decision.

III. Response—what the buyer does.

IV. Reinforcement is any event that strengthens the tendency for a buyer to make a particular response.

Howard incorporates these four essential elements into a behavioural equation, stated below in its simplest form:

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

Where: B is equivalent to response or the internal response tendency, i.e., the act of purchasing a brand or patronizing a supplier.

P is predisposition or the inward response tendency, which is the strength of habit.

D is the present drive level (amount of motivation).

K is the "incentive potential," i.e., the value of the product to the buyer or its potential satisfaction to him. V is the intensity of all cues: triggering, informational, or product.

Notice that Howard believes the relation among the variables to be multiplicative rather than additive. Thus, if any independent variable has a zero value, B will also be zero and there will be no response. No matter how much P there may be, for example, if the individual at the moment is totally unmotivated (D = 0), he will not respond.

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

- The Buyer-Seller Dyad and Reinforcement. To the extent that a salesman and a buyer interact, each can display a type of behaviour that is rewarding, i.e., reinforcing, to the other. The salesman provides the buyer with a product (and the necessary information about it and its uses) that the buyer needs—this satisfaction of his need is rewarding to the buyer who, in turn can reward the salesman by buying the product. Each can also reward the other by another type of behaviour, that of providing social approval. The salesman gives social approval to a buyer by indicating his high regard for the buyer with friendly greetings, warm conversation, praise, and the like.

  In understanding the salesman-client relation, it is helpful to separate the economic aspects from the strictly social features. The salesman wishes to sell a product, and the buyer wishes to buy it—these are the economic features of the relationship. Each participant also places a value and cost upon the strictly social features. Behaviour concerning these features of the relationship can be called sentiments, or, expressions of different degrees of liking or social approval. The salesman attempts to get more or less valuable reward (reinforcement) either in sentiment or economic activity, which he does by changing his own behaviour or by getting the buyer to change his.

- Salesman's Influence Process. The process by which the salesman influences the buyer can be explained in terms of the behavioural equation (B = P X D X K X V). The salesman can probably influence P (predisposition) directly, e.g., through interacting with the buyer in ways that are rewarding to the buyer. The greatest effect on P, however, is thought to be the reinforcement that comes from using the brand. There is little doubt that the salesman can exert influence through D (amount of motivation), such influence being especially strong when the buyer seeks information primarily in terms of informational cues. If the ends to be served through satisfying a drive or need are not clearly defined, by helping to clarify these, the buyer's goals, the salesman again exerts influence through D. When the buyer has stopped learning—when his buying behaviour consists solely of automatic responses—the salesman influences D by providing triggering cues. When the buyer has narrowed down his choices to a few sellers from whom to make purchases, the salesman, by communicating the merits of his brand, can cause it to appear relatively better and, thus, affect K (its potential satisfaction for the buyer). Finally, the salesman can vary the intensity of his effort, so making a difference in V (the intensity of all cues).
- Salesman's Role in Reducing Buyer Dissonance. According to Festinger's theory of cognitive dissonance, when a person chooses between two or more alternatives, anxiety or dissonance will almost always occur because the person knows that the decision made has certain unattractive features, besides its attractive features. After making his decision, the person therefore tends, according to this theory, to expose him to information that he perceives as likely to support his choice, and to avoid information that is likely to favour the rejected alternatives. Although Festinger evidently meant his theory to apply only to situations involving post decision anxiety, it seems reasonable that the theory should also hold for situations involving pre-decision anxiety. Professor Hauk, for instance, writes that a buyer may panic as he reaches the point of decision, and rush into the purchase as an escape from the problem, or put it off because of the difficulty of deciding among alternatives. It would appear, then, that a buyer may experience either pre-decision or post decision anxiety or dissonance, or both. Professor Howard notes that the reduction of both pre- and post-decision anxiety and dissonance is an important function of the salesman. Recognizing that the buyer's dissonance varies both according to whether the product is an

established or new one, and whether the salesman-client relation is an on-going one or new, Professor Howard considers the following four main types of cases involving the nature of the salesman's role in dissonance reduction:

1. An established product—an on-going salesman-client relation. Unless the market is unstable, the buyer tends toward automatic response behaviour, in which no learning is involved, and thus experiences little, if any, dissonance; but insofar as this does occur, the salesman would presumably be effective because he would be trusted by the buyer.
2. An established product—a new salesman-client relation. The salesman, being new, would presumably be less effective in reducing dissonance.
3. A new product—an on-going salesman-client relation. Unless the buyer generalizes heavily from his experience with an established similar product, he would experience dissonance, especially if it were an important product. Because of his established relationship with the buyer, the salesman would be capable of reducing dissonance.
4. A new product—a new salesman-client relation. The buyer would need dissonance reduction, and the salesman would be less capable of providing it.

How can a salesman facilitate the buyer’s dissonance reduction? Zaltman, after analysing a number of findings from behavioural science research, says there are at least two ways: (1) by repeating and re-emphasizing the advantages of the product purchased, and stressing the relative disadvantages of the foregone alternatives; and (2) in cases of dissonance traceable to the buyer’s feeling that he has purchased an item not sanctioned by the relevant reference group, the salesman can try to show that many characteristics of the chosen item are similar to products the buyer has foregone, but which are approved by his particular reference group.3D In other words, the buyer experiencing cognitive dissonance should be reassured that his decision is or was a wise one; the salesman can exert influence by providing information that will permit the buyer to rationalize his decision.

Check your progress 4

1. Proponents of __________have been inclined to overstress the external factors, and to neglect the importance of the internal factors.

   a. Selling theory

   b. Buying theory

2. The name "buying formula" was evidently given to this theory by the _________.

   a. Late Dr. E. K. Strong, Jr.

   b. Festinger

3. ___________explains buying behavior in terms of the purchasing decision process, viewed as phases of the learning process.

   a. Professor Howard

   b. Late Dr. E. K. Strong, Jr.

4. _________evidently meant his theory to apply only to situations involving post decision anxiety, it seems reasonable that the theory should also hold for situations involving pre decision anxiety.

   a. Festinger

   b. Late Dr. E. K. Strong, Jr.

5. _________notes that the reduction of both pre- and post-decision anxiety and dissonance is an important function of the salesman.

   a. Professor Howard

   b. Festinger

2.6 Prospecting

Efficient organization of his time and thorough planning of his work are earmarks of the above-average salesman; only a small portion of his total time is devoted to actual salesmanship, but he is ever alert for ways to "stretch" this productive selling. The above-average salesman does a number of things to stretch out the time available for actual salesmanship. He arranges his travel and call schedules to economize on time spent en route and distance travelled. He makes advance appointments, to avoid prolonged waiting periods and unnecessary call-backs. And, most important, he makes certain he does not waste time trying to sell to people who cannot buy or are not likely to do so. This planning work, which is essential in eliminating calls on non-buyers from the itinerary, is called prospecting.

Improvement in prospecting is one of the most promising approaches toward more productive use of selling time. Unfortunately, many salesmen devote too little time to prospecting and, as a consequence, too much to calling on non-prospects. Even though prospecting is one of the surest methods for the salesman to increase his own income and his worth to the company, probably the majority of salesmen neglect their prospecting duties. The salesman who is proficient in prospecting is able to apply his selling efforts more productively—he wastes less time in making calls on non-prospects, and devotes more attention to those that are most likely to buy.

Some companies use specialized personnel for prospecting work, but most regard it as one of the salesman’s normal responsibilities. Regardless of who performs the task, the steps involved are similar. And even though a salesman may not personally do prospecting, he should understand the process. He is the one in closest communication with the customers, and he often has access to sources of information on likely prospects not available to central office personnel.

2.6.1 Steps in Prospecting

The steps involved in prospecting were strongly implied in the statement of the purpose of personal selling given earlier. Personal selling brings the right products into contact with the right customers, and makes certain that ownership transfers take place. There are four steps: (1) formulating prospect definitions, (2) searching out potential accounts, (3) qualifying prospects and determining their probable requirements, and (4) relating company products to each prospect's requirements.

- Formulating Prospect Definitions. To be considered a prospective customer, or prospect, a potential buyer must fulfil certain requirements. He must have the willingness, the financial capacity, and the authority to buy, and he must be available to the salesman. The salesman wastes valuable time when he attempts to sell an individual who has neither need for the product nor money to pay for it. The salesman's efforts are similarly wasted if he tries to sell to the wrong person; so it is important to ascertain which individual in each firm has the authority to buy which of the salesman's products. And although an individual may qualify as a prospect in all the preceding respects, he may be completely inaccessible to the salesman. The president of a large corporation, for example, may need insurance, and be willing and able to pay for it; but a particular salesman may have no way to make the contact.

In addition to the above requirements, there are others, before one can prospect effectively, these must be identified. Starting with data on the profitability of present accounts, any characteristics typical of profitable accounts but not shared by unprofitable accounts should be detected. These identifying characteristics should be ones easily recognizable from information appearing in directories and lists. Prospects in many categories of businesses and professions, for instance, may be readily identified from the classified listings in telephone and city directories. Significant characteristics that identify profitable accounts are assembled into descriptions of the various classes of customers, and these serve as prospect definitions.

If the firm has a good sales analysis system, the formulation of prospect definitions is comparatively easy. Most of the needed information on customer traits is already part of the system, and requires only assembling. In the event that the sales analysis system is inadequate, or fails to yield sufficient customer data, it is worthwhile spending the time and effort required for gathering, organizing, and processing the needed information. Once a company has a good sales analysis system, it also has an information source to tap in formulating definitions for the different categories of prospects.

- Searching out Potential Accounts. Using the prospect definitions, the salesman should comb various information sources for purposes of searching out the names of probable prospects, or "suspects", as they are called. Sources of prospect information include: directories of all kinds, news and notes in trade papers and business magazines, credit reports, membership lists for such groups as chambers of commerce and trade and manufacturers' associations, lists purchased from list brokers, and records of service requests. Some other sources are: responses to company advertising, salesmen of noncompeting firms calling on the same general classes of trade, conventions and meetings, bankers and other "centres of influence", and the salesman's own observations. Salesmen selling services, such as insurance and mutual funds, find personal contacts an especially valuable source. They may uncover excellent prospects among their acquaintances, members of their professional, religious, and social organizations, and from the referrals of friends. Another source of prospects for Sufi salesmen involves using the "continuous chain referral method"—a satisfied customer often suggests, voluntarily or on request, other leads to the salesman who served him.

- Qualifying Prospects and Determining Their Probable Requirements. Names on the tentative prospect list are next subjected to more intensive investigation. Because presence or absence of all the characteristics desired of prospects is not always ascertainable from a single source, it is usually necessary to tap other information sources. With the assembling of more and more information, it becomes progressively easier to detect bona fide prospects and to eliminate those who are not. As the "picture" for each prospect develops, estimates are made concerning the extent to which each uses products similar to those of the company. Prospects with requirements too small to represent profitable business are removed from further consideration, unless their growth possibilities appear to show significant promise. Even after tapping all readily available information sources, additional information often is required before qualifying certain prospects. In cases of this sort, personal visits by salesmen may be the only way to obtain it. Although such visits may not result in sales, time is saved over the long run, since prospects are separated from no prospects.
- Relating Company Products to Each Prospect's Requirements. The final step is to plan the strategy to use in approaching each prospect. From the information assembled, it is usually possible to determine, more or less accurately, the nature of the likely needs of each. From what the salesman knows about his company's products, their uses and applications, he selects those that seem most appropriate for fulfilling the needs of the particular prospect. He has now finished most of the work preliminary to making the sales call.

The salesman's presentation should now be easy to construct, and it can be tailored rather precisely for the purpose of exerting strong influence upon the prospect. The salesman should have rather clear ideas, of the specific objections the prospect may raise, and other obstacles to the sale that may be encountered;

and his advance preparation should take these into account. He is now ready to make actual contact with the prospect, the only tasks remaining being those of making an appointment, deciding how to open the presentation, and determining how best to influence the prospect to become a customer.

2.6.2 Sales Resistance

To succeed in converting prospects into customers, the salesman needs skill in analysing and overcoming sales resistance. Prospects show sales resistance by pointing out real or imagined obstacles to the sale, and by voicing objections, sincere or insincere. In analysing sales resistance, skill in the accurate and rapid appraisal of people and their motivations is essential. A prospect’s expressed sales resistance needs identifying as either an obstacle or an objection. An obstacle must be classified as real or unreal; an objection, as sincere or insincere. After sizing up sales resistance in this manner, the salesman is in good strategic position for his next moves.

- Obstacles to Sales. Obstacles are real or apparent reasons the prospect has for not buying. If the obstacle is real, it precludes the consummation of the sale. But if it is only apparent, the salesman should be able to find some way of circumventing it. A prospect may say he cannot buy because of a temporary shortage of cash—an obstacle, not an objection—and the salesman may help the prospect circumvent it by explaining a method for financing the purchase. Some obstacles can be circumvented, others cannot. When the salesman perceives that an obstacle to the sale exists, he should determine at once whether or not there is some way to get around it. If he is sufficiently experienced to recognize the specific obstacle, and knows a way to circumvent it, his next move is to present his solution to the prospect's problem.
- Sales Objections. Objections call for different treatment. They are almost never good reasons for failing to complete the sale, but they almost always divert the salesman's presentation from its main course. At best, an objection requires a short and satisfactory answer; at worst, it blocks the sale entirely.

Adroitness in handling objections is an important difference between effective and ineffective salesmen.

Sincere objections usually may be traced to incompleteness, inaccuracy, or vagueness in the salesman’s presentation. The prospect may not recognize the nature of his needs; or he may have real doubts about the appropriateness of the product to fulfil them, be confused in some respect, or may even react unfavourably to the salesman's personality. Except when personality conflict is irresolvable (which case should be classified as a real obstacle, rather than an objection), sincere objections ordinarily can be overcome by patient and thorough explanations.

Insincere objections are more difficult to handle, for the prospect uses them to discourage the salesman, to get rid of him, to test his competence, or to furnish false excuses for not buying. When the salesman senses that an objection is insincere, he should muster his persuasive powers and regain the offensive as soon as he can. Under no circumstances should he permit an insincere objection to provoke an argument—that is one of the surest ways to lose a sale.

Some sales executives feel that every objection, no matter how trivial or insincere, should be treated with the utmost courtesy, and answered as well as possible. Others believe that insignificant objections should be ignored. One thing is clear—when the prospect raises an objection, the salesman should try to use it to introduce additional reasons for buying. The best defensive strategy for a salesman, as for a defending army, often is the strong counterattack, and the salesman should seek to regain the initiative as soon as he can gracefully do so.

Check your progress 5

1. The planning work, which is essential in eliminating calls on non-buyers from the itinerary, is called_______.

   a. Prospecting

   b. analyzing

2. If the firm has a good sales analysis system, the formulation of prospect definitions is comparatively ______________.

   a. Easy

   b. Complicated

3. To succeed in converting prospects into customers, the salesman needs skill in analyzing and overcoming _______.

   a. sales resistance

   b. competition

4. The ______ presentation should be easy to construct, and it can be tailored rather precisely for the purpose of exerting strong influence upon the prospect.

   a. salesman's

   b. entrepreneur

5. _____________in handling objections is an important difference between effective and ineffective salesmen.

   a. Adroitness

   b. Inability

2.7 Closing Sales

The tactics of salesmanship followed during the presentation affect the ease of closing the sale. Generally, low-pressure sales are closed more easily than high-pressure ones. In the low-pressure sale, to the extent that the prospect is made to feel that he is reaching the buying decision himself, and primarily through a rational process of thought, there is less need for extra push by the salesman just before the sale is consummated. By contrast, in the high-pressure sale, the main thrust of the appeal is to the prospect's emotions; the salesman attempts to propel his prospect into the buying decision. Very often the prospect suddenly regains normal perspective as the sale nears its climax and, if this happens, the salesman needs truly unusual powers of persuasion to close the sale.

Nearly every salesman approaches certain closings with considerable apprehension. At this point, either the salesman sells the prospect an order, or the prospect sells the salesman a "no sale". But this point also provides the salesman with an opportunity to register tangible proof of his selling skill. Occasionally even the best salesman has done inadequate prospecting, or made a below-par presentation; on these occasions, he must rely upon his skills in closing.

Prospecting, if well done, should put the salesman in the proper frame of mind for the close. He should feel he is performing a real service for the prospect, not that he is "selling bill of goods". If his prospecting has been thorough, he should have little doubt that his product is the best solution to the prospect's problems.

When the sales presentation has been complete and clear, little difficulty should be met in closing the sale. All obstacles to the sale and all objections have been removed, to the prospect’s entire satisfaction. Under these conditions, basic agreement has already been reached, and the prospect is ready to react favourably to the salesman’s proposal.

But even after an excellent presentation, and in spite of the thoroughness of the prospecting, some prospects refrain from positive commitments. The natural tendency of many people is to let inertia guide their reactions—many are perfectly happy to leave things as they are, and the salesman leaves empty handed unless he somehow manages to jolt such prospects into buying. In some situations, the skilled closer gives the extra push that triggers a buying response. But it needs emphasizing again that failures to get an order are as much the result of poor prospecting and inept presentations as they are of ineffectiveness in closing.

When an attempt at a close fails, the salesman should normally try again. He should not be too easily discouraged, because a refusal does not necessarily imply an unwillingness to buy; it may simply indicate the prospect's need for additional information, or for clarification of some point. Some sales executives recommend that their salesmen attempt as many as five closes before abandoning a given effort. Early attempts at a close should be so expressed that the prospect’s refusal will not cut off continuation of the presentation. A salesman must learn to judge the sincerity of his prospect’s refusal, surrendering gracefully when it becomes obvious that no sale will be made.

In most situations, the salesman should first try an indirect close, that is, he should attempt to get the order without actually asking for it. The salesman may ask the prospect to state his preferences from among a limited number of choices (as to models, delivery dates, order size, or the like), so phrasing the question that all possible responses are in the salesman’s favour except for one— “None at all” Or the salesman may proceed to summarize, emphasizing features that have visibly impressed the prospect, showing how the reasons for the purchase outweigh those opposed. Then he pauses for the prospect's response, which he expects to-be, “Go ahead and write the order.” Sometimes, the extra push may be a concession that makes the purchase appear sufficiently more attractive to effect completing the sale. Or the salesman simply may assume that the sale has already been made, writing out the order and handing it to the prospect for approval—if the prospect balks, the issue becomes clearer. Perhaps one last objection is voiced;

but after it is satisfactorily answered, the sale is made. Many other indirect closes are in common use, and most books on salesmanship contain numerous examples.

When one or more attempts at an indirect close fail, the above-average salesman uses the direct approach. Surprisingly few genuine prospects respond negatively to frank requests for an order. In fact, many persons, especially those who are themselves engaged in selling, do not buy unless the order is asked for directly. Some evidence indicates that a high proportion of salesmen fails to ask for the order directly, one study showing that more than 50 per cent failed in this respect. But those who asked for the order averaged 300 per cent more sales than those who did not.

Check your progress 6

1. Generally, low-pressure __________are closed more easily than high-pressure ones.

   a. Sales

   b. Purchase

2. Even after an excellent presentation, and in spite of the thoroughness of the prospecting, some prospects refrain from _________commitments.

   a. Positive

   b. Negative

3. When the sales presentation has been complete and clear, little difficulty should be met in ____________the sale.

   a. Closing

   b. Opening

4. In most situations, the salesman should first try an ______________close, that is, he should attempt to get the order without actually asking for it.

   a. Indirect

   b. Direct

5. Sometimes, the _______push may be a concession that makes the purchase appear sufficiently more attractive to effect completing the sale.

   a. Extra

   b. small

2.8 Characteristics of Successful Salesmen

Are there any special characteristics or traits that distinguish well from poor salesmen? Very little evidence is available from which to formulate a definite answer to this question. Sales executives generally agree that such success characteristics do exist, but they say that the nature of these characteristics varies from company to company, and even from one sales position to another in the same company. Behavioural science research suggests that, with regard to a particular sales position in a particular company, the more the salesman's physical characteristics, other objective characteristics, and personality-related factors resemble those of the buyers he is to deal with, the greater the chance the salesman has for success and as noted earlier in this chapter, wherever possible, salesmen should be assigned to prospects whose characteristics are similar to their own, thus improving the chance that successful dyadic relationships will result.

Several companies have attempted to identify characteristics shared by their outstanding salesmen. There would appear to be considerable merit in such research, especially when the findings can be applied to improving sales force management procedures as, for example, in the recruiting and selection of new men. However, a word of caution is in order—the results from such a study in one company are not necessarily valid for similar applications in other companies. To be on perfectly safe ground, each company should make its own study of the characteristics of its own salesmen and, of course, each must formulate its own definition for what constitutes outstanding salesman performance.

The results of one study made of thirty outstanding salesmen employed by a large company were reported by a well-known sales consultant, William J. Tobin, of the Research Institute of America. Mr.Tobin Spencer two weeks in the intensive observation of men who had enviable sales records, had consistently exceeded their quotas, and had even earned the respect of their opposite numbers in competing companies. He observed the characteristics of these men at close range, both at the training sessions, which were being held, and during their off-duty hours. Mr. Tobin reported that these thirty salesmen all seemed to share the following nineteen characteristics:

1. Ability to ask questions and provoke answers that developed their point of view. They rolled with the punches when they seemed to be cornered. No matter how impossible the situation, they had a way of relaxing, of conceding a point here and there with such soothing remarks as “Yes, I see what you mean ... what you have in mind... Yes, I can appreciate your position....” They followed this rolling action with questions beginning “But have you considered. .., On the other hand, isn’t it possible..., I agree with you completely, but if that were the only objection, would you...” and with smooth persistence, flexible thinking and talking, they were on their way to still another attempt to sell their point of view. The salesman who takes the pains to become proficient in asking questions tact skillfully and tactfully develop his point of view makes it impossible for you to be angry with him. He seldom loses a sale from being at odds with the customer.

2. Complete alertness to every idea and conversational byplay. They appeared to be relaxed, but one of the unfailing characteristics of good salesmen is their keen awareness. They constantly appraise the forces motivating the person who might happen to be speaking at the time. (They are alert) to the social and business atmosphere of the individual selling situation.

3. Enthusiasm, eagerness to sell. Their sales-making enthusiasm was every-where apparent; they were always ready to enter the conversation, to take part, to prove with feeling and a sincere show of conviction that what they were saying was worth every bit of your attention and consideration. Reflecting later, I knew their obvious show of enthusiasm half-sold me on whatever it was they were trying to prove at the time....

4. Ability to smile. The man who has made his mark in selling has a right to be proud of him. But the ever-present evidence of this pleasant facial feature surely meant, for this observer, that it is an integral part of the salesman's selling kit. A warm smile invites communication; salesmen live on communication.

5. Leadership attitudes. This is not leadership in the military sense. It's leadership in human relations, in human handling. It's the artful use of questions and tactful provocation that moves listeners to react, reveals their

thinking, their future plans of action. It gets them doing it willingly, without taking offense, without making it seem that the salesman is prying.

It’s persuasive leadership based on the knowledgeable use of the English language—thoughtfully blending the customer’s desires with the salesman’s knowledge of psychological motivations.

6. Sincere facial expressions. This is much more than just a warm smile. It’s an attitude of thoughtful consideration for [others'] words and points of view that shines out all over the salesman's face. The successful salesman realizes that only by paying close attention to his customer's every word and observation can he learn the customer's needs.

7. Knack for making good use of selling environment. I was amazed to note the use these top salesmen made of their surroundings to prop the ideas they were trying to explain. A handy pencil and pad produced squares, diagrams, tabulations to illustrate any number of points. Their opposite sales associates across the table became Mr. Customer to illustrate “This is how I would handle that situation.” They checked, probed for, and used the background and experiences of each other with such questions as, “Look, Tom, your experience probably included a situation like this, didn't it?” On getting the agreement they knew was forthcoming before they asked the question, they'd go on to illustrate further the value of the point they were making—but with the important additional support and interest of the chap who had just indicated his agreement.

8. Complimentary use of first and last names. The ease with which they learned personal names and the quick way they put this information to use is one of the more easy-to-spot characteristics of successful salesmen. Almost before you realize it, you are part of their personal vocabulary. They would sound out the full name for all to hear with: “Now let's assume Bill Tobin here is a customer. I would put it to him this way. ..” and subtly and not too obviously they would develop a personal rapport with me, and with just as many of the other members of the group as they found necessary that would gently but persuasively complement each of us and make us a party to their ideas and suggestions.

9. Meaningful use of the hands. Only when you are actually looking for it, 3S I was, do you notice how much a part of the sale are the salesman's hands. These fellows were experts.... the really good salesman can wring tears with expressive movements of his hands. He can get his hands to plead, to tense

up, to play a tune as lively as a pianist's to punctuate forcefully a particularly strong sales point, even to flip the last page of a sales presentation with a kind of dignity that almost obligates you to accept his suggestion that you buy his product. His hands have a way of getting up in front of you, of holding your attention much like dancing puppets. But unlike the puppets, you're never really aware of them, nor of the thorough way they supplement the persuasion packed in the salesman's voice, facts, and product knowledge.

10. Modest, confident answers to questions. No matter how deep a cul-de-sac the conversational situation seemed to place these salesmen in, their reaction was one of calm consideration, of mentally weighing the words, the pros and cons and possible alternate replies and their effect and then invariably: a thoughtful, complete reply. Or if that wasn't called for, a question or some other information-seeking word play that led to the confident answer....

11. Universal ability to think on their feet. Every good salesman has worlds of preparation long before he's ever called on to speak. He’s never at a loss for words. The simple fact is he knows more about his product, his customer, his market than anyone else in the place—more often than not including his boss. Words, conversation, speech, talking on or off his feet—all are the successful salesman's stock in trade.

12. Patience. Patience is the antidote to a salesman's greatest weakness. That weakness, common to all too many salesmen, is the sales-stifling attitude of being overbearing or inconsiderate, of seeming to look down on the customer. Near the top of the list of customer reasons for disliking salesmen you will always find discourteousness. Patience, much to my surprise I must admit, is a too infrequently noted characteristic of successful sellers....

13. Never-failing sense of humour. They had their quota of good and shady jokes, humour, laughing byplay and they knew when to use the shady jokes. At one session some ladies were present, and the conversation that followed would have satisfied the most rabid puritan in all New England. Their humour was notable for the quick way it created a feeling of good fellowship.

14. Optimism. A good salesman consciously or unconsciously rates optimism as one of the tools of the trade. But don't get the idea it is something he works himself into a sweat over. Like every other entrepreneurial spirit, a successful salesman's optimism is bed-rocked in a complete knowledge of

his job and in his ability to sell. People call it guts, fortitude, a dozen other names. Optimism is a never-say-die spirit that is part of the makeup of every salesman who has made his mark.

15. Competent attitudes of agreement. A good salesman always agrees before he disagrees, a good salesman always acknowledges the contributions of his opposite in a sales conversation. The customer is always right until he is persuaded that he may be mistaken, and that there is good reason for reconsidering what might have been his previous adamant stand....

16. Unfailing habit of asking for the order. Asking for an order, suggesting that the customer buy, is as natural and automatic as breathing. It's just something a good salesman never forgets to do. In any conversation you may have with him somewhere, someplace, appropriately timed, you'll find him asking you to make a buying decision.

    If it’s at a social gathering, he's asking you to decide that what he is saying is right. If it’s a sale he’s after, he will make six or seven attempts to close the sale before he's three quarters through his presentation.

17. Ability to make quick and accurate spot judgments. Big and small decisions to buy turn on this guessing ability. It really isn’t anything like the shot-in-the-dark guessing we all indulge in; it is an intuitive way of thinking backed by years of experience, practice and observation, and loads of trial-and-error experimentation.

18. Extraordinary story-telling ability. Unlike the novelist's, his story telling has two objectives: to entertain and to sell. His are product stories, performance stories and testimonials, third-party stories that illustrate and prove the buy-worthiness of the salesman's product. They are sugar-coated with humor and entertainment, but inwardly packed with “Now's the time to buy.”

19. Persistency. And if there is any one characteristic that distinguishes salesmen from all other business profession, it is their driving sense of stick-to-it-iveness

Check your progress 7

1. To be on perfectly safe ground, each company should make its own study of the characteristics of salesmen.

   a. its own

   b. other

2. __________is the antidote to a salesman's greatest weakness.

   a. Patience

   b. silence

3. The ever-present evidence of this __________facial feature surely meant, for this observer, that it is an integral part of the salesman's selling kit.

   a. pleasant

   b. unpleasant

4. Unlike the novelist's, ____________ storytelling has two objectives: to entertain and to sell.

   a. salesman

   b. buyer

5. ________________should be able to make quick and on the spot decisions.

   a. salesman

   b. customer

2.9 Let Us Sum Up

In this block we have studied about salesman ship in very detail. We have studied that salesmanship may be implemented not only through personal selling but through advertising. Oftentimes, in fact, advertising is described as "salesmanship in print." The definition of the American Marketing Association reads: "Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Professors Wright and Warner write that "modern advertising is planned with persuasion as the objective." We have also studied about the theoretical Aspects of Salesmanship in which we studied the first source, which was the first to be tapped, involved the distillation of so-called selling theories from the experiences of successful salesmen and, to a lesser extent, advertising professionals. The second source, which has been tapped only comparatively, recently, includes the behavioural sciences whose research findings a growing number of marketing scholars have been attempting to apply to the problems of buying and selling.

2.10 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 3

Answers: (1-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

2.11 Glossary

1. **AIDA -** Attention, Interest, Desire and Action: a model describing the stages that promotion can take a target audience through: is often used to set promotional objectives.
2. **BCG (Boston Consulting Group) -** Matrix Also known as "The Boston Box". This 2 x 2 matrix is a model to help a firm analyses its product portfolio. The two axes are relative market share and annual market growth and the four quadrants are: Dogs - low relative market share and low annual market growth Stars - high annual market growth and high relative market share Cash Cows - high relative market share and low annual market growth Question marks (also known as problem children) - low relative market share and high annual market growth
3. **Business to Business (B2B) -** Can refer to a market, product or industry whereby the context is of a firm selling to another organization to either use the product or service or change into another product or service, rather than a consumer buying for personal consumption. Business to Consumer (B2C) can refer to a market, product or industry whereby the context is of a firm selling to an individual for his own personal consumption, rather than to an organization for their use or consumption

2.12 Assignment

What is Behavior Equation Theory? Explain.

2.13 Activities

Which are the characteristics of a successful salesman? Describe.

2.14 Case Study

Collect as much number of theories of salesmanship and make a chart on which give a detailed description of such theories with examples.

2.15 Further Readings

1. Sales Management - by Chris Noonan.

2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

Block Summary

The whole content under this unit was divided into two units .The first unit covered the topic sales organization and has been discussed in very detail, whereas the second unit covered the topic salesmanship and sales management which has even been discussed in detail. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable.

Unit one covered the sub topics such as the Sales Organization, Centralized and Decentralized Organizations, Line and Staff Organizations, Types of Sales Force Structure. Whereas the unit second the sub topics covered are as salesmanship, Theoretical Aspects of Salesmanship, Theory" of Selling, Prospecting, Closing Sales, qualities of successful sales man have been discussed.

Block Assignment

Short Answer Questions

1. Advantages of centralized organization structure.
2. Advantages of a line organization structure.
3. Disadvantages of a line and staff organization structure.
4. Advantages of a product-based sales force structure.
5. Geographic-Based Sales force Structure.
6. Steps in Prospecting.
7. “Buying Formula” Theory of Selling.
8. “Right Set of Circumstances” Theory of Selling.
9. Theoretical Aspects of Salesmanship.
10. AIDAS “Theory” of Selling.

Long Answer Questions

1. Write any two advantages and disadvantages of centralized organization structure.
2. State two advantages and disadvantages of decentralised organization structure.
3. What are the two major advantages and disadvantages of a customer –based sales force structure?
4. Discuss the AIDAS theory of selling.

Enrolment No.

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any Other Comments

…………………………………………………………………………………………

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
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SALES AND DISTRIBUTION MANAGEMENT

PGDM-104

BLOCK 2:

RECRUITMENT, COMPENSATING AND EVALUATING SALES PERFORMANCE

Dr. Babasaheb Ambedkar Open University
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SALES AND DISTRIBUTION MANAGEMENT

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

SALES AND DISTRIBUTION MANAGEMENT

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SALES AND DISTRIBUTION MANAGEMENT

BLOCK 2: RECRUITMENT, COMPENSATING AND EVALUATING SALES PERFORMANCE

BLOCK 2: RECRUITMENT, COMPENSATING AND EVALUATING SALES PERFORMANCE

Block Introduction

Sales and distribution management is considered to be one of the most important subject for the students of management stream especially for those who have opted for marketing and wish to continue their carrier in this field.

In this block the whole content has been divided into three units .The first unit covers the topic Recruiting and Selecting Salesman and has been discussed in very detail, whereas the second unit covers the topic Compensating and Motivating the Sales Personnel and Force which has even been discussed in detail. And the third unit covers the topic Compensating and Motivating the Sales Personnel and Force. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. Unit one covers various topics relating to Recruiting and Selecting Salesman. Unit second covers the topics from compensation and motivation of sales personal whereas the unit three covers the topic evaluation of sales-force performance.

Through the study of this block the readers will get a detailed insight of the topics recruitment, selection and the other factors that are considered to be very important in recruitment of sales force have been covered here apart from this the second unit covers the area of compensation which will help the readers in learning how to compensate the workers and more important how to motivate them for work and maximise benefit from the workers. The third unit will help the readers in evaluating the performance of the sales force this will help to fix the compensiation and determine the incentive etc.

Block Objective

After learning this block, you will be able understand:

- Calculation regarding sales man power requirements.
- Recruitment and selection process of sales personal.
- Compensation plans and features of good plan.
- Various types of compensation plans.
- Fringe benefits and how to motivate work force.
- Sales force performance evaluation.
- How to monitar the performance of sales force.

Block Structure

Unit 1: Recruiting and Selecting Salesman

Unit 2: Compensating and Motivating the Sales Personnel and Force

Unit 3: Evaluating Sales-Force Performance

UNIT 1: RECRUITING AND SELECTING SALESMAN

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- To study about the Organization for Recruiting and Selection.
- To Determine Sales Manpower Requirements.
- The Recruiting Salesmen.
- The Methods of Recruiting Salesmen.
- The Selection System.
- The Bases for Evaluation of Tests.

1.1 Introduction

Like all management, sales management consists largely of “getting things done through people.” Decision-making and policy formulation, as well as other aspects of management, depend upon people for their implementation. Implementing a sales plan, for instance, requires the efforts not only of different executive’s but of salesmen. Furthermore, effectiveness of implementation depends ultimately on the calibre and number of salesmen at sales management’s disposal. An important division of sales force management, then, concerns itself with defining qualitative and quantitative requirements for salesmen and the formulation and skilful execution of appropriate recruitment and selection policies.

1.2 Organization for Recruiting and Selection

Responsibility for recruitment and selection of salesmen is assigned to the sales manager in some organizations, the personnel manager in others, and to the two executives jointly in still others. There is no one best place for assignment of this responsibility. Company size, executives' personalities, and departmental organization all affect this decision. Where the sales manager has a personnel staff assistant, recruiting and selection of salesmen usually is handled entirely within the department. In companies with small sales forces, it sometimes is desirable to have these functions under the control of the personnel manager, but this is unusual. It is more common for the personnel department to handle recruiting and preliminary screenings and for the sales department to make final selections. In all companies, whatever the formal organisation there should be considerable exchange of information and consultation between the two departments.

Location of responsibility for recruitment and selection of salesmen in concerns with regional sales offices is another organizational factor varying from one company to another. These functions tend to be centralized at the home office when the firm requires high calibre salesmen. Other factors, for example, size of regional organizations and location of training programs, make it difficult to draw further generalizations. However, decentralized recruitment and selection generally results in reduced interviewing costs and time, and facilitates the hiring of local applicants for sales work.

Check your progress 1

1. __________for recruitment and selection of salesmen is assigned to the sales manager in some organizations.

   a. Responsibility

   b. Authority

2. In all companies, whatever the __________organisation there should be considerable exchange of information and consultation between the two departments.

   a. formal

   b. informal

1.3 Need for the Proper Setting

If the recruiting and selection programs are to succeed, they must be installed in a favorable setting. Market exploration must have been carried to the point where management knows the size of the potential business, identities and locations of customers and prospects, which individuals in customers' organizations influence buying decisions, and the best methods for reaching them. Product uses and applications must have been identified and the different selling appeals evaluated as to relative effectiveness. With this foundation of market and product knowledge, management is prepared to determine its sales manpower requirements, draft appropriate recruiting and selection programs, and install them in an environment conducive to success.

Check your progress 2

1. If the recruiting and selection programs are to succeed, they must be installed in a ____________setting.

   a. favorable

   b. unfavourable

1.4 Determining Sales Manpower Requirements

A clear determination of the quality and number of salesmen required is an important prerequisite to their actual recruitment and selection. Determining the quality is important because of the great diversity among selling jobs, ranging from those involving mainly physical effort (e.g., route salesman for soft drinks) to those requiring great skill in persuasion and unusual creativity (e.g., salesman for complex computer installations). Unique marketing factors such as the nature of the products, buying practices and motivations of customer's and prospects, and strengths of competitor's cause each company in each industry to have individualized requirements as to the type of salesman best fitted to serve its needs. Determining the number of salesmen required is important because of these same marketing factors. It is important, too, since if there are too few salesmen, marketing opportunities go unexploited, and if there are too many, personal selling expenditures reduce net profits.

1.4.1 Determining Calibre of Salesman

In determining the calibre of salesman best fitted to serve a company's marketing needs, we must thoroughly understand what its salesmen will be expected to accomplish—i.e., the objectives of their jobs and the tasks necessary to achieve them. Knowing the salesman's job means knowing the particular job for the particular salesman, knowledge enabling management to avoid "putting square pegs into round holes." It helps management, in other words, in fitting the job to the man and the man to the job. Certain techniques useful in delineating the nature of the salesman's job are discussed below.

- **Product-Market Analysis -** No person is capable of selling all kinds of products to all kinds of customers. In one situation, an individual may be trained to sell one or a few products to many kinds of customers. In a second situation, the same individual may be trained to sell a wide line of products to one or a few kinds of customers. It is possible to hire, or to hire and train, salesmen either as product specialists or market specialists. An advisable step in analyzing the sales job, then, is to delineate the precise nature of product-market interactions. One way is to construct a "product-market grid," In actual use; of course, such grids are constructed showing much finer details of product-market interactions; this demands thorough analysis and classification both of markets and products. Note that the various product-market "boxes" on the grid indicate the different customers who might be sold the different products—as management decides which customers should be sold which products, some boxes are blacked in, others left empty. The result helps answer the question, should our salesmen be product specialists, market specialists, or some combination? Product specialization usually is indicated when the product is highly technical, requiring salesmen to advise on uses and applications. Market specialization generally is called for when the product is non technical but different kinds of customer's have unique buying problems, require special sales approaches, or need special services. In many cases detailed study of product-market grids reveals that salesmen should be "combination" men—they need not only considerable knowledge of the product line and its applications but skill in dealing with different kinds of customers.

- **Analysis of Selling Strategy -** To a certain extent the selling strategy a company chooses to apply influences the type of salesman that should be used. Selling strategy itself depends upon such basic things as the nature of the product line and market. Whereas all salesmen must seek orders aggressively in some situations; in other situations they need only take orders coming their way, nevertheless, the relative emphasis on order taking and order getting varies with different selling jobs. The driver-salesman for a soft drink bottling company is mainly an order taker, since the product has been strongly presold to consumers, and retailers reorder automatically. The encyclopedia salesman calling on householders is much more an order getter, since demand stimulation is his main goal. If the selling strategy of a manufacturer relies heavily upon advertising to attract business and build demand, marketing channels are likely to include several layers of middlemen, and the manufacturer's salesmen a reapt to be order takers primarily and order getters only incidentally. The opposite situation obtains when advertising is used mainly to back up personal selling—marketing channels contain a minimum number of layers of middlemen, and salesmen concentrate more on order getting. Depending on whether selling strategy places major reliance on personal selling or advertising, salesmen may be either active or passive forces in securing orders.
- **Sales Job Analysis -** No matter what position a company is seeking to fill—salesman, clerk, executive, factory hand, plant guard, or other—the task is

approached, consciously or not, with some preliminary analysis of the job. Fundamentally, this reflects management's almost "instinctive" need to fit the man and job to each other. In companies where this need has been recognized, more formal systems for job analysis have developed. Experience seems to indicate that the formal, systematic approach to job analysis results in a much higher proportion of instances of the right man being placed on the right job.

Analyzing a sales job is basically a matter of developing the information needed for a job description. It involves asking questions to determine the job's objectives, and to uncover what the salesman does or should do in pursuit of them. The first question, for example, should be. What are the purposes of this job? What is the title of the job-—salesman, sales representative, sales counselor, or what? These questions might be followed by: To whom does he report? What products does he sell? To whom does he sell? What information should he gather, and what reports should he make? The answers might elicit details concerning special skills required, planning responsibilities, relations with customers, service duties, and the like. Such question asking, together with formal arrangement and systematic grouping of the answers, provides the means of analysis and results in a sales job description.

Outlined below is a suggested nine-step procedure for sales job analysis:

- Prepare a questionnaire for salesmen, asking them to list the 'main objectives of their job, together with the major functions and subfunctions performed in doing the job effectively.
- Prior to receipt of these completed questionnaires, have all executives interested in sales activities write down their conceptions of the salesman's job objectives and the functions they feel should and should not be performed in achieving them.
- Survey customers to find out what they believe should and should not be the functions of the company salesman.
- Tabulate the information received.
- Reconcile differences revealed by the above three view points, write a concise statement of job objectives, and prepare a detailed list of activities salesmen are to perform.

- Classify these activities into major functional groups such as Sales, Service, Territory Management, Sales Promotion, Executive, and Good Will Duties.
- Determine what the salesman needs to know, the qualifications necessary to perform designated activities, and the reasons necessary performance of each activity. Assemble this information into a written job description.
- Submit the written job description to salesmen for discussion and recommendations, and make alterations as required.
- Periodically revise the job description, following the eight steps above, when changes in products, competition, the economic climate, or customers' demands require a review of job objectives and the activities involved in reaching them.

An alternative approach to sales job analysis is to use a checklist itemizing the functions and sub functions generally accepted as comprising the salesman's job. The checklist approach is less reliable than the suggested nine-step procedure—it fails to provide for definition of job objectives; does not focus on the viewpoints of salesmen, executives, or customers; and does not require "reasons" in support of activities eventually written into the job description. However, this approach can be helpful in preparing tentative descriptions of new sales jobs when the time factor is important.

- **The Job Specifications -** The duties and responsibilities set forth in the job description should be converted into a set of qualifications that a person should possess in order to perform the job satisfactorily. This set of qualifications is called the "job specifications." If the job description states, for example, that the salesman is to train dealers' sales personnel, then the salesman should be qualified to conduct such training. What will the salesman have to know about the products and the dealers' customers? About the dealers' operating methods and problems? About training methods? Will this duty require the salesman to have a certain amount and kind of experience? Will it rule out salesmen below a certain age? Similar sets of questions must be answered with respect to each of the duties and responsibilities contained in the job description.
- **How Many Salesmen? -** It is impossible to state precisely the proper number of salesmen, but it is possible to describe the analysis required in seeking an approximate answer. We must recognize at the outset that

performance of the set of activities contained in the sales job description represents one unit of sales manpower and not necessarily any particular salesman. A particular salesman may represent either more or less than one unit of sales manpower—if his performance is excellent, he may do the job of more than one manpower unit; if his performance is below par, he may do less. If, however, all of a company's salesmen are expected to perform in accordance with the job description, then the number of salesmen required equals the number of units of sales manpower required. Generally, it must be noted, sales job descriptions are constructed assuming that they describe what the average salesman with average performance will accomplish. With that assumption, then, one can estimate the number of dollars of sales volume each salesman (i.e., each unit of sales manpower) should produce. Dividing this amount into forecasted sales volume—the company's sales volume objective—and allowing for sales force turnover, results in an estimate of the number of salesmen needed. These relationships are summarized in the equation below:

$$N = \frac{S}{P} + T(S/P)$$

And this reduces to:

$$N = \frac{S}{P} + T(1 + T)$$

Where: N is the number of sales manpower units

S is the forecasted sales volume

P is the estimated sales productivity of one unit of sales manpower and T is the allowance for rate of sales force turnover.

Consider, for example, a firm with forecasted sales of $1 million, estimated sales productivity per unit of sales manpower of $100,000, and an estimated annual rate of sales force turnover of 10 per cent. Using these figures in the equation, we have:

$$N = \frac{\$1{,}000{,}000}{\$100{,}000}(1.10)$$

$$N = 11 \text{ sales manpower unit}$$

Check your progress 3

1. A ________determination of the quality and number of salesmen required is an important prerequisite to their actual recruitment and selection.

   a. clear

   b. rought

2. Determining the_______is important because of the great diversity among selling jobs, ranging from that involving mainly physical effort.

   a. quality

   b. quantity

3. Analyzing a sales job is basically a matter of developing the information needed for a_____.

   a. job description

   b. job analysis

4. Job__________also should furnish recruiters with an important device for the conservation of time and energy.

   a. specifications

   b. analysis

5. ______________in defining standards of age and physical appearance is usually desirable.

   a. Flexibility

   b. elasticity

1.5 Recruiting Salesmen

Thus far we have examined factors sales management should consider in determining manpower requirements. Both qualitative and quantitative dimensions of the task have been analyzed—job analysis come first, and result in job descriptions from which are derived job specifications; and all these, considered along with such factors as forecasted sales and the sales force turnover rate, contribute to the determination of the number of units of sales manpower needed.

These are necessary preliminaries to the next step, usually called recruiting, which involves determining who has the necessary qualifications. The two main recruiting problems are: identifying the sources of recruits, and choosing recruiting methods.

The salesman-recruiting effort differs in importance from firm to firm, the differences stemming in part from variations in the calibre of man desired. The higher the desired calibre, the more difficult it is to obtain an adequate number. The calibre desired, of course, is influenced by the nature of the job, complexity of the product line, problems in servicing customers, and so forth. If job specifications call for some special talent, such as the ability to apply imagination to the solution of customers' problems, then men of high calibre probably will be needed. If, however, job specifications require only order taking ability, as in the case of many beer and soft drink salesmen, then men of lower calibre will suffice. Similarly, a higher calibre of salesman is ordinarily indicated for a product that is technical, complex, or sells at a high unit price.

1.5.1 Recruiting Source Identification

After completion of the job description and job specifications, the next problem is locating such candidates. One way to start is to analyze sources used in the past. Each source should be analyzed to should reveal the total number of recruits produced, and "successes" and "failures." Each source, in other words, should be analyzed quantitatively and qualitatively. One source may have provided numerous recruits but few successes; a second fewer recruits but a high proportion of successes. Consider this analysis of eighty salesmen recruited by one company over a period of five years.

Source	**Number Recruits**	**% of Total**	**Number Successes**	**Ratio of Success to Total**
Recommendations by own Salesmen	22	27.50%	10	.455
Educational Institutions	14	17.50	10	.715
Salesmen for Noncompeting Firms	12	15.00	2	.167
Employment Agencies	10	12.50	3	.300
Personal Acquaintances of Executives	8	10.00	5	.625
Customers Employees	6	7.50	1	.167
Unsolicited Applications	5	6.25	2	.400
Competitors Salesmen	3	3.75	2	.670
Totals	80	100.00%	35	
Ration of Successes to Total from all Sources				.437

Notice that the source accounting for the largest number of recruits showed a success ratio only slightly more favorable than the ratio for all sources—but it did account for 10 of the 35 successes recruited and, for this reason, management might want to continue using it. Three sources had higher-than-average success ratios, and management should explore ways of increasing the number of recruits from them. Three other sources had very low success ratios, and management should use them sparingly in the future. A word of caution—these results indicate the experience of only one company, and should not be considered typical of industry in general. Furthermore, the definition of "success" adopted by a particular management affects this sort of analysis. In the example given, success was defined as “demonstrated ability to meet or exceed sales quotas in two years out of three.” Other managements might well define success differently.

Another word of caution with regard to using data of the above type: Its reliability depends upon the size of the group evaluated. More reliable conclusions could be drawn with regard to the worth of a source producing twenty-two recruits than one producing only three recruits. However, even if only a small number of cases is available, the data may still serve as a helpful, although necessarily less reliable, and guide in identifying promising sources of new salesmen.

Some frequently used sources of recruit’s are discussed below. The intent is to describe general source characteristics and to point up significant advantages, disadvantages, and other pertinent information concerning each source.

1.5.2 Sources within the Company

- **Company Salesmen -** Many individuals apply for specific sales jobs because they know company salesmen; and salesmen’s recommendations may constitute an excellent source. Often such applicants already know something about the job and about company policies; and the fact that they apply is some indication of favorable disposition toward the company. Salesmen, often gregarious people, fairly typically have wide circles of acquaintances, since both on and off the job them continually meet new people and generally have many personal friends with similar interests. It is natural, then, that many of their contacts have good potentials as salesmen—indeed, many are salesmen already for other firms. However, some salesmen are not particularly discriminating in their recommendations, and for this reason such recommendations need careful appraisal. One special recruiting situation in which salesmen frequently are encouraged to submit recommendations involves filling jobs in remote territories—salesmen in the same or adjacent areas may know considerably more about unique territorial requirements and local sources of personnel than home office executives.
- **Company Executives -** Recommendations of the sales manager, the president, and other company executive’s are another internal source. The sales executive’s personal contacts may yield some top-calibre people, because of his own involvement with the selling field, and his understanding

of the needed qualifications. Other executives' recommendations, by way of contrast, more often are based mainly upon personal friendships and tend to represent less objective appraisals. Experience is almost the only way to evaluate each executive's worth as a source of new recruits, and the type of analysis shown in Figure 7-3 adapts easily for this purpose.

- **Internal Transfers -** Two additional sources within the company are other departments, and the nonselling section of the sales department. Men desiring transfers are already familiar with company policies, and the personnel department should have considerable detailed information about them. One factor limiting recruitment of transfers is that the company usually knows little about their aptitude for selling work; an offsetting factor is that they often possess excellent product knowledge. Aptitude for selling, of course, can be tested formally, or by "trial" assignment to the field. Transfers are especially good prospects for sales positions whenever product knowledge makes up a substantial portion of sales training, since their background makes it possible to accelerate field assignments.

1.5.3 Sources outside the Company

- **Educational Institutions -** This source includes colleges and universities, business colleges, high schools, and night schools. It is reasonable to expect that graduates have attained certain minimum educational levels, the amount depending upon the school. Moreover, many have had training in general business, marketing, and salesmanship. Schools area particularly fruitful source of new men at graduation time, and some maintain year-round placement services for graduates seeking job changes. Most recent graduates represent net additions to the labor market and; consequently, need not be attracted away from other jobs.

  Colleges and universities have become increasingly important sources of sales and management trainees, and competition is keen for their graduates. Often the graduating senior is in a position to choose from several attractive job offers. Companies not maintaining close relations with the college's are at a disadvantage, frequently being unable to obtain appointments on overcrowded campus recruiting schedules, and finding it difficult to attract student's away from companies better known to the college. Even better-known companies face stiff competition with each other in hiring the cream of the graduates. A few companies offer sales training programs to outstanding juniors during vacation periods. Thus, the trainee and the company have an opportunity to evaluate each other, and trainees who prove satisfactory are offered jobs on graduation.

- **Competitors' Organizations -** Salesmen recruited from competitors' organizations generally require minimum training because of experience in selling similar products to similar markets. But this is often a costly source; because a premium must be paid to persuade salesmen to resign their present jobs. Some sales managers are reluctant to hire competitors' ex-salesmen, because they suspect the loyalty of such persons. An individual hired away from one organization for higher pay maybe similarly tempted at some future date. An important question to answer is why is this man leaving his present position? When the new job does not improve pay or status for the applicant, his desire to change may result from personality conflicts, or instability. Dissatisfaction with his present job is not necessarily the fault of the salesman: If he has good reasons for making the change, it may be possible to obtain a first-class man, ready at once for productive work.
- **Salesmen for Noncompeting Companies -** Salesmen working for firms in related and nonrelated industries constitute a source of recruits. Men from this source may not be fully acquainted with the product line, but they do have selling experience. This source provides a channel of advancement for salesmen in "dead end" jobs, or those seeking to upgrade their employment.
- **Salesmen Making Calls on the Company -** The purchasing agent is in daily contact with salesmen from other companies, and he is in a strategic position to evaluate their on-the-job performances. It is not unusual for him to meet high-calibre salesmen for whom jobs with the purchasing agent's company would be attractive financially or in other respects. He should be encouraged to make the appropriate recommendations.
- **Employees of Customers -** Some companies regard their customers as a recruiting source. Customers are asked to recommend able men in their own organizations who have reached the maximum potential of their existing jobs. Such transfers may have a favourable effect upon morale in the customer's organization. However, since customer good will is of prime

importance, a customer's salesmen should normally be recruited only with his prior approval and recommendation.

- **Sales Executives' Clubs -** Many sales executives' clubs operate placement services. Salesmen seeking new positions submit personal data sheets that are duplicated and forwarded to members. At regular club meetings, the sales executive has additional opportunity for informal discussion and exchange of placement information.

- **Employment Agencies -** Many sales managers traditionally have regarded employment agencies as unpromising sources of recruits. Many use agencies only after other sources are pumped dry. Many believe, usually with little evidence that "good" salesmen neither need nor will use an agency's services. Experience, unfortunately, tends to reinforce such attitudes, because too often agency referrals fail to meet sales job specifications. Sometimes this is traceable to agency deficiencies (such as the unscrupulous desire to receive placement fees); but at least as often the fault is that of the prospective employer, who may be using unrealistically high job specifications, may not make his requirements clear, and so on. Beyond any conceivable doubt, an employer is unwise—as well as unjustified —in generalizing from his unsatisfactory experiences with one or a few agencies, whether they be privately operated or local offices of state employment services.

Whenever an agency is used, it should receive a clear statement of the job's objectives, and a complete rundown of job specifications. If possible, the recruiter should meet with the agency counselor to assure that the latter has the pertinent information, and that he fully understands it. One other point to recognize is that 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. Agencies have steadily improved and expanded their services (often they administer tests of various sorts, check references, and perform tasks otherwise done, if at all, by the employer). As the nature of these services becomes better understood by sales executives, this source should grow in importance. One development that should interest sales executives involves the growing number of agencies that take the initiative in searching out promising job candidates, employed or not, instead of confining themselves to "volunteer" applicants. Unfortunately, these agencies normally recruit only executives and, hence, do not provide a source of salesmen.

- **Direct Unsolicited Applications -** Most companies receive some unsolicited "walk-in" and "write-in" applications for sales positions. Some sales managers favor immediate hiring of applicants who take the initiative in seeking sales jobs, the reasoning being that this may indicate selling aggressiveness. Others, especially those having favourable experience with other recruiting sources, reject direct applications automatically but politely. Probably the most logical policy is to treat all volunteer applications the same as solicited applications—if an applicant does not meet minimum requirements as set forth in job specifications, he should be eliminated at once; if he meets these requirements, then he should be processed further along with other applicants. The selection system, if it works well, should result in hiring the best-qualified applicants regardless of the sources from which they come. It should be noted that direct unsolicited applications cannot be relied upon to provide a steady flow of applicants, the volume fluctuating markedly with changing business conditions.
- **Older Men -** Many companies, as a matter of policy, refrain from actively recruiting men over 45 years of age. Since these men frequently have a difficult time obtaining jobs, a company willing to consider them may select from a group for which there is little competitive bidding. Many have years of selling experience, and the maturity that is so valuable in most selling situations. It is important, of course, to ascertain why an apparently good man is unemployed, but the reasons are often beyond his control. When older men are under consideration for sales jobs, assuming their qualifications compare favorably with job specifications, hiring decisions may hinge upon the length of the training period needed to bring them up to full productivity.

Check your progress 4

1. The ____________desired, of course, is influenced by the nature of the job, complexity of the product line, and problems in servicing customers.

   a. calibre

   b. efficiency

2. Two additional sources within the company are other departments, and then on selling section of the____________department.

   a. sales

   b. Production

3. ____________have become increasingly important sources of sales and management trainees, and competition is keen for their graduates.

   a. Colleges and universities

   b. Placement agencies

4. Companies not maintaining close relations with the colleges' are at a______.

   a. disadvantage

   b. advantage

5. Whenever an agency is used, it should receive a clear statement of the job's objectives, and a complete rundown of job____________.

   a. specifications

   b. analysis

1.6 Methods of Recruiting Salesmen

It is wise to precedeactual recruiting with an analysis of methods currently in use, an evaluation similar to that used in determining sources of recruits. Successes, failures, and terminations should be studied to see if they are related to specific recruiting methods. The results should aid in determining the most appropriate methods.

1.6.1 Personal Recruiting

Personal recruiting is chiefly used for recruiting graduates of schools and colleges. Campus interviewing is often planned as a company-wide affair, because this avoids much duplication of effort. Although representatives of different departments do the interviewing, the personnel department plans and coordinates the recruiting drive. In many efforts of this type, an assistant sales manager shares with the regional or district sales manager located nearest the campus responsibility for interviewing students interested in sales positions. In other cases, home office sales executives rotate campus interviewing responsibilities among themselves; sometimes each returns annually to the same campuses thus building long term relationships with individual schools.

1.6.2 Indirect Recruiting

Advertisements in classified and other sections of newspapers and trade journals have long been used for recruiting salesmen. Until recently, however, advertisements were considered useful only for hiring low-grade salesmen for routine jobs. Even for this grade of personnel, the proportion of qualified to unqualified respondents to a given advertisement was often small; and it was time-consuming and costly to screen all the applicants. Furthermore, most sales executives believed that high-calibre; successful men would not seek employment in such an impersonal way. Nevertheless, a change in thinking evidently has occurred. Today, city newspapers carry large numbers of advertisements publicizing openings for salesmen and even for sales executives.

Check your progress 5

1. ____________recruiting is chiefly used for recruiting graduates of schools and colleges.

   a. Personal

   b. impersonal

2. Advertisements in classified and other sections of newspapers and trade journals have long been used for _________salesmen.

   a. recruiting

   b. selecting

3. The type of selling and the____________of earnings results in high turnover rates among these salesmen.

   a. uncertainty

   b. certainty

4. College recruiting requires ___________well in advance of the campus visit.

   a. planning

   b. personal

5. As a last resort, direct selling companies, especially those with field supervisors, use _________________recruiting in the open territory.

   a. cold-canvass

   b. hot- canvass

1.7 The Selection System

The selection system should be well integrated, with each step contributing needed information for hiring decisions. Selection systems range from simple one-step systems consisting of nothing more than one informal personal interview, to complex multiple-step systems providing for the use of many devices and techniques designed to gather information. It is helpful to visualize a selection system as a set of successive "screens" at any of which the applicant may be removed from further consideration. Because some screens are more expensive to administer than others, the system should be designed to incorporate the most inexpensive screens early, thus eliminating unpromising candidates with minimum delay, and economizing on money and effort invested. Applicants surviving all screenings are offered positions. However, no selection system is in fallible—all eliminate some who would have succeeded as salesmen and recommend hiring some who fail. A selection system fulfils its main mission if it improves management's ability to estimate success and failure probabilities for individual applicants. Every company should design its selection system to fit its own requirements. Each step should be included for a purpose, and each should be eliminated when it no longer makes a worthwhile contribution.

1.7.1 The Interview Application

Many companies use an interview application form to eliminate obviously unqualified applicants, thus saving time of interviewer's and applicants. The interview application obtains information on basic qualifications of the job candidate.

Before routine interviewing and testing are begun predetermined minimum qualifications regarding such factors as age, education, health, and experience, must be met. The interview application form, which is at most two pages long, is completed within the space of a few minutes. It should not be confused with the longer; more detailed application form used later in the selection system.

1.7.2 Interviewing Techniques

The informal, unplanned interview has been giving way in many companies to newer techniques, some of which are described below:

1. **The Patterned Interview -** Here the interviewer uses a prepared outline of questions designed to elicit a basic core of information. He may work directly from the outline, recording answers as they are given; but this tends to make the conversation stilted, and the applicant nervous. Greater spontaneity results when the outline is memorized and the answers recorded after the interview. Interviewers should avoid asking too many questions that can be answered by a simple “yes” or “no.” It is better to use more penetrating questions, ones that reveal the attitudes and thinking of the prospective employee.

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

3. **The Interaction Interview -** The interaction interview simulates the stresses the applicant would meet in actual selling situations, and. Provides the occasion for observing his reactions to them. Administering this form of

interview requires two people. One uses psychological techniques to set up the simulated situations, and the other, who is present but not an active participant in the interview, carefully observes and records the applicant's reactions. Because of their subtlety, the delicacy involved in application, and the need for expert interpretation, interaction interviews should be planned, administered, and interpreted by trained psychologists.

4. **Rating Scales -** One widely recognized defect of the personal 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 a limited choice of responses. In evaluating an applicant's general appearance, for instance, one much-used form forces an interviewer to choose one of five descriptive phrases: very neat, nicely dressed, presentable, untidy, slovenly. Experience indicates that this results in more comparable ratings of the same individual by different interviewers. The chief drawback of the rating scale is that its very objectivity restricts precise description of many personal qualities. It is good practice, therefore, to encourage interviewers to explain ratings in writing whenever they feel comments are needed.

1.7.3 References and Recommendations

References provided by friends and former employers are used to secure information on the applicant not available from other sources. The value of references is scoffed at by some employers, who contend that an applicant names as references only those on whom he can rely to speak in his favor. Writers of reference letters generally do hesitate to criticize personal friends, or even ex-employees, but they often condemn them by faint praise. The natural tendency for references to be biased in favor of the applicant can be partially offset by contacting persons not listed as references but knowing the applicant. Personal contact is the best way to obtain information from references, since facial expressions and voice intonations reveal a great deal, and most people are more frank orally than in writing. When a reference is located at a distance, a telephone call may substitute for personal contact. Solicitation of written recommendations is the weakest approach and should be only the last resort.

If references are used, it is sound practice to contact persons in four classifications:

1. **Present or Former Employers -** These persons have observed the applicant under conditions similar to those he will meet on the new job. As a matter of practice, however, many sales executives do not approach the present employer without the applicant's permission.

2. **Former Customers -** If the applicant has selling experience, his former customer's are in a position to assess his sales ability. It is advisable, if possible, to contact these individuals without the applicant's assistance. This helps avoid those who are his personal friends.

3. **Reputable Citizens -** If references suggested by the applicant are used, it is best first to contact those who are reputable, well-known citizens. Such people are reluctant to stake their personal reputations on those in whom they have little confidence.

4. **Mutual Acquaintances -** Those who know both the applicant and the employer may give frank evaluations. What may be even more important is that the employer is better able to judge the reliability of such evaluations.

1.7.4 Physical Examination

Since good health is important to the salesman's success, most companies require physical examinations of all applicants being considered seriously for sales positions. Because of the relatively high cost, the physical examination generally is one of the last steps in the selection system. Even in companies requiring entrance physical examinations, poor health often accounts for separations; but when the examinations are not compulsory, the number is higher. It is advantageous to the man as well as to the company to identify physical ailments that may later prevent him from reaching full productivity.

1.7.5 Credit Information

Many companies run "credit checks" on applicants for sales positions. Credit files are compiled on most people by local credit bureaus, and special credit reports are obtainable through such organizations as Dun & Bradstreet. When a heavy burden of personal debt is found, it may be indicative of financial worries interfering with productivity, or of a motivating factor serving to spur productivity—to determine which requires, and should be given, further investigation. In analyzing the entire credit report, in fact, the executive should look for the "danger signals"—chronic lateness in making payments, large debts outstanding for long periods, or a bankruptcy history—the presence of any of which should signal the need for additional probing of the underlying facts. Financial irresponsibility may or may not be indicative of irresponsibility in meeting job obligations; hence considerable data on all aspects of the applicant's behavior, nonfinancial as well as financial, must be on hand to warrant whichever conclusion is drawn.

Check your progress 6

1. The_____________system should be well integrated; with each step contributing needed information for hiring decisions.

   a. selection

   b. recruitment

2. Many companies use an interview application form to _____________obviously unqualified applicants, thus saving time of interviewer's and applicants.

   a. eliminate

   b. increase

3. Some personnel experts' say that a_______________technique yields maximum insight into an individual's attitudes and interests.

   a. nondirective

   b. directive

4. References provided by friends and former employers are used to secure information on the applicant______________from other sources.

   a. not available

   b. available

5. If references suggested by the applicant are used, it is best first to contact those who are__________reputable, well-known citizens.

   a. more

   b. less

1.8 Bases for Evaluation of Tests

Before examining the psychological tests used in salesman selection, we need some criteria for evaluation. First, and most important, does the test measure what it purports to measure? The term "validity" represents the degree to which a test actually measures what it is designed to measure. For example, a written intelligence test in English is not a valid measure of the mental ability of a foreigner with an English language handicap. A low score does not necessarily indicate low intelligence; it may merely reflect poor understanding of the language. Second, is the test reliable? Reliability refers to the consistency of test results. If the test is reliable, an individual should receive approximately the same score in subsequent retesting with the same or equivalent tests. Third, is the test objective? If a test is objective, it is so administered that the scorer's opinion does not enter into the test results. Whenever the person giving or scoring the test is allowed to affect the results, it is misleading to compare results obtained by different testers.

Other factors to consider in selecting tests are: cost, time, and ease of administration. Wide variation exists in cost, and even small differentials may be important if tests are given to large groups. Because there is little relation between cost and quality, it is sometimes possible to obtain quality tests at small cost. There is similarly, wide variation in the time required to administer and score tests. Because time frequently is crucial in selection of sales personnel, the employer must balance the time requirements of alternative tests against their relative effectiveness. If the best available test consumes more time than can be spared, a mediocre test that can be given quickly may provide more effective screening than no test at all. Some tests can be administered and scored only by experts; others can be given and scored by persons with little or no special training. Again, employers must balance the gains associated with more complex tests against their costs in time and money.

1.8.1 Psychological Tests

Prior to the development of psychological testing, sales executives had no objective way to measure many traits or characteristics of applicants for sales jobs. Today more than half of all companies make some use of psychological tests as one of the last steps in the selection system (the tests come toward the end because, of their relatively high costs). Nearly all the nonuser's are companies with fewer than fifty salesmen. Using psychological tests for selection purposes, however, requires considerable sophistication, and their very objectivity leads in experienced users to expect more validity and reliability in predicting selling success than the tests can offer. It can be said in all fairness that some widely used tests are next to worthless for selection purposes, simply because they were designed for entirely different uses; others are of questionable value even for measuring what they were intended to measure. Psychological testing is still an experimental field, and every experiment does not succeed. Yet more than a few testing "failures" are on the market, are even promoted and recommended, and are used by executives unaware of the limitations. Nevertheless, there are several highly useful and reliable tests available, and certain basically weak tests can serve as screening devices, so long as their limitations are recognized. But the services of a trained specialist in psychological testing should be used in selecting, administering, and interpreting the test battery for any particular company.

Three types of psychological tests are used in salesman selection systems: those of ability, of habitual characteristics, and of achievement. Tests of ability attempt to measure how well a person can perform particular tasks with maximum motivation. They might be called tests of best performance, and they include tests of mental ability (so-called intelligence tests') and tests of special abilities, or aptitude tests. Tests of habitual characteristics attempt to gauge how the prospective employee would act in his daily work, not when he is on his best behavior. These might be called tests of typical performance, and they include attitude, personality, and interest tests. Achievement tests are designed to measure how much an individual has learned from his training or education.

1.8.2 Tests of Mental Ability

Mental tests are used satisfactorily in a wide range of areas, and they have higher validity and reliability than most psychological tests. It must be understood, however, that they measure primarily the abilities that make for success in educational or training situations, namely, language usage and comprehension, and abstract reasoning, or problem-solving ability. They do not measure creativeness, originality, or insight. Therefore, they should be regarded mores measures of mental aptitude than of general intelligence. Because tests of mental ability are “timed tests,” they provide an indication of an applicant’s ability to learn quickly and to arrive at accurate answers under pressure.

Within these limitations, mental tests are helpful in the salesman selection process. Where there is no other evidence of ability, such as graduation from college, the mental aptitude test serves as a screen to eliminate applicants falling below a predetermined level. A wide variety of mental aptitude tests is available.

1.8.3 Tests of Special Aptitudes

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

The procedure for developing battery of sales aptitude tests for a particular company is fairly straight forward. The test expert begins with the job specifications (derived, as you will recall, from the job description), checking them to assure that the abilities required for job ‘performance are correctly identified. Then he selects existing tests and/or constructs new tests to measure each aptitude. Finally he develops a scheme for weighting and combining the scores of individual tests. This work of preparing—and later validating—a test battery is time-consuming, costly, and calls for a psychologist’s services. Thus, generally the situation is such that only companies processing large numbers of sales job applicants annually feel they can afford especially developed test batteries to measure sales aptitude. Since, unfortunately, batteries not custom tailored for a particular sales job frequently have little validity, it is not too surprising that companies with small sales forces usually find it impractical to include sales aptitude test batteries in their salesman selection systems.

1.8.4 Personality Tests

Personality tests initially were used for identifying mental deviates—people with psychotic tendencies—and certain tests have proved useful for this purpose. Subsequently, attempts have been made to use them for measuring personality traits in normal individuals, for which purpose they seem to have little or no validity or reliability. The basic limitation is the lack of uniform definitions for such traits as initiative or aggressiveness, which these tests purport to measure. To the extent that these tests are at all valid in measuring normal individuals, validity must be determined by the total score rather than by scores for individual traits. The chief use of the personality test continues to be that of identifying persons with abnormal personalities.

Projective tests, of which the Rorschach is the best known, area promising technique for personality measurement. However, they must be administered by skilled testers, and their results represent a subjective opinion rather than an objective measure. Further refinements of projective techniques eventually may provide useful personality measurements.

1.8.5 Interest Tests

In using interest tests as selection devices, a basic assumption is that relation exists between interest and motivation. Hence, if two men have equal ability, the one with the greater interest in a particular job should be more successful in that job. A second inherent assumption is that interests are constant, that those of a person at age 40 are essentially the same as they were at 21.

1.8.6 Attitude Tests

Attitude tests are more useful as morale-measuring techniques than as selection aids. They are used to ascertain employees' feelings toward working conditions, pay, advancement opportunities, and the like. Used as salesman selection devkes, they may make limited contributions by identifying abnormal attitudes on such broad subjects as big business, labor unions, and government. Their validity is questionable; since people often profess socially acceptable attitudes they do not actually have. In addition, attitude tests do not measure the intensity with which particular attitudes are held.

1.8.7 Achievement Tests

Achievement tests seek to determine how much individuals know about a particular subject. Few standardized tests of this type are used by industry; because special skills involved in each job require different kinds of knowledge. Tests of clerical and stenographic ability are one exception, and the civil service examinations are another. For the employer who has decided that it is worthwhile to custom design an achievement test for sales applicants, such an instrument can provide an assessment of knowledge applicants possess in such areas as the product, marketing channels, and customer relations; however, as is true of other psychological tests, such designing is a job for an expert, not an amateur.

Check your progress 7

1. Before examining the _____________tests used in salesman selection, we need some criteria for evaluation.

   a. psychological

   b. knowledge

2. A __________score does not necessarily indicate low intelligence.

   a. low

   b. high

3. Psychological testing is still an experimental field, and every experiment ___________succeed.

   a. does not

   b. does

4. ______________are more useful as morale-measuring techniques than as selection aids.

   a. Attitude tests

   b. Knowledge tests

5. ____________tests seek to determine how much individuals know about a particular subject.

   a. Achievement

   b. attitude

1.9 Let Us Sum Up

In this block we have studied about the organizational process of recruitment and selection. The other topics that we studied are responsibility for recruitment and selection of salesmen is assigned to the sales manager in some organizations, the personnel manager in others, and to the two executives jointly in still others. There is no one best place for assignment of this responsibility. Company size, executives' personalities, and departmental organization all affect this decision. Where the sales manager has a personnel staff assistant, recruiting and selection of salesmen usually is handled entirely within the department. We studied that if the recruiting and selection programs are to succeed, they must be installed in a favorable setting. Market exploration must have been carried to the point where management knows the size of the potential business, identities and locations of customers and prospects, which individuals in customers' organ-izations influence buying decisions, and the best methods for reaching them. Product uses and applications must have been identified and the different selling appeals evaluated as to relative effectiveness. We even studied that before examining the psychological tests used in salesman selection, we need some criteria for evaluation.

So after going through this unit we have got sufficient insight of how to conduct the recruitment process with in the organisation as it is always needed in an organisation. We always have to have a pool of people through which we can make our urgent requirement. Recruitment and selection is considered to be a very important process of any organisation and this is what has been discussed here in this unit in detail.

1.10 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a)

Check your progress 2

Answers: (1-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

1.11 Glossary

1. **Evaluation -** to measure

1.12 Assignment

Prepare a chart on which give a comparison of different types of selection tests conducted.

1.13 Activities

Describe in detail about the recruitment and selection of sales force.

1.14 Case Study

Describe in detail about the recruitment and selection of sales force.

1.15 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

UNIT 2: COMPENSATING AND MOTIVATING THE SALES PERSONNEL AND FORCE

Unit Structure

2.0 Learning Objectives

After learning this unit you will be able to understand:

- The Objectives of Compensation Plans.
- The Characteristics of Compensation Plans.
- The Types of Compensation Plans.
- Designing Compensation Plans.
- The Implementing Compensation Plans.
- About Sales Force Expenses.
- The Fringe Benefits.
- The Concept of Motivation.
- The Sales Motivational Mix.

2.1 Introduction

Selling is one of the few jobs in which a sales person has the opportunity to vary his or her earnings, depending on the extent of sales achieved. If a sales person wants a higher pay check for a particular month, improving sales volumes can fulfil his desire. The compensation and reward system is the single most important motivating factor for sales personnel in any industry or organization, all over the world. It is the key to directing the behavior of sales personnel in alignment with organizational objectives. Therefore, a sales manager needs to be very prudent while establishing compensation plans. A compensation plan must explain clearly what activities a sales person is expected to carry out how performance will be measured and how they can increase their compensation. Many organizations spend a lot of time reformulating strategies to take advantage of emerging opportunities in the changing business environment. However, they seldom reorient their compensation plans to suit the changing needs of sales personnel. These plans also do not reflect the changes that have taken place as, organizations evolve in tune with changes in the business environment.

In this unit, we discuss the various aspects of motivation and the theories that have been propounded for motivation. We also examine how motivation is linked to the productivity of the sales force. This is followed by a discussion on the effect of personal characteristics of sales personnel, on their motivation and on the sales motivational mix. The chapter concludes with an examination of how sales personnel can be motivated at different stages of their career.

2.2 Objectives of Compensation Plans

It is imperative for an organization to define the list of objectives that can be fulfilled with the help of a compensation plan. Prior setting down of objectives enables sales managers to make reasonable estimates from the compensation plan, thereby avoid in overload with too many expectations. A compensation plan should be able to provide a balanced and secure additional income to sales personnel. It should also motivate them to align their efforts with organizational aims. It should also help retain talented personnel and finally act as a means to regulate sales force activities.

Balancing the Needs of Personnel

A compensation plan must be able to balance the needs of sales personnel. A plan that can cater to their basic needs like - security, creating a feeling of secure income, and desire for personal recognition and reinforcement for doing good work and fulfilling the need for status within the organization - can be considered an effective plan.

Secure income and security

A compensation plan should essentially give a sales person financial security. Compensation plans usually provide for social security, pension and retirement benefits, insurance schemes and other employee benefits that enhance the sense of personal and family security among the sales force. This is especially true when the fringe benefits component of the compensation plan is taken into consideration.

Desire for personal recognition and status

A compensation plan can serve as a yardstick to measure the level of recognition in an organization. Sales personnel have an inherent need for recognition and respect from peers, subordinates and superiors. The size of the pay packet can act as a symbol of recognition and status. Whenever sales personnel win sales contests or get a bonus for their efforts, they get a feeling of achievement, which motivates them to work more.

Reinforcement for doing good work

A compensation plan must reward sales personnel in line with their expectations. This helps mould the behavior of the sales personnel, who will men operate in a manner that benefits the customer as well as the organization. Organizations give commissions to their sales forces, if they complete their tasks within the allocated costs. However, financial incentives cannot alone bring out the best from a sales person until and unless they are clubbed with required training and direction.

Managing Effects of Time

An ideal compensation plan should provide a secure income to sales personnel at a low cost to the organization, operate in a balanced manner both at times of success and adversity and help create a feeling of goodwill among the sales force. The incentives should be planned so that they enhance sales performance in the present and the future.

Check your progress 1

1. It is imperative for an organization to define the list of ___________that can be fulfilled with the help of a compensation plan.

   a. objectives

   b. plan

2. Prior setting down of objectives enables sales managers to make reasonable estimates from the________plan.

   a. compensation

   b. sales

3. A ____________plan should be able to provide a balanced and secure additional income to sales personnel.

   a. compensation

   b. income

4. A compensation plan must be able to ________the needs of sales personnel.

   a. balance

   b. increase

5. An__________compensation plan provides a secure income to sales personnel at a low cost to the organization.

   a. ideal

   b. poor

2.3 Characteristics of Compensation Plans

A compensation plan is a tool that helps an organization achieves its objectives. It gives a push to sales force efforts, towards achieving desired goals. This will have an impact on other organizational functions too. It can influence the quantity of production, cash flow and the training needs of sales personnel. Therefore, the sales manager should study the characteristics of the compensation plan before going into the finer aspects of deciding on the type of compensation or the proportion of variable and fixed components. Any compensation plan should fulfil certain criteria. As they are meant to motivate, there should be equality in compensation to all sales personnel. The design should have flexibility to enable sales managers to modify it at times of changing emphasis in sales force activities.

Fairness to AH

To reiterate, a compensation plan should give a fair deal to sales personnel. Compensation and reward should be equitable for all persons in the sales team, including managers. The plan must also be in tune with the compensation trends and patterns followed by other organizations in the industry.

Flexibility

A flexible sales compensation plan goes a long way in achieving the objectives of an organization. The plan must provide for modification to suit changes in the external environment, products, market lifecycle and the evolution of the organization and the industry.

Provide Incentive and Motivation

The compensation plan should provide a direct link between effort, results and rewards. Unless this is ensured, the objective of motivating sales personnel is difficult to achieve. A proper mix of salary, commissions and incentives must be put in place so that sales personnel try to do their best to achieve organizational objectives. If they feel that the plan is not commensurate with their efforts, it will be difficult to get the best out of them.

Lead to Direction of Efforts towards Company Objectives

The compensation plan should direct the activities of sales personnel in such a way that it leads to fulfilment of company aims. Compensation plans also vary depending upon the selling activities the management wants to focus upon at that time. For example, if the organization is introducing new products, it can formulate a compensation system that rewards sales personnel in the form of special incentives or bonuses for each unit of new product sold. Sometimes, a sales contest is held and rewards are given to sales personnel who achieve the maximum sales volumes for Hie new products.

Ease of Administration and Comprehension

Sales compensation plans facilitate (the easy administration of all activities of the sales force. If a plan is formulated in consultation with sales personnel, they will trust the plan. The basis for a particular type of compensation plan should be clearly communicated to sales persons, especially how it helps accomplish organizational objectives and coordinates selling activities. A well- designed compensation plan not only motivates sales personnel but also influences their recruitment, training and staffing activities. There must be a link between sales force effort, performance and reward. This link helps in coordinating the activities of the sales people and also other non-selling functions like recruitment, training, evaluation and control. A compensation plan that cannot be easily comprehended or designed properly fails in administering sales activities. Nowadays, companies use the Internet to communicate compensation plans to sales personnel, significantly reducing administrative costs and time for the organization.

Check your progress 2

1. A ______plan is a tool that helps an organization achieves its objectives.

   a. compensation

   b. sales

2. The__________ plan must also be in tune with the compensation trends and patterns followed by other organizations in the industry.

   a. compensation

   b. sales

3. A _____________sales compensation plan goes a long way in achieving the objectives of an organization.

   a. flexible

   b. inelastic

4. The____________plan should provide a direct link between effort, results and rewards.

   a. compensation

   b. flexible

5. The compensation plan should direct the activities of sales personnel in such a way that it leads to ________of company aims.

   a. fulfilment

   b. nonattainment

2.4 Types of Compensation Plans

Organizations can make use of several ways to compensate employees. The main types of compensation plans are categorised as a straight salary plan, a straight commission plan and a combination plan. A straight salary plan consists of a fixed amount that is given to the sales person in a predetermined time period. In a straight commission plan, compensation is linked to the performance of the sales person. A combination plan involves a mix of these components. Let us look at each of these categories in some detail.

Straight Salary

It is a type of monetary compensation given to a sales person for a fixed time period, at a predetermined rate, for example, Rs 5000 per month, Rs 20,000 per quarter, etc. The salary may constitute the entire pay of the sales person or it may be a part of the total compensation. A straight salary is most appropriate when organizations require sales personnel to primarily sell and maintain relationships with existing customers. It is also useful when prospecting is their primary activity. Organizations that manufacture technical products prefer a straight salary as selling such products requires more than one sales person, usually an entire team. Team selling involves the combined efforts of a sales person, a service engineer, product trainer and R&D personnel. For example, companies like ABB, that sell heavy industrial machinery, have a sales person, a sales engineer, a service engineer and a customer service representative, who together manage a single account. In such instances, incentives or commission cannot be given to a single individual. So, the company pays them a salary commensurate with their qualifications, experience and job profile. In such cases, compensation cannot be primarily based on commissions as this will lead to some sales persons getting undue rewards irrespective of whether they contributed to the success of the team or not. Consumer goods manufacturers also prefer straight salaries due to faster sales cycles. This condition can cause extreme variations in compensation during the declining stage of the sales cycle, if the plan is commission based.

Advantages of straight salary

- It provides a regular, fixed and guaranteed income to sales personnel irrespective of fluctuations in sales volumes or stability of the business. It provides a sense of security to a sales person, which is critical for success.
- A straight salary compensation plan reduces the costs incurred on compensating the sales force of an organization. This is especially true when the sales volumes achieved by sales personnel are higher than the set target, because the same salary is paid in spite of higher sales volumes.
- A straight salary plan is the easiest to administer and direct in comparison to other compensation plans. Calculations are simpler because of the absence of variations in income among sales personnel.

- Switching territories and reassigning quotas of sales personnel is easier and there is least resistance from the management because such changes will not lead to any difference in the salary structure of sales personnel.

Disadvantages of straight salary

- Sales personnel do not have any reason to put in extra effort in selling, as it does not yield any rewards.
- A straight salary does not aid uniform sale of all products, since sales personnel will prefer selling those products that require the least effort. This leads to certain products being undersold, reducing the net margin for the organization.
- Such a compensation plan does not distinguish between efficient and inefficient sales personnel as both get the same, fixed salary irrespective of differences in performance.

Straight Commission Plans

In this type of compensation plan, a percentage of the sales volume or profits obtained is given to sales personnel as a commission. The income is proportional to the sales volume achieved by a sales person. Sometimes, commissions are fixed depending on the number of units of products sold, instead of total sales volume in terms of money. This type of plan is most effective for smaller or new organizations, as opportunities are greater for a new organization and sales personnel can be given a higher commission to promote products. Owing to time taken to establish sales territories and quotas, which are necessary when deciding on compensation plan, organizations can use commissions as the primary mode of payment. In a straight commission plan, a rate, base or starting point is required to calculate commissions for the sales force. The rates used for calculating commissions vary. They may also be different for different products, constant for the total volume of sales or may be a combination of both. They may be calculated on the basis of gross sales by a sales person, sales volumes above the fixed quota, pooled sales or profits (if a sales team is operating in a region), net profits calculated after reducing sales expenses, or on the basis of the actual cost of products in the total sales volume. Sometimes, a salesperson becomes eligible for a commission only if the sales quota is achieved. In other words, he or she will get a commission only for sales volumes above the sales quota.

Advantages

Commission-based compensation plans are more precise than other plans as they pay sales personnel on the basis of their performance, weeding out the possibility of overpayment or under-payment, which is possible in a straight salary plan. Tlu's is because the straight salary plan does not consider the efficiency or sales volumes obtained by sales persons and pays them the same.

- Commissions are easily acceptable and preferred by sales personnel as they help them decide their pay on the basis of sales volumes achieved. They can easily understand that their potential earnings are dependent on their performance in the market.
- It is an objective measure to judge the performance of salespersons.
- In such compensation plans, as the sales volume increases, the per unit sales expense decreases.
- It helps in setting targets for the sales force.
- It motivates sales persons to achieve higher sales targets, to earn high returns.

Disadvantages

- Non-selling activities like relationship building and prospecting suffer because sales personnel focus entirely on increasing sales volumes and thereby earn higher commissions.
- The focus of the sales force is on increasing sales, without consideration for the net profit margin obtained.
- Customer service may be overlooked, as the sales personnel will be primarily-interested in making a sale, and not in assessing the utility of the product to customers.
- A commission plan hinders the regular transfer of sales personnel between territories. It also impairs designing of new territories on the basis of current market conditions, as the whole compensation plan has to be redesigned in turn. This increases the time spent and the administrative and supervision costs.

- A commission-based plan may lead to wide differences in pay among sales personnel, depending on their performance. This may give rise to dissatisfaction or conflict among sales personnel.
- The income of sales persons would depend on the economy or industry performance. In boom times, they will get excessive pa}' while in times of recession, their pay will be too little.
- Excessive turnover of sales people will occur when organization performance declines.
- Sales people may focus on selling themselves rather than the company or its products.
- Sales people may focus on developing short-term relationships with customers rather than long- term relationships.

Combination Salary Plans

This type of plan includes a combination of salary, commission and other types of incentive plans. For example, a combination plan may be a salary plus commission plan, salary plus bonus plan or a salary plus commission plus bonus plan. A combination plan provides greater control over the excesses in variable income expenses incurred by the organization. This type of plan is suitable for organizations that have a wide range of products and divisions. This is because these plans have flexibility and can be tailored to suit the sales force, by using a variety of different combinations. The most important factor to be established in this type of plan is the probable ratio between the fixed and variable components of the compensation plan. Organizations generally adopt 80% base salary and 20% incentive component. Sometimes a 70%-30% mix or even a 60%-40% mix is used.

While fixing the pay package, an analysis of the base salaries in the particular industry, past sales performance of sales personnel and performance of the company should be considered. Organizations usually pay the fixed salary component on a monthly basis, the commission component bi-weekly or monthly, and bonus on a quarterly, half-yearly or annual basis.

Advantages

- As sales people get regular income (bi-weekly, monthly, quarterly) in the form of monetary incentives, they are continuously motivated.

- It provides sales persons with the advantages of both a fixed salary and variable income.
- This plan can compensate sales personnel for all activities that they perform, without overlooking their efforts in non-selling activities, thanks to its inherent flexibility.
- Sales personnel have the opportunity of earning more than what is possible in a straight salary or a commission plan.
- This type of plan is preferred by younger sales personnel because it provides financial security as well as the potential to earn more.

Disadvantages

- This plan involves a lot of calculation and administration because of the number of combinations possible for different sales personnel.
- The administering costs are higher than other plans because complex calculations are needed and more number of personnel has to coordinate.
- These plans have to be regularly analyses due to changes in the external environment. If they are not revised periodically the variable component may become very high. This will lead to loss of morale when the pay reduces drastically during lean selling periods, due to a low commission or bonus.
- Monitoring and control has to be greater than for other plans, especially when the incentive proportion increases

Check your progress 3

1. It is a type of monetary compensation given to a sales person for a fixed time period, at a predetermined rate.

   a. Straight salary

   b. Straight Commission Plans

2. In this type of compensation plan, a percentage of the sales volume or profits obtained are given to sales personnel as a commission.

   a. Straight Commission Plans

   b. Straight salary

3. This type of plan includes a combination of salary, commission and other types of incentive plans.

   a. Combination Salary Plans

   b. Straight Commission Plans

2.5 Designing Compensation Plans

A compensation plan must meet the needs of an organization and its products or services. It must attract as well as retain existing employees. Designing effective compensation plans has become difficult for sales manager's because of the varying expectations of the sales force and the multitude of changes in global markets. A common problem faced in plan preparation is that sales managers consider the compensation plan as a substitute tool for supervision and control of sales personnel. But, it must be remembered that the basic role of a sales compensation plan is to act as a tool to help an organization attain the desired sales volumes (by satisfying the basic need of sales personnel to have a secure income). Thus, sales managers must keep in mind this basic aspect, when designing compensation plans.

A host of variables should be considered while designing the sales compensation plan. It is necessary to decide on the specific objectives, the levels of sales force compensation and the methods of sales force compensation in comparison to the industry average before the sales compensation plan is to be designed. Other than these three factors, the sales manager must also keep in mind some other aspects. They are:

- The type of industry and the position of the organization in the industry in which it is operating
- Awareness of company objectives that include decisions on whether to secure new clients, increase average order size, reduce expenses on selling or to focus on new or existing profitable products.

We will focus our discussion on the three important factors that must be kept in mind while designing the sales force compensation plans. .

Determine Specific Objectives

A compensation plan must have certain basic objectives, which will enable the sales manager to know what to expect from the plan. If specific objectives are not established, it might lead to high expectations, which cannot be met. The most common problem faced by managers while setting objectives is conflict between different objectives. As we have discussed, any compensation plan must provide income, security, be fair and have the flexibility to change with time. But, while setting objectives, there is a possibility that one objective will be in conflict with another. For example, the objective of providing satisfactory income to sales personnel will not align with the objective of minimizing costs for the organization. Therefore, the sales manager must maintain a balance. Any compensation plan that tries to fulfil the following objectives ought to be successful.

- **Income and security:** The compensation plan must provide financial security to sales people. It should not lead to sales personnel being either overpaid or underpaid, as both are detrimental to the organization's performance. If sales personnel are underpaid, they will not be motivated and it will be difficult to retain them. If they are overpaid, it can lead to financial inefficiency due to higher operating costs.
- **Equity:** The compensation plan should be transparently fair and equitable towards sales personnel. It should help the manager reward performance objectively, contributing to improving sales force morale. The sales force must be rewarded only on the basis of performance, keeping in view differences in territory, potential, composition of products sold and the nature of selling activities.
- **Flexibility:** The compensation plan should be designed so that it has the flexibility to operate satisfactorily during good and bad business periods. Emphasis on the fixed component of sales force compensation helps fulfils this objective. We have discussed this earlier in the chapter.
- **Economy:** The compensation plan must be economical to the organization. Expenditure on salaries must lead to substantial generation of profits, in the form of sales volumes. The proportion between expenditure and compensation can depend on the industry average.

Sales function objectives have a bearing on the proportion of fixed and variable components in compensation plans.

Establish Desired Levels of Earnings

Once the objectives are established, the level of compensation for the sales force is decided. It is formulated by considering the pay structures offered by competitors, the industry average and the type of selling activities the organization carries out. The experience and ability of sales personnel must also be kept in mind while setting payment levels. The compensation should be appropriate to the nature of the job. Otherwise, retaining younger sales personnel will be difficult as, once they get training from the organization, they will leave for a concern that offers them better pay. This can happen with experienced sales personnel too. Such personnel have gained specialized knowledge and skills and developed strong customer relationships, especially in technical areas where product expertise and knowledge of key decision makers in the customer organization play a significant role in making a sales presentation. Compensation plans for such personnel need not depend on the industry average because the cost of losing such people cannot be measured.

Methods of Payment

The payment methods an organization adopts depend on the analysis of selling activities. Sales activities are segregated into various constituents like the extent of attention required to develop customer relationships, time spent on negotiating prices, time spent on training and educating customers, prospecting time and so on. The proportion of these activities will vary for different organizations. Therefore, every organization must devise its own methods of payment periodically. This is necessary because the relative importance of activities changes over time. For example, greater emphasis is placed on product training for customers during the early stages of the product life cycle, while relationship building is important during the maturity stage of the product life cycle, especially when there are equally competent brands available. The method of payment should respond to a good sales performance by ensuring higher pay than competitors and maintain a uniform spread among different payment combinations. This will prevent over-reliance on a particular payment method for the sales force. The compensation plan generally includes one or more of the following methods of payment:

- **Salary:** Here, sales people are paid at a predetermined rate at regular times, which vary from a week to a month to a quarter. It is usually in the form of a monthly salary, which forms the basic source of assured income to sales personnel. This mode of payment ensures financial security.
- **Commission:** Most organizations adopt a standard commission rate for achieving fixed sales levels, for the product mix. Some organizations have a variable commission rate for the sales force (depending on the product or customer category they are handling) to calculate profitability or the progress of strategic objectives. Sometimes, sales people are eligible for commissions only when they cross the sales quota.
- **Bonus:** Bonuses are lump sums paid to sales personnel for achieving sales objectives in a defined period. The bonus can be calculated and paid on a quantitative or qualitative basis. The first involves payment on reaching designated sales volumes, while the second is dependent on aspects such as selling to certain key accounts. It may also be related to a customer satisfaction survey

Check your progress 4

1. A compensation plan must meet the needs of ________and its products or services.

   a. organization

   b. people

2. A common problem faced in plan preparation is that sales managers consider the____________plan as a substitute tool for supervision and control of sales personnel.

   a. compensation

   b. sales

3. A host of variables should be considered while designing the sales _______________plan.

   a. compensation

   b. sales

4. The____________methods an organization adopts depend on the analysis of selling activities.

   a. payment

   b. sales

5. ______________are lump sums paid to sales personnel for achieving sales objectives in a defined period.

   a. Bonuses

   b. salary

2.6 Implementing Compensation Plans

While implementing the compensation plan, sales managers must know which tasks sales personnel are to be compensated for. This is followed by deciding the features of the compensation plan that will help attain organizational objectives. Otherwise, it is probable that sales personnel may not be interested in tasks that they consider unimportant and for which sufficient rewards are not present in the compensation plan. Different elements like salary, commission, bonus, drawing account, expense allowances, fringe benefits and profit sharing, individually or in combination, help in designing a proper compensation plan. Sales managers try to achieve numerous objectives with the help of different combinations of elements in a compensation plan. The combination varies with the nature of the objectives. For example, to increase sales of particular products or while selling a new product, special commissions or bonus may be given on attaining desired sales volumes. If the aim is to increase the rate of sales calls, a bonus may be given on all those calls that yield results in the form of a sale. Compensation plans are successfully implemented through proper pretesting and periodic monitoring.

Pre-Testing

Once the compensation plan is formulated, it should be pre-tested. This must be done against probable sales or expected profit volumes at both possible extremes, i.e. against maximum possible sales and minimum probable sales. Pre-testing involves determining how the plan would work if implemented a few years earlier. Sales managers estimate the costs of implementation and the possible results that would have accrued if the plan had been put in action earlier. These can be done by using computer simulation programs. Pre-testing can also be conducted by considering the past performance of sales personnel and the historical performance of a particular territory. A compensation plan can be applied to a particular territory for a pre-assigned period and results can be evaluated. If satisfactory, the plan can then be extended to all the regions where the organization operates. While testing, care must be taken to consider the extreme variations in the market lifecycle and other environmental factors to reduce the possibility of sales personnel being overpaid or under paid.

Periodic Monitoring

The objectives of the plan must be clearly explained to sales personnel so that no misunderstanding arises. People and operating procedures have to be set up to ensure successful implementation of the compensation plan. Appropriate measurement criteria, information systems that provide data needed for measurement and regular communication of information through newsletters have to be set up. Monitoring must include non-selling activities like relationship management. Regional and territory managers must have the authority to periodically monitor and implement the plan. Periodic monitoring ensures mat operating problems are minimized and appropriate modifications made when needed. For example, changes in bonus or commission levels have to be made when deciding to add or remove certain customers from the existing list, or when changing the credit terms of customers. Expense accounts too may have to be readjusted if expenditure on travel and entertainment is above desired levels. Incentives sometimes may not reflect the areas that sales managers want to emphasize. For example, the compensation plan may justify the bonus given to a sales person for higher number of orders achieved; but may contradict the sales management’s focus on team selling through joint product presentations or cross referrals. So, it is necessary to monitor whether the compensation plan is encouraging sales personnel to focus on the right kind of sales effort. To better understand how plans are used by organizations let us consider the basis of compensation among companies in the South African pharmaceutical industry

Check your progress 5

1. While implementing the compensation plan, ________managers must know which tasks sales personnel are to be compensated for.

   a. sales

   b. HR

2. Once the__________plan is formulated, it should be pre-tested.

   a. compensation

   b. salary

3. The objectives of the plan must be clearly explained to sales personnel so that no ____________arises.

   a. misunderstanding

   b. error

4. Monitoring must include_________ activities like relationship management.

   a. non-selling

   b. selling

5. Regional and territory ________ must have the authority to periodically monitor and implement the plan.

   a. managers

   b. executives

2.7 Sales Force Expenses

Sales managers have to keep tabs on the expenses incurred by sales personnel. Managers seek answers to questions like what is the appropriate size of the sales force; what are the methods of compensation suitable to achieve objectives and should profit-based quotas be set to reflect income versus expenditure of the sales force. Sales force expenditure constitutes a considerable part of an organization's marketing budget. Companies should clearly state what expenses can be incurred by a sales person. Let us discuss the characteristics of an expense plan and the types of expense plans companies implement for their sales forces.

Expense Plans

A compensation plan should clearly mention the type of expenses that sales personnel are allowed to undertake during selling activities. Expense plans vary in different organizations and different industries. A compensation plan should specify all the expenses the company will reimburse. A good expense plan must be:

- **Beneficial to salesperson:** Salespersons must be able to carry out selling activities comfortably without personal discomfort in travel, food and lodging.
- **Beneficial to the organization:** The organization should not be over burdened with the costs incurred in selling activities. Expenses should be controlled so that the net profit margin for selling a product is maintained.
- **Easy to administer:** It should be simple and easy to administer. It must not require many people to monitor and control.
- **Easy to understand:** The restrictions on expenses, changes in expense plans and timing of reimbursement should be clearly communicated to sales people. Clarity can be ensured if sales personnel are also involved in expense plan preparation. Details on how much can be spent entertaining clients and policies restricting giving bribes and other related issues, if any, should be clearly communicated. It not only reduces confusion but also helps direct the behaviour of the sales force.

Types of Expense Plans

Most organizations follow one of the following three types of expense plans:

Check your progress 6

1. __________managers have to keep tabs on the expenses incurred by sales personnel.

   a. Sales

   b. HR

2. A _____________plan should clearly mention the type of expenses that sales personnel are allowed to undertake during selling activities.

   a. compensation

   b. sales

3. Here, the organization pays for all expenses incurred by sales people to carry out selling activities.

   a. 'Company pays all' expenses

   b. 'Sales person pays all' expenses"

4. This type of plan is adopted when organizations pay sales personnel through a straight commission plan.

   a. 'Company pays all' expenses

   b. 'Company pays all'expenses

5. This arrangement takes a middle path in comparison to those described above. In this method, an organization sets a ceiling for expenses for various essential.

   a. 'Company partially pays'expenses

   b. 'Company pays all'expenses

2.8 Fringe Benefits

Fringe benefits also termed indirect compensation, have assumed great significant over the years in the sales function. These benefits were earlier given to employees to traditional functions like production, personnel and finance, but it has now equal importance in the compensation package of sales and marketing personnel. Fringe benefits are usually not directly linked to money but act as an important source for attracting prospective employees. Since the beginning of the twentieth century organizations started providing fringe benefits to their employees. The Nation Wallpaper Company was one of the earliest companies to have arrangement 1 benefit plans, in the form of a guaranteed annual salary way back in 1894, in United States.

Elements in Fringe Benefits

The various elements that fringe benefits include are:

- Benefits provided by organizations under the legal framework on the basis of the Labour Act. These include social security, unemployment compensation and compensation in the event of termination of employment.
- Pension and retirement programmes that include provident fund and gratuity.
- Insurance against unforeseen events that include life, medical and accident insurance.
- Reimbursement for time not worked like vacations, sick leave and casual leave.
- Other miscellaneous benefits such as employee stock options, reimbursement for education, entertainment and personnel counselling.

Social Security

- For employees, salaries are adjusted on the basis of their location. A higher benefit is given to employees in metres than in Class-2 cities. It may include housing allowance or city compensatory allowance.
- Higher amounts are disbursed by employers at the time of lay-offs in the form of fringe benefits.
- Income security also acts as a kind of social security for sales personnel, especially in a globalized environment where companies are going for cost-cutting and downsizing measures. Organizations that sponsor sales personnel to attend training programmes to upgrade their selling skills give them an opportunity to add value to organizational activities. This provides a sense of security to sales personnel.
- Employer’s contribute in the form of various short-term and long-term security schemes for employees, including sales personnel.

Pension and retirement programs

- Deferred payment programs like pension are used to ensure tax benefits and provide for a continuous monthly income when sales personnel retire.

- Benefits are given to the family in case a person dies when he is in employment.
- Retired employees are eligible for old-age treatment, subsidized by the organization.

Insurance

- Group insurance, where family members eligible for insurance, make a claim from the company in the event of accident or death.
- The organization provides medical and accidental insurance for on-the-job mishaps.
- Medical insurance is provided to employees for major illnesses such as heart attacks, etc.

Holidays

- Organizations provide earned leave, which employees can either encash or avail of.
- Yearly company paid holidays for the employee with family.

Time-off with pay

- Fully paid leave to take up further studies or attend training programs.
- Maternity leave for working mothers.
- Leave to attend seminars or present papers.

Other benefits

- Company car
- Interest-free loans
- Subsidized housing and food.
- Mobile telephones
- Customer entertainment expenses

Many multinationals are nowadays offering flexi-time jobs, work from home option sales automation tools and Internet selling systems. These have led to greater den from employees for better medical allowances and retirement benefits, increased of on allowances for higher education and more claims for recreation and vacation benefits. Employees are attracted to a compensation package that has a better fringe benefit component than a plan that is purely salary or commission based. With aris proportion of the workforce being women, many organizations in India are adop newer ways to provide benefits to employees. The main reason for this change is I emergence of the service sector as a boom industry in India, which provides anamicable working environment man traditional sectors.

Advantages of Fringe Benefits

- The major advantage of fringe benefits is that they are largely non-taxable, exo for benefits that employees get at the time of retirement.
- Certain benefits like educational and vacation allowances and group insurance 1 the family are highly valued by employees. They attach significant importance I these benefits, sometimes more than direct compensation or salary.
- Sales personnel are increasingly on them oveand travel and relocation been provide a sense of security to them.

Check your progress 7

1. ___________also termed indirect compensation has assumed great significant over the years in the sales function.

   a. Fringe benefits

   b. salary

2. Many ___________are nowadays offering flexi-time jobs, work from home option sales automation tools and Internet selling systems.

   a. multinationals

   b. nationals

3. The major advantage of _______________benefits is that they are largely non-taxable.

   a. multinationals

   b. incentive

4. __________also acts as a kind of social security for sales personnel, especially in a globalized environment where companies are going for cost-cutting and downsizing measures.

   a. Income security

   b. social security

5. ___________payment programs like pension are used to ensure tax benefits and provide for a continuous monthly income when sales personnel retire.

   a. Deferred

   b. revenue

2.9 Concept of Motivation

The word motivation is derived from the Latin word move rewhich means to move. Motivation is a process that instigates goal-directed behavior in an individual. In other words, motivation deals with the force within a person, or which acts on a person, to initiate desired behavior and directs it toward the attainment of organizational goals.

Stephen P. Robbins defined motivation as the willingness to exert high levels of effort toward organizational goals, conditioned by the effort's ability to satisfy some individual need. Fred Luthans defined motivation as a process that starts with a physiological or psychological deficiency or need that activates a behavior or a drive that is aimed at a goal or incentive.

Thus, from the above two definitions, it is clear that motivation is a process that essentially consists of three components - need, drive and goal. Need is a physiological or psychological state of imbalance created in an individual which stimulates the individual to take certain action to satisfy the need and thereby restore the balance. Drive is the desire generated in the individual to satisfy or fulfil his need. In other words, drive is the goal-oriented action taken by an individual to move from a state of felt deprivation to a state of fulfilment. Goal is the instrument to induce the individual to follow a certain course of action. Achievement of the goal restores the physiological or psychological balance in the individual by satisfying his need. Satisfaction of the need in turn cuts off the drive in the individual to work towards need satisfaction.

The sales function plays a crucial role in the success and growth of an organization. The attainment of goals in an organization depends on the effectiveness of its sales force, and hence requires that its sales force be highly motivated. In sales force management, motivation refers to the amount of effort a salesperson is willing to expend to accomplish the tasks associated with his job. A salesperson's motivation plays a crucial role in influencing his performance in selling, and his achievement of sales targets. The salesperson's motivation affects not just his selling performance, but also has an impact on the sales forceexpense, turnover, absenteeism and need for supervision.

Check your progress 8

1. The word ____is derived from the Latin word movere.
   a. motivation
   b. movement
2. The________function plays a crucial role in the success and growth of an organization.
   a. sales
   b. marketing
3. In sales force management, __________refers to the amount of effort a salesperson is willing to expend to accomplish the tasks associated with his job.
   a. motivation
   b. efforts
4. Achievement of the goal restores the_________balance in the individual by satisfying his need.
   a. psychological
   b. ecological
5. Drive is the goal-oriented action taken by an__________to move from a state of felt deprivation to a state of fulfilment.
   a. individual
   b. organisation

2.10 Sales Motivational Mix

One has to get into the shoes of a sales manager to realize how difficult it is to motivate the sales force. Sometimes, motivating salespersons can be a frustrating task. While some sales managers go by the ad age “Good sales people are born, not made,”and focus their efforts on recruiting salespersons having the right attitude, there are other sales managers who believe that money is the prime motivator of salespersons. They believe that paying for performance ensures that effective performance is delivered. However, sales managers and sales people differ in their perceptions regarding motivating and demotivating factors. For instance, salespersons consider fringe benefits as the prime motivators whereas sales managers consider sales incentives for achieving targets, sales competitions and prizes as the prime motivators. Similarly, while salespersons consider lack of advancement opportunities, lack of financial security and working hours as the main demotivators in the selling job, the sales managers consider that personal problems of the salespersons and their relations with superiors are the prime demotivators in sales personnel. In general, salespersons consider motivation to be a result of recruitment practices, compensation plans and effective sales management. The question of what other elements can comprise motivation has become a subject for debate.

While rewards and recognition programs serve as long-term motivators for sales force, sales managers also need to realize the importance of keeping the salespersons continuously motivated.

In general, sales managers use a variety of methods and techniques to motivate salespeople. The various methods that are commonly used by sales managers to motivate the sales force fall into seven broad classes - sales culture, sales training, leadership, basic compensation, special financial incentives, nonfinancial rewards, and performance evaluation.

The sales culture of the organization affects the motivation of its sales force. Sales culture consists of various elements such as ceremonies and rites, stories, symbols, and language. Organizations use various elements of sales culture to motivate their sales force. For example, award ceremonies such as annual sales award functions satisfy salespersons’ need for recognition and motivate them as well as others in the organization to perform better. Stories of successful salespersons of the organization in the past inspire and encourage the current sales force of organizations to emulate such sales performance. Symbols such as gifts, plaques, etc. are yet another way to motivate the sales force. For example, top achievers in sales in the Mary Kay Cosmetics company are presented 'Cinderella gifts'. These gifts are in the form of pink Cadillacs, diamonds and luxurious vacations.

The founder of the company, Mary Kay believed that these were possessions which people desired, but would never think of purchasing them on their won due to the costs involved and due to other household priorities. By gifting her salespeople with such extravagant gifts, Mary Kay ensured that her sales force remained motivated to sell the products of the company.

Sales training makes salespersons knowledgeable about the product and increases their confidence. Inadequately trained salespersons are usually ill-equipped to respond to customer queries and this affects their sales performance and thereby their motivation.

The leadership style of sales managers has an impact on the sales performance of salespersons. A sales manager who is a good leader can influence the sales force to perform to their maximum potential. On the other hand, salespersons working for a manager who constantly uses the threat of firing tend to avoid risks and perform only to the extent of protecting their jobs. Such a leadership style of the sales manager naturally has a negative impact on the bottom-line of the company. The various leadership styles that can be adopted by sales managers and their impact on the motivation of salespersons will be dealt with in detail in Chapter 15 - Leading the Sales Force.

Compensation of the sales force may be in the form of salary, or commission, or a mix of both. Money is known to be the prime motivator for many salespersons. Compensation serves as a means of living and establishes a relation between salesperson's performance and rewards. Compensation plans such as performance-linked packages help motivate salespersons to perform better.

Performance evaluation is the means by which sales managers evaluate the performance of the sales force and based on the evaluation; fix their compensation, rewards, incentives and promotion. A fair and just performance evaluation system motivates salespeople a great deal.

Check your progress 9

1. Sales ________and sales people differ in their perceptions regarding motivating and demotivating factors.
   a. managers
   b. executives
2. In general, sales managers use a variety of methods and techniques to __________salespeople.
   a. motivate
   b. recruit
3. The sales __________of the organization affects the motivation of its sales force.
   a. culture
   b. turnover
4. Organizations use various __________of sales cultures to motivate their sales force.
   a. elements
   b. methods
5. __________makes salespersons knowledgeable about the product and increases their confidence.
   a. Sales training
   b. Sales

2.11 Motivating the Sales Personnel at Different Stages of Their Career

With the passage of time, several changes take place in an individual's perceptions and his/her attitude towards life, career, etc. Changes take place even in the working life of an individual over time. There may be a change in the individuals' goals and concerns as well as a change in his attitude and perceptions regarding his job.

Career stages refer to the various stages in one's career from the entry stage to the stage of retirement. The study of career stages is important in sales management because many people continue to remain in a sales position throughout their career, right from the entry-level till they reach the age of retirement. In sales management, a lot of research has focused on the changes taking place in a salesperson's perception and attitude toward his job over the span of his career. According to the career stage model, a salesperson's career passes through four stages - exploration, establishment, maintenance and disengagement (as shown in Figure). At each stage in his career, a salesperson identifies specific career concerns and struggles to resolve his career concerns if they happen to clash with those identified during the earlier stages of his career. In the process, the salesperson may tend to disregard some of the career concerns which might have been important to him earlier and adopt a whole new set of career concerns. The career concerns of the salesperson at each stage of his work life form the basis of how he perceives, interprets and reacts to the environment at each stage. Table shows the career stage characteristics of an individual.

Sales managers are increasingly concerned about the need to motivate salespersons as they move through various stages in their career. The primary concern of sales managers is to motivate salespersons in the various stages of their career to direct them toward greater selling efforts and enhanced sales performance.

2.11.1 Exploration Stage

The exploration stage in one's career usually occurs between the ages of 20 and 30 years. In the exploration stage, an individual lacks work experience and is only concerned with finding the right occupation rather than worrying about lifelong commitment to a particular occupation. This stage in one's career is rather stressful because the individual is not sure whether his abilities match the job requirements. The exploratory stage is marked by the individual's efforts to create a self-image. The individual accomplishes this by showing competence in his area of expertise and by gaining the acceptance of his peers in the organization. Also, stress during the exploratory stage of one's career is due to the wide variety of career options available to the individual at this stage making it difficult for him to choose and plan his career path. Job hopping is a common feature during the exploratory stage and reflects the individual's attempts to find the occupation that best suit his abilities.

Usually, salespeople in the exploration stage tend to be dissatisfied with the job due to the uncertainty as to whether they are in the right occupation. The brief sales career of the salespeople and their lack of experience make them skeptical regarding the rewards associated with achieving high sales. Therefore, a sales manager faces a challenging task in motivating salespeople in the exploration stage to achieve high targets.

2.11.2 Establishment Stage

The establishment stage usually occurs between the ages of 30 and 40 years in one's life. In this stage, individuals shift their focus from searching for the right occupation to settling down in a particular occupation and advancing in it. This tendency is influenced by expectations of others because by the time an individual reaches this stage of his life, his family, friends, and acquaintances expect him to settle down in his career. Nevertheless, the search for the right occupation may continue in some individuals. Thus, one cannot precisely say at how much experience and what age the exploration stage will end and the establishment stages will begin for an individual.

In the establishment stage of career, the pressure to succeed and advance in one's career replaces the pressure to find the right occupation. The achievement of professional success reigns supreme in the individual and this is often accompanied by a desire for promotion. Although the long hours put in by the individual in order to attain his objectives tend to increase his performance in the job, it also places great demands on the individual in terms of family responsibilities and health concerns. Thus, in this stage, the individual tries to seek an effective balance between his work life and personal life.

Advancement in one's career in a sales organization also involves the question whether there are suitable positions in the organizations to which successful salespersons can be promoted. In most sales organizations, career enhancement of salespersons usually involves the salesperson getting promoted to a sales management position. However, not all salespersons are willing to take up a sales management position due to the entirely different set of skills required in the new position. Also, salespersons dealing in products that have reached the maturity stage of the product life cycle find very few opportunities for further growth in the organization. Hence, they switch their jobs during the establishment stage in order to enhance their career opportunities.

To avoid turnover in this stage, organizations create senior sales positions in the organization to motivate salespersons to aim for promotion to these positions. At the same time, sales managers make the salespersons aware of the requirements to get promoted. In organizations where there are limited opportunities for promotion, sales managers address the problem by suggesting dual career options to salespeople. This is especially true of organizations in which lean management is the trend. Market trends such as centralized buying and frequent new product introductions have created a need for specialized non-management positions. Examples of dual career positions include key account sales positions and product group specialists. Salesmen, who are transferred to these specialized non-management positions as part of the dual career strategy of the management, often tend to perceive the transfer as a promotion and are satisfied mat their promotion aspirations have been fulfilled.

2.11.3 Maintenance Stage

The maintenance stage in one’s career usually starts around the age of 40 to 50 years. In the maintenance stage, the individual is under a lot of psychological strain due to growing awareness of physical aging, limited opportunities for career growth and increasing threat of technical obsolescence. In order to remain in his current position, an individual feels the need to be up-to-date with the latest developments in his field and to acquire new knowledge and skills in order to enhance his job performance. Thus, this stage, in an individual’s career, is marked by a lot of changes which may be of a physiological, attitudinal, occupational or social nature. At this stage, the individual perceives the need to bring about a change in his self-image.

Unlike the earlier stages in his career where the individual makes efforts to succeed and achieve more in his career, the maintenance stage is characterized by the individual holding on to what he has already achieved and maintaining his position, status and performance level in the organization. The individual reaches neither a stage in his career where he is satisfied with his level of performance and doesn’t feel the need nor the interest in competing with his peers for career advancement. The individual adopts a mentoring approach toward his subordinates. Even status-wise, when an individual reaches the maintenance stage, he is most likely to be already at a position of fairly high status in the organization and therefore feels no desire to strive for a still higher status. For example, a salesperson may be in the position of senior sales executive and is unlikely to expect to move up further in the organization.

Whatever the level of performance he might have achieved (whether as a top performer, average or below average performer), the salesperson is satisfied with his position in the organization and does not try to improve his position further by way of promotion or achievements. Even if the salesperson is dissatisfied, he does little to change the status quo and is unlikely 10 change his job at this stage of his life. The maintenance stage in an individual's cvreer often coincides with the mid-life stage in the life of the individual.

There are various ways in which individuals try to cope with the emotional pressure that characterizes this stage of the career. Some may choose to take up a job in an entirely new occupation while others may learn to cope with the idea of limited career opportunities in their current occupation. It is difficult for sales managers to motivate salespersons who are in the maintenance stage of their career since promotion and rewards no longer motivate them after having achieved all these in the course of their career.

2.11.4 Disengagement Stage

The disengagement stage in the career stage model is characterized by an individual's attempts to withdraw or disengage himself from his career. In this stage, the individual is no longer interested in maintaining or enhancing his professional position and begins to anticipate and plan for retirement. There may be some individuals who retire early in the disengagement stage and involve themselves in activities that give personal satisfaction or help them gain public attention. Examples of such activities include hobbies, religious, social and philanthropic activities.

In the disengagement stage too, there is little that sales managers can do to motivate the salespersons and make them improve their job performance.

Check your progress 10

1. With the passage of time, several changes take place in a_________and his/her attitude towards life, career, etc.
   a. individual’s perceptions
   b. organisation’s perceptions
2. ______refer to the various stages in one’s career from the entry stage to the stage of retirement.
   a. Career stages
   b. Job stages
3. The__________stage in one’s career usually starts around the age of 40 to 50 years.
   a. maintenance
   b. exploration
4. The__________stage in one’s career usually occurs between the ages of 20 and 30 years.
   a. exploration
   b. maintenance
5. The______stage usually occurs between the ages of 30 and 40 years in one’s life.
   a. establishment
   b. maintenance

2.12 Let Us Sum Up

In this unit we have studied about the compensation plan in very detail. We studied the various objectives of a good compensation plan .We even studied the characterstics of a good compensation plan. We even studied about straight salary; It is a type of monetary compensation given to a sales person for a fixed time period, at a predetermined rate. Its advantages and disadvantages were even discussed in detial. Apart from this straight Commission plans were even discussed with its advantages and disadvantages.

In this type of compensation plan, a percentage of the sales volume or profits obtained are given to sales personnel as a commission. In this unit fringe benefits were even discussed along with its advantages. In this way it is going to be of great help for the readers in understanding about the way, the process and techniques to be adopted while making compensation.

2.13 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 8

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 9

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 10

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

2.14 Glossary

1. **Compensation -** remuneration to worker.

2.15 Assignment

Give a detailed account of the characteristics of compensation plan.

2.16 Activities

Explain about the elements and advantages of Fringe Benefits.

2.17 Case Study

Write a detailed note on Fringe benefits.

2.18 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

UNIT 3: EVALUATING SALES- FORCE PERFORMANCE

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Sales Force Performance.
- The Determinants of Sales Force Performance.
- The Performance Evaluation.
- Information Sources for Evaluation.
- The Criteria for the Evaluation of Sales Force Performance.
- The Methods of Sales Force Evaluation.
- The Monitoring and Reviewing of Sales Force Performance.

3.1 Introduction

Sales manager's oversee activities like setting sales and profit targets, formulating sales related marketing policies, designing personal selling strategies, and integrating the sales organization with the company's other functions. In short, they design and develop the sales organization and oversee the implementation of the sales program to get the desired results. However, in discharging these responsibilities, sales managers tend to spend a lot of time in trying to achieve the planned results and end up overlooking a significant function in the sales management process - that of measuring and evaluating the effectiveness of the sale force's performance. Organizations have limited resources, and it is the sales manager's responsibility to utilize them in such a way so as to achieve a fair balance between costs and profits in order to reach the overall organizational goals. The sales force is one such resource that must be utilized effectively.

In this unit, we will discuss the concept of sales force performance and the factors that influence the performance. We will also discuss the purpose of, and sources, processes and methods used in the evaluation of the performance of sales personnel in an organization. Both sales force performance and evaluation are generally undertaken as a part of the sales audit, which in turn, is a component of the marketing audit process.

3.2 Sales Force Performance

Faced with the changing global environment, varying customer needs, and increasing competition, organizations are seeking new ways to improve their performance. Since sales force performance has a direct bearing on the overall performance of organizations, they are relying more and more on the sales force to maintain their performance levels. No other factor has a greater impact on the bottom-line of organizations than the effective performance of their sales force. Clarifying the link between sales force behavior and the sales objectives has led to performance improvements in many organizations. Not surprisingly then, organizations are seeking ways to improve sales force performance. New methods of sales force training, human resource policies, and a greater awareness of the elements that influence their working environment have led to significant improvement and a better understanding of the concept of sales force performance. It is essential that sales managers be aware of the factors that influence the performance of the sales personnel. This awareness will have a great influence on the approach and process that they will adopt in evaluating the sales force.

Check your progress 1

1. Since sales force performance has a direct bearing on the overall performance of organizations, they are relying more and more on the_____________to maintain their performance levels.

   a. sales force

   b. sales

2. __________methods of sales force training have led to significant improvement and a better understanding of the concept of sales force performance.

   a. New

   b. old

3.3 Determinants of Sales Force Performance

The changing dynamics of the market place, increasing competition, the slowing down of the industry or segment growth, and declining profits have increased the pressure on the sales force to perform effectively and achieve the set objectives. Many studies have attempted to identify the factors that influence sales force performance. Yet, no conclusive evidence has been gathered to determine the different specific factors, their inter-relationships, and their effect on sales force performance. Awareness about the factors that determine sales force performance can help the sales manager and sales personnel adapt better to present business conditions.

3.3.1 Internal Factors

These factors are dependent on the individual salesperson. Sales performance is directly linked to the make-up of individuals, and so differs from person to person. Some of the internal factors that influence the performance of sales personnel are personal motivation, level of skills acquired, and personality characteristics.

- **Motivation:** This is the most important internal factor that influences a salesperson's performance. An individual may have the required aptitude, knowledge, and skill to perform. Yet he may perform poorly due to lack of motivation. Performance measurement and evaluation methods have a strong bearing on the motivation levels and sales force morale. If a salesperson's personal goals are in alignment with the organizational goals, the chances of the individual being highly motivated are very-high.
- **Skill level:** The skill level of sales personnel has an impact on their performance in the organization. An individual's skill level is his

proficiency in a particular area. Sales personnel are required to have a good skill-set, which includes public speaking, ability to establish relationships with customers, and effective communication and interpersonal skills. The skills-set required by a salesperson depends on factors like the industry he operates in, the products he sells, and other selling activities that he has to perform. For example, the ability to gather and analyse customer information and suggest products that fulfil those needs at the earliest is an essential skill for a salesperson involved in selling technology-based products.

- **Job satisfaction:** When an employee is satisfied at work, his performance tends to improve. Compensation is one of the important factors that determine job satisfaction for all employees, including the sales force. Organizations mat have well-established compensation system, which is linked to performance, have satisfied employees. Interest in the particular job activity and its alignment with their career objectives also influences the extent of job satisfaction of sales personnel.
- **Role perception:** The performance of the sales force is influenced by how the sales personnel perceive their role in the organization. The extent of their awareness about the activities and responsibilities of the job, the needs of customers, the types of products the company offers, and how it meets customers' requirements help to provide salespersons with a clear perception of their roles.
- **Personal factors:** Personal factors include all internal individual aspects related to sales force performance, except those that come under aptitude, skill level, role perception and motivation. Thus personal factors include those like age. Sex, weight, height, appearance, marital status, education, and number of dependents. Studies conducted over the years have been unable to identify a direct relationship between sales force performance and some of these personal factors, but some definitive conclusions have been made concerning the influence of age and education on performance. Studies have shown that, at the beginning of their career, sales personnel prefer to sell high margin products and that, with age and experience, they tend to shift towards selling lower margin products in order to achieve sales targets. Sales performance also increases with age and experience and usually tapers off after the salesperson has worked for more man 18 years.

- **Ego Drive:** Sales personnel who take the closing of each sale as a personal challenge and experience a sense of victory when they make a sale, have a high ego drive. They usually perform better than sales personnel with a lower ego drive. For those with a high ego drive, achieving sales targets becomes a personal affair in terms of self-worth or reputation and this pushes them towards improving their sales performance.
- **Empathy:** The salesperson must be able understand the way the buyer feels. Simply stated, empathy means stepping into the customer's shoes. A salesperson that is more empathetic has a better chance of identifying a customer's needs and developing a cordial long-term relationship with him. An aggressive salesperson, on the other hand, may be so preoccupied with selling the product that he may be blind to the customer's needs. So, sales personnel with better empathy show better sales performance.

3.3.2 External Factors

The external factors that influence sales force performance can be divided into environmental and organizational variables. The different functions in sales management also exert a strong influence on the performance of the sales personnel.

- **Environmental Factors:** The external environment factors like the terrain of the territory, economic and demographic factors can have a profound influence on sales force performance. It can influence their output, sales volumes, number of sales orders, number of calls made per day, and the expenses incurred during selling activities.
- **Organizational Factors:** The internal environment of the organization and its culture also influence sales force performance. Organizations that streamline communication and workflow processes to facilitate interaction between sales personnel, can improve sales force performance. Even the compensation system that a particular organization uses can influence the performance of the sales personnel and the sales manager. It has been observed that most employees usually underestimate their superior's pay and overestimate the pay of colleagues and subordinates. This attitude can have a negative impact on sales performance. Lack of awareness of the payment system is another factor mat can have a negative impact on the

performance and job satisfaction of the sales personnel. So compensation plans must be transparent, so that sales personnel are aware of any changes made in them. The sales personnel should also be made aware of the compensation of superiors, colleagues, and subordinates. Internal organizational factors are easily measurable and can explain the variations in sales force performance better than personal factors.

- **Sales Management Functions:** These include aspects like sales force planning, forecasting, territory management, compensation, and control. The organizational structure, job descriptions, and sales force structure also play a crucial role in influencing the performance of the sales force.

Sales managers must keep in mind that no single factor or combination of factors can clearly help in predicting the performance of sales personnel. Most factors, except aptitude and personal traits, can be substantially modified through training and effective company procedures and policies. Therefore, this gives credibility to the concept that a good salesperson is made, rather than born with the gift of selling.

Sales managers in most organizations determine the factors that affect sales force performances in their organization, depending on the job profiles of the sales personnel and their personal experience. So, there is no common set of factors that can be considered as having an equal influence over the performance of the sales force across different industries.

Check your progress 2

1. These factors are dependent on the individual salesperson.

   a. Internal factor

   b. external factors

2. This is the most important internal factor that influences a salesperson’s performance.

   a. Motivation

   b. planning

3. When an employee is _________at work, his performance tends to improve.

   a. satisfied

   b. dissatisfied

4. The performance of the sales force is _________by how the sales personnel perceive their role in the organization.

   a. influenced

   b. not influenced

5. Sales_______who take the closing of each sale as a personal challenge and experience a sense of victory when they make a sale, have a high ego drive.

   a. personnel

   b. manager

3.4 Performance Evaluation

Performance evaluation is an important process for supervisors and employees. It is a tool that can enhance the way in which an organization is managed. It allows employees to be recognized for good performance and provides recommendations for further improvement. When done properly, it strengthens the relationship between the sales manager and sales personnel, increases the flow of communication between the sales force and management, highlights present expectations from the management, and appraises past performance. Increasing competition, costs of selling, and greater dependence on the sales force for maintaining profitability, have led to performance evaluation becoming a critical function for the sales manager. Simply stated, evaluation involves comparing the objectives given to the sales force with the actual results achieved at the end of a particular time-period. The method of evaluation varies from company to company. An effective performance evaluation helps in achieving the desired sales objectives and in controlling the excess costs incurred by inefficient selling practices.

Another important use of performance evaluation is to provide feedback to sales personnel and sales manager’s about any inherent weaknesses in the selling approach and process. If the performance evaluation system is not properly designed, it cannot correctly convey to the sales personnel what the management expects from them in terms of desired behavior and activities. This may also affect the morale of the sales force and give rise to role conflicts that may eventually lead to sales force attrition. But over the years, sales force evaluation has become more complicated due to the increasing emphasis on non-core activities such as relationship-building and customer satisfaction, which cannot easily be identified or measured using the existing evaluation methods.

The basic steps mat need to be taken in carrying out the evaluation process are shown in Figure. The first step is to determine the factors that affect the performance of the sales force in the organization. The next step is to select the criteria which will be used to evaluate the performance. Step three involves establishing performance standards against which the sales force performance can be compared. Step four involves monitoring actual performance while the last step is reviewing and providing feedback to the sales personnel.

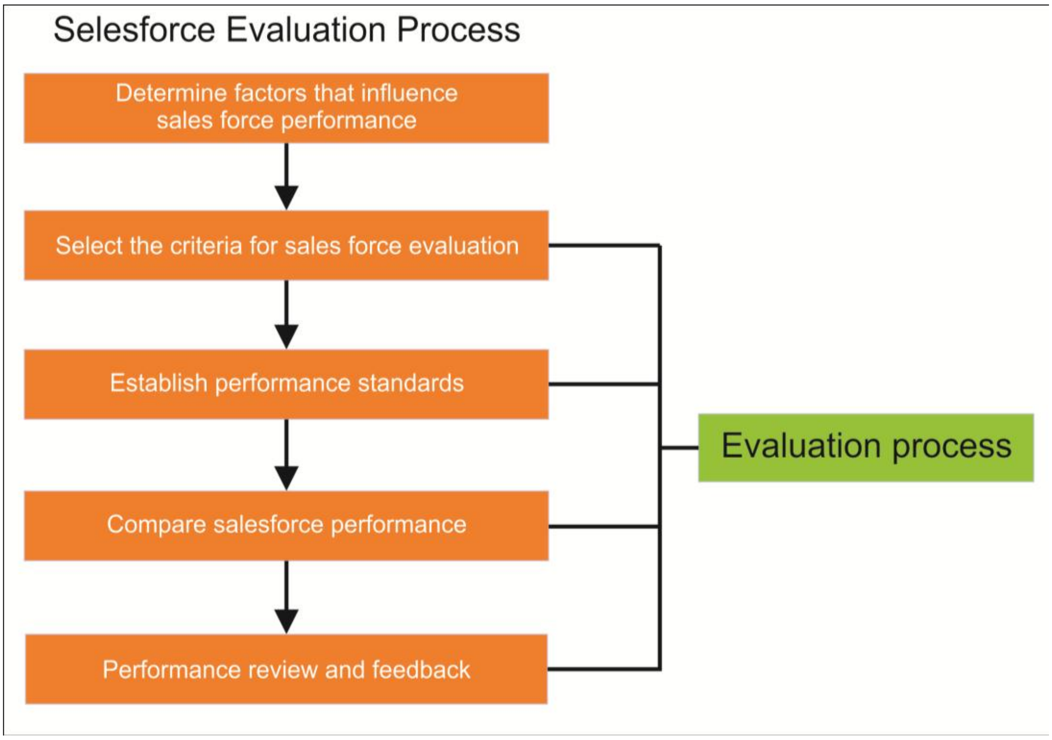

Fig 3.1 Sales force Evaluation Process

3.4.1 Purpose and Reasons

The purpose of evaluation is to monitor the performance of the sales personnel and ensure that it is in alignment with corporate goals and objectives.

Evaluation also helps a manager to measure the efficiency of sales force activities and keep track of the progress made by the sale force towards the fulfilment of objectives. The results of performance evaluation influence decisions relating to compensation, promotion, and transfer of sales personnel. Organizations use performance evaluation results to rate the performance of sales personnel and reward those who perform well. In order to make an accurate assessment of the performance of sales personnel, the sales manager must have a clear understanding of their duties and job descriptions. Without relevant information, it is difficult him to accurately measure their performance.

Performance evaluation helps to fulfil certain objectives. It acts a tool to help appreciate good performance; it also helps discuss shortcomings openly and establish methods for overcoming each shortcoming; it helps to review or update job descriptions, clarify job expectations, and set standards of performance. A performance evaluation process must continually guide the sales manager and the sales force and help enhance the superior-subordinate relationship. Some of the reasons for performance evaluation are described below.

- To be aware of company objectives: Organizational objectives have a profound influence on the performance of sales personnel. The sales manager should be aware of these objectives and of their relationship with daily sales activities. This will help him direct the sales force. Some organizational objectives that have an influence on sales force performance, are:

    1. Increasing the focus on new products, where the organization provides the necessary support to sales personnel to increase the product's market penetration and improve market share.
    2. Reducing the time spent on non-selling activities. Here the sales personnel have to focus attention and resources on primary selling activities and cut down on time spent on report preparation and paperwork formalities.
    3. Retaining the existing customer base. The sales force must lay greater emphasis on building long-term relationships with existing customers.
    4. Providing training facilities so that sales personnel become more competent within a shorter time period.

5. Providing focus on value-added activities and formulating compensation plans that ensure retention of talented sales personnel.

All these objectives influence the emphasis that the sales personnel lay on the different selling activities.

- To improve motivation and skills: Performance evaluation can help in motivating sales personnel, thereby leading to an improvement in productivity. A performance evaluation system that is fair, directed towards organizational objectives that lays down clear performance-based criteria, and provides proper feedback in terms of quantitative and qualitative factors helps in improving the motivation levels of sales personnel.
- To appraise past performance: Performance evaluation helps the sales manager appraise a salesperson's past performance. By comparing his present performance with performance standards, he can identify the difference in performance levels. The progress made by the sales personnel in various selling activities can also be monitored. This helps the sales manager identify training needs and areas in which the salesperson needs to develop more.
- To develop a sales plan to increase future sales: Performance evaluation helps the sales manager evaluate the different selling and non-selling activities that a salesperson undertakes. This knowledge aids him in developing sales plans that will improve the performance of the salesperson. The sales manager can draw up training and development programs that will address any weaknesses of his salespeople. This will help them increase their sales volumes.

3.4.2 Who Should Evaluate

The effectiveness and accuracy of the evaluation process depends on the evaluator as well. In most organizations, it is the immediate supervisor or sales manager who usually evaluates sales personnel. The immediate supervisor is the best person to evaluate the sales personnel. His proximity to them and his own previous experience of selling makes him more empathetic to the issues involved in selling. The sales manager usually undertakes the complete evaluation process, including giving recommendations for promotion and salary hikes. Sometimes the territory manager and the regional manager also evaluate the sales personnel.

3.4.3 When to Evaluate

The timing of the performance evaluation plays a crucial role in keeping sales plans on course. Performance evaluation periods vary from organization to organization. It may be on a weekly, monthly, quarterly, half-yearly or annual basis. However, the routine monitoring of selling activities cannot be considered as a performance appraisal procedure; only systematic and formal procedures aimed at measuring the performance of the employees come under an evaluation plan. The frequency of evaluation depends on the type of sales plan developed. For example, the period of evaluation is longer for complex sales plans. The variation in evaluation time may also be due to economic costs and the feasibility of conducting an appraisal. The variations in the period given to sales personnel to respond to and take corrective steps based on the previous evaluation also influence the timing of evaluation in an organization. Despite these conditions, performance evaluation has to be conducted as frequently as possible to identify and communicate variations in performance to sales personnel at the earliest.

Performance evaluation must be conducted in a systematic manner and the duration must be based on the job profile of the salesperson. The time-period for the evaluation must be communicated well in advance to enable the sales personnel to organize and plan their activities. Exhibit 16.1 describes a common performance appraisal form that is used to evaluate the sales force performance.

Check your progress 3

1. It allows employees to be recognized for good performance and provides recommendations for further improvement.

   a. Performance evaluation

   b. job evaluation

2. The effectiveness and accuracy of the___________ process depends on the evaluator as well.

   a. evaluation

   b. analysis

3. The timing of the performance____________ plays a crucial role in keeping sales plans on course.

   a. evaluation

   b. analysis

4. _____________evaluation must be conducted in a systematic manner and the duration must be based on the job profile of the salesperson.

   a. Performance

   b. actual

5. The frequency of evaluation depends on the type of _______developed.

   a. sales plan

   b. sales turnover

3.5 Information Sources for Evaluation

The collection and analysis of relevant information play an important role in helping the sales manager understand the factors that influence performance and develop the criteria to be used for performance evaluation. The source of information influences the criteria that the manager selects to measure sales force performance. If the sales manager is aware of the strengths and weaknesses of different sources of information, it will lead to a better development of criteria for evaluation and improve the efficiency and accuracy of the entire process. Organizations must formally establish a proper process for the collection of information so that performance evaluations can be done efficiently and accurately. The major sources of information that sales managers can use are:

- **Company records:** These are the main source of data by which sales managers evaluate the sales personnel. Company records are used mainly as a source of information for developing quantitative output criteria, which are used to compare sales force performance. Sales invoices, accounting records, and customer orders area part of the company records. With the advent of information systems, it has become easier for organizations to collect, analyze, and dissipate relevant information to sales managers with minimal effort. They also save on time and costs. Company records help analyze quantitative factors like sales volumes, sales order to call ratio, profitability, selling expenses, and so on.

- **Reports from salespersons:** Sales personnel send data in the form of daily, weekly, monthly, activity, expense, and call reports. These reports act as a source of information for the sales manager. The disadvantage with this source is mat the accuracy and validity of the information depends on how punctual and ethical the salesperson is.
- **Customers:** Customers area valuable source of information for sales managers. They help to make up the inadequacy associated with the reports of salespersons. A manager can get to know the results or impact of the overall sales efforts by sourcing the required information from customers through customer surveys or informal discussions with them. Though customers are the ideal source of information for sales force evaluation, they may sometimes favor those sales personnel who provide additional benefits to them. However, the benefits offered may not be favorable to the organization.
- **Manager's field visit:** The sales manager usually spends time in the field directly supervising the sales personnel. Field supervision not only helps him to gain a first and understanding of the activities of the sales personnel and give the required training and coaching, but also provides him with valuable information on qualitative aspects like their communication skills, interpersonal skills, technical product knowledge, and personality traits (adaptability, empathy, sociability, etc.,).
- **Manager's personal insights:** The personal insights of a sales manager are largely restricted by personal experience in a similar job as his sales personnel. Training and development programs and discussions with peers and superiors also act as a valuable source of information.
- **Other sources:** Sales managers also make use of other external sources of information like distributors, informal and formal personal contacts, published and electronic sources, and evaluation criteria and sources used in other organizations for evaluation purposes.

The above sources of information influence the sales managers while determining the quantitative and qualitative criteria for sales force performance. It has been observed that sales managers rely more on certain sources of information while determining the criteria. Company records, field sales reports of sales personnel, and feedback from customers are the primary sources of information used to determine quantitative criteria while personal observations of the sales manager when interacting with the salesperson, field sales visits, and customer feedback are the key sources of information in determining quantitative criteria. Earlier, information gathered from peers and subordinates was rarely preferred, but that is changing now. Many organizations have started making use of the comments given by peers, personnel from other management functions, and subordinates for performance evaluation. This method of gathering information is done through the 360-degree feedback. Exhibit 16.2 gives an overview of mis process of performance evaluation

Check your progress 4

1. The source of information influences the criteria that the manager selects to measure______performance.

   a. sales force

   b. sales plan

2. If the__________ is aware of the strengths and weaknesses of different sources of information, it will lead to a better development of criteria for evaluation and improve the efficiency and accuracy of the entire process.

   a. sales manager

   b. sales force

3. These are the main source of data by which sales managers evaluate the sales personnel.

   a. company records

   b. personal records

4. A ________can get to know the results or impact of the overall sales efforts by sourcing the required information from customers.

   a. manager

   b. executive

5. The sales manager ___________spends time in the field directly supervising the sales personnel.

   a. usually

   b. occasionally

3.6 Criteria for the Evaluation of Sales Force Performance

3.6.1 Qualitative

The performance of the sales personnel can be considered and evaluated in terms of behavior and outcome-based components. The behavior component includes evaluating all the activities, plans, and strategies carried out by the sales personnel while fulfilling their job responsibilities in terms of selling activities. Here the focus is on what the sales personnel do and not on the results they achieve. It is also called the qualitative criteria for sales force evaluation. Sales planning, technical knowledge, adaptiveness, sales support, sales presentations, teamwork, territory management, and personal traits are all qualitative criteria for evaluation. The results obtained as a consequence of sales force efforts and skills come under the outcome-based or quantitative component of sales force evaluation. Sales volume, market share, customer retention, sales orders, gross profit from new customers and number of calls per day are some of the criteria that come under the quantitative component. Both these components have a significant influence on the performance of the sales personnel and form the basis on which the sales manager can evaluate them. Significant differences have been observed between the qualitative and quantitative components of highly effective and less effective sales organizations. The criteria for measuring sales force performance should be derived from and closely related to the job description of the sales personnel.

As mentioned earlier, qualitative measures include the personal competencies or behavior of sales personnel that are inherent in and unique to each individual. It includes distinct aspects like planning skills, teamwork, aptitude and attitude, product knowledge, ethical behavior, time management, communication skills, report preparation, and technical skills. These qualitative measures are usually obtained after the evaluator/sales manager fills up a rating scale. Qualitative measures of performance are usually used as a support for quantitative measures, due to their subjective nature. Lack of a distinct measurability may lead to ambiguity in understanding for the sales personnel and the possibility of personal bias during evaluation on the part of the sales manager. There is also a possibility of a conflict arising between the sales personnel and sales manager due to a difference of opinion about a factor like motivation or aptitude. In spite of these limitations, many organizations nowadays prefer to use qualitative factors while conducting sales force performance evaluation. Their preferences regarding the measures to be used keep changing over the years. The preference for planning skills, knowledge of company policies, and time management has reduced whereas the preference for communication skills, ethical behavior, and team orientation has increased in most organizations.

- **Sales skills:** Sales skills are one of the most important factors that have an influence on sales force performance. Selling skills relate to the extent to which the salesperson has learned the tasks that are needed for a particular sales job. The sales skills of a salesperson can be divided into three sections -- technical skills, interpersonal skills and salesmanship skills. Technical skills involve skills to operate an engineering product, knowledge of the company, awareness of competitors' products and operations, and so on. Interpersonal skills include the ability to cope in a particular selling situation, to persuade customers, or to be empathetic. They also include verbal and non-verbal skills. Salesmanship skills include the ability to identify and select prospects, the skill to make sales presentations, service prospects, and develop long-term relationships with customers.

  The ability of a salesperson to adapt to a particular selling situation helps in improving his sales performance. The level and combination of skills required for a particular sales job can be decided based on the sales manager's personal experience and an analysis of the job description and profile. The skills required vary with the type of products sold, the region of operation, the strategy adopted as part of the sales plan, and so on.

- **Territory management:** This factor can also be used as a criterion for performance evaluation and it carries more weight for geographically based sales personnel. The sales manager can consider several aspects in evaluating sales personnel using this criterion. It may include the number of prospects, total customer base being serviced, level of competition, the routing and scheduling plan of the salesperson, territory terrain, and total time spent on making sales calls and knowledge of key decision-makers in major accounts. The sales manager can consider all these factors under the criteria for territory management when evaluating the sales force performance.

- **Personality traits:** The sales manager has to list the ideal traits that are needed for a particular type of sales job. Only after this is done can the sales force be evaluated. Most of the personality traits are psychological in origin and it is difficult for a sales manager to evaluate the sales force by administering and evaluating psychological tests. However, personality traits for motivation, competitiveness, role ambiguity, and conflict can be identified. For example, a salesperson's degree of instrumentality influences motivation levels. Instrumentality signifies the extent to which a person is individualistic in performing the selling activities. Sales personnel with a high level of instrumentality are more aggressive, independent, and have a greater tendency to complete the assigned tasks than those who have a low level of instrumentality. The sales manager must be able to identify the required level of instrumentality needed for a particular job in order to effectively evaluate the sales force. The level of competitiveness is another individual factor that describes the inherent desire of an individual to win over others. Adaptability, locus of control, ego drive etc., are some of the other important traits that influence sales force performance.

3.6.2 Quantitative

Quantitative criteria, being objective in nature, are used most widely in measuring sales force performance. These measures of performance are easier to implement than qualitative criteria and can be standardized. Quantitative measures can be further segregated in terms of input and output measures. Input measures include aspects like the average number of sales calls made per day, ratio of sales cost to sales and the number of reports submitted by the salespersons. Output measures include aspects like sales volume, sales orders, and number of new accounts. Evaluating the salespersons' efforts in terms of the process of selling (input measures) will show what they did during selling. Evaluating the output measures will show how they achieved the results. A sales manager can also combine the input and output measures for sales force evaluation. He can determine the reasons for a particular output of salespersons by taking into account their input measures. Consumer goods marketers are more likely to use output measures like sales volumes and number of advertising displays in supermarkets and retail outlets than industrial marketers.

- **Sales volume:** Sales volume is the most widely used measure in organizations to evaluate sales force performance. Sales volume is not restricted to just measuring the total sales of the sales personnel in terms of money; there are many other variations as well. This measure may include sales volume in rupees/dollars, sales volume by customer, sales volume per order, sales volume to previous year's sales, sales volume per product or product line, sales volume per call, sales volume by quota, or sales volume in units. Use of sales volume by quota and sales volume by units has reduced and the use of output measures like sales volume per customer has gained predominance.
- **Average calls per day:** This is another quantitative measure that can be used to evaluate sales force performance. The sales manager monitors this aspect through the daily reports sent by the sales personnel. However, this measure is not preferred nowadays because of the lack of both accuracy and the means of determining the credibility of the daily reports. Sales personnel may fake the total number of calls to get a good performance result.
- **Sales orders:** Sales orders are also used as a measure for sales force performance. There are many variations in this measure too. Sales managers may use the sales order per call ratio (commonly termed batting average), net sales orders per repeat order, the average size of a sales order, or the number of sales orders gained or cancelled to measure sales force performance.
- **Ratio of selling costs to sales:** Sales managers use this measure to control the costs in terms of the selling expenses incurred for a particular sales volume. This measure has gained importance due to the emphasis by the top management on corporate profitability. Reducing selling costs can help in the achievement of this objective. The selling cost to sales ratio varies for sales personnel due to differences in territory potential, customer distribution, and territory size. The sales manager must establish different expense ratios for the sales personnel based on the prevalent factors. Otherwise, the possibility of inequity in performance evaluation is possible.

Industrial organizations give more preference to this measure in sales force evaluation than consumer product companies.

- **Gross profit obtained from new customers:** This measure is usually linked to the profit quotas set by sales managers. It helps in gauging profit as a percentage of sales. Gross profit is obtained by reducing the cost price of the products from the total sales volume obtained by a salesperson. This measure is useful when an organization launches a new product or enters new territories to increase the customer base.

The emphasis is given to qualitative and quantitative factors by various organizations differs depending on their size, operating industry, etc. Sales managers must try to establish criteria that reflect the entire range of the salesperson's selling activities.

Check your progress 5

1. The performance of the_______can be considered and evaluated in terms of behavior and outcome-based components.

   a. sales personnel

   b. sales manager

2. Sales skills are one of the most important factors that have an influence on __________performance.

   a. sales force

   b. sales manager

3. The__________can consider several aspects in evaluating sales personnel using this criterion.

   a. sales manager

   b. sales force

4. The sales manager has to list the________traits that are needed for a particular type of sales job.

   a. ideal

   b. common

5. __________measures can be further segregated in terms of input and output measures.
   a. Quantitative
   b. qualitative

3.7 Establishing Performance Standards

After establishing the criteria based on which the sales force will be evaluated, the sales manager has to formulate standards with which the performance of the sales personnel can be compared. Comparison with performance standards enables the manager to know how the sales personnel are doing vis-à-vis their job description and expected activities. They act as a benchmark to evaluate sales force activities and also as a guide for sales personnel to plan their activities. Performance standards also help sales personnel know the level of performance they are expected to achieve, and how to achieve it. Performance standards that are specific and easily measurable help in easily determining whether established objectives are being achieved.

Establishing performance standards are one of the most difficult steps in the performance evaluation process. The performance standards can be prepared by the sales managers singly or in consultation with sales personnel who have a similar job profile. A standard list that is generally prepared for every job description may also be used. The most important issue in this regard is the number of standards that are to be used to measure sales force performance. Sales managers in most organizations frequently depend on sales quotas as the single-most important performance standard. But it must be remembered that the sales force performance is dependent on a number of internal and external factors, as discussed earlier. This dependency makes it necessary for sales managers to adopt multiple standards for performance measurement. The difficulty in this approach though, is the complexity in giving appropriate weights to each parameter to enable comparison. The selection of the standards is also influenced by the sources of information the sales manager uses. Another difficulty in using a common set of performance standards arises because of the variations in the sales territory potential, product portfolio, account sizes, competitive conditions, and types of customers. Companies that have a large sales force have to use a common set of performance standards because it is difficult to develop performance measures tailored to individual salespersons.

The sales manager must keep in mind the relationship between the input and output measures while setting performance standards. Combined standards like sales volume/expenses, gross margin/order, and orders/calls can improve the ability and accuracy of performance evaluation by reducing the discrepancy in comparing sales force results with standards.

Performance standards can be classified into four major areas. Organizations can use all the four types of performance standards or any combination of these. They are quantity standards, quality standards, time-based standards, and cost-based standards.

- **Quantity Standards:** These standards include all aspects that can be measured directly without any complex calculations. They include the number of sales calls per day, the number of orders, the number of sales presentations, and number of lunches hosted for a customer. Quantity standards are the easiest to set and the most convenient to compare with the results of the sales force.
- **Quality Standards:** These standards are subjective in nature and are measured by-interpretation. They include aspects like teamwork, adaptability, ethical behavior, ability to gather information, and so on. For example, a sales manager can measure the information gathering ability of a salesperson by comparing the number of sales calls of his that yielded information for preparing a sales proposal to the number of sales calls that did not yield any information.
- **Time-based Standards:** All aspects involved in the selling activity that can be measured relative to the factor of time can be considered under time-based standards. The time taken between identifying the customer need and preparing a sales proposal, the time between a customer inquiry and the sales call, the time between a customer's complaint and solving the problem, the time between getting the order and collecting the sales amount, etc., are some aspects that can be measured with the help of time-based standards.

- **Cost-based Standards:** All the selling activities that are linked to organizational expenses and profitability can be measured under cost-based standards. These include the ratio of selling costs to sales, gross profit margin obtained from new customers, expenses incurred per order, and the number of gifts or entertainment expenses.

Most organizations prefer to use multiple measures or performance standards to evaluate sales force performance. The most widely used quantitative performance standards are: sales volume based on quota, sales volume in comparison to previous year's sales, and net profits. The global environment and competition have led to cost-based standards assuming importance in many organizations. This is because of the difficulty organizations have in maintaining profitability. Time-based standards are preferred in the service industry and by organizations that focus on customer satisfaction and customer relationship management.

Check your progress 6

1. After establishing the criteria based on which the sales force will be evaluated, the sales manager has to formulate__________with which the performance of the sales personnel can be compared.

   a. standards

   b. actual

2. __________standards act as a benchmark to evaluate sales force activities and also as a guide for sales personnel to plan their activities.

   a. Performance

   b. production

3. ___________performance standards are one of the most difficult steps in the performance evaluation process.

   a. Establishing

   b. Determining

4. The sales manager must keep in mind the relationship between the input and output measures while setting __________standards.
   a. performance
   b. production
5. Most organizations prefer to use_____________measures or performance standards to evaluate sales force performance.
   a. Multiple
   b. standard

3.8 Methods of Sales Force Evaluation

Several methods of performance evaluation have been developed based on research studies conducted over the years. However, no single method has been accepted as the most accurate for evaluating the sales force. Gotham and Cravens, in 1969, suggested using the standard deviation to minimize the variations caused -by measuring sales performance using multiple measures. This method helped to compare performances of sales personnel operating in different selling situations. In 1972, Cravens, Woodruff, and Stamper developed an evaluation model that helped predict the performance of sales personnel in a given territory and evaluate them on the basis of total sales volumes, in terms of the number of units sold. Jackson and Aldag propounded the Management by Objectives (MBO) method for evaluating the sales force in 1974. Cocanaugher and Ivancevich developed a behaviorally anchored rating scale (BARS) system of evaluation in 1978, for the sales force. In 1982, Behrman and Perrault developed a self-report performance scale as a method to evaluate the sales force.

Most methods of performance evaluation are based on either personality traits or are behavior-based and results-based. In the personality trait method, the observable aspects of salesperson behavior like adaptability, dependability, or sociability are used to measure performance. This method is not accurate since it considers only the personal characteristics and not the factors that influence sales force productivity. In the behavior-based method, the sales manager observes certain key work behaviors and measures them against the possible outcomes in terms of a seven-point scale. Sales force behavior is rated in degrees from least desirable to most desirable. Results-based methods of measuring sales force performance have gained popularity due to the use of objectives that are easily measurable. Management by objectives is the most widely used performance evaluation method under the result-based method.

We will study some of the methods of evaluating the sales force in detail.

3.8.1 Essays

This is the simplest of all the methods of sales force evaluation. In this method, the sales manager describes the performance of the salesperson in a few paragraphs. He mentions details like individual potential, strengths, weaknesses, and other relevant matters in the essay. The basis for using this method is the assumption that a written or word-of-mouth statement is as reliable as any other formal evaluation method. Organizations make use of essay appraisal from former employers or colleagues while recruiting sales personnel. The problem with this method is that there is no standardized pattern for the essay. Different managers use different approaches to writing their evaluation and a different way of interpreting and rating the characteristics required for a particular job. Due to this difference, each essay may highlight only certain characteristics of a salesperson and this creates a difficulty in comparing the profiles during the evaluation process, especially during the time of promotion. In addition, there is a possibility of bias due to the absence of concrete factors of evaluation.

3.8.2 Rating Scales

In this method of performance evaluation, which is the most widely used, the sales manager identifies certain specific criteria for a particular type of job. The criteria may be based on personality traits, and behavioral factors, or they may be performance related. The sales personnel are evaluated based on the extent to which they exhibit the desired behavior or the extent to which they meet the desired performance criteria. The advantage of this method is that it helps identify areas where the salesperson has to improve or maintain the desired levels of performance. The disadvantage of this method is that the most recent behavior of the sales force is considered without looking at the salesperson’s behavior for a period of time (say, on a quarterly or annual basis). Another disadvantage is the difficulty that arises in preparing behavioral charts that are reliable enough to measure the salesperson's performance. There is also the possibility of the evaluator not understanding what the performance criteria or ratings mean.

3.8.3 Forced Choice Method

Forced-choice rating is a method of rating that helps in comparing sales personnel by creating standards for measuring sales force performance. In this method, the sales manager is asked to go through groups of statements and select those that best explain the individual. Usually, within a group, both or all statements are either positive or negative. The ratter is forced to choose what describes the salesperson best from a group of all positive or all negative statements. Each statement is given weights that the evaluator is not aware of. The form is evaluated by the personnel department and the salesperson with the maximum score is rated the highest. The advantage of this method is that it helps remove rater bias. The disadvantage is that it is not useful during the performance appraisal interview. It is not easy to prepare standard forms because of the variations in the job profiles of the sales personnel. Also the costs of preparation are very high.

Another method of performance evaluation is the Behavior Observation Scale (BOS), which overcomes most of the disadvantages associated with rating scales. Exhibit 16.3 describes this method.

3.8.4 Ranking

This method of performance evaluation is useful when the sales personnel in the entire sales force working in different areas have to be compared. All the sales personnel are placed in order, beginning with the top performer. This is useful where essays, rating scales, or appraisal forms are not. Ranking is preferred when sales personnel from different operating areas have to be evaluated for promotion or for increase in compensation. In such conditions, a subjective approach rather than an objective one based on numbers is needed to evaluate sales force performance. Alternation ranking and paired comparison ranking are the most commonly used ranking methods.

The disadvantage of ranking is the difficulty in deciding the criteria based on which the sales personnel are to be ranked. Another disadvantage is the possibility of overemphasis on a particular criterion like behavior or personality traits to rank the sales personnel.

3.8.5 New Methods of Evaluation

Organizations have been trying to develop new methods for evaluating sales force performance in order to overcome the limitations associated with the traditional methods. Some of the newer methods of sales force evaluation include critical incident appraisal, management by objectives, work standards approach and assessment centres. The 360-degreeperformance evaluation is also one of the new methods of evaluation. Certain methods of evaluation use historical personnel and accounting data to advocate a long-run approach to evaluating the sales force, while other methods like multivariate analysis and multiple regression analysis make use of quantitative methods.

- **Critical Incident Appraisal:** In a critical incident appraisal, the sales manager keeps note of the positive and negative behaviors of the sales personnel. During the time of performance evaluation, he discusses the actual behaviors with the salesperson instead of debating on the personal traits and their interpretations. The disadvantage of this method is that the sales manager has to maintain a record of the salesperson's behavior constantly, and this takes up a lot of time. The costs in spending so much time in monitoring the sales personnel are also not feasible.
- **Work-Standards Method:** This method is used primarily to improve the productivity of the sales personnel. The sales manager prepares a comprehensive list of all the activities and job duties that the salesperson must perform. The manager then monitors and evaluates the salesperson on the basis of this list. Since the activities may vary from salesperson to salesperson, it is difficult to compare and evaluate them on a common base.
- **Management by Objectives (MBO):** This method is different from the traditional methods because it is tied to results and not based on the personality or behavior traits of the sales force. MBO has been widely used by organizations due to its focus on end results. In this method, sales personnel are evaluated on the basis of how well they attain the given objectives. These objectives, which are specific and measurable, are generally prepared at the time of sales planning.

The disadvantage of this method of evaluation is the lack of a logical framework to decide on the standard of objectives and the criteria to be used to measure them. This method also overlooks the factors that influence the achievement of the objectives. With increasing changes in customer tastes and demands, companies have begun to focus on factors other than selling, like customer satisfaction and relationship. To measure these aspects, it is necessary to get to know the means of achieving these objectives. This has led to MBO losing its importance in performance evaluation systems in many organizations. Exhibit 16.4 describes some of the problems that arise while implementing MBO.

- **Behaviorally Anchored Rating Scale (BARS):** This is one of the recent approaches in performance evaluation. BARS is a combination of a critical incident method and a graphical rating scale which helps in increasing the accuracy of sales force evaluation by emphasizing objective measures rather than subjective ones. In this method, the most suitable behavior needed in carrying out a particular type of job is identified and anchored on a rating scale. The sales manager has to select a behavior that is most similar to the behavior profile on the rating scale.

- **Families of Measures (FOM) as a method of sales force performance evaluation:** FOM is a new tool developed to track employee performance in an organization. It differs from the traditional evaluation methods in that it helps measure the progress made by a salesperson or group individually, and not by giving ratings. The method is useful to measure individual as well as group performance. FOM does not compare the results obtained with those for other members of the sales force; it compares the results with the previous results over a time period. The method is a continuous evaluation process and the results are not linked to the sales force pay. FOM is flexible in approach because it allows sales personnel to assign weights to each area based on the difficulty of work and the experience of the salesperson.

A performance evaluation method must be able to facilitate rewarding the best performer appropriately, identifying the individuals eligible for promotion or those whose services have to be terminated, identifying the training needs and help needed in human resource planning, and providing appropriate feedback. The appraisal must be able to create a set of preferable dimensions for different job types so that new people can be easily hired whenever a need arises by comparing profiles with the fixed dimensions.

No single method of performance appraisal can act as an accurate base for sales force evaluation and fulfil the above requirements. Each method has its own advantages and disadvantages. So sales managers have to use a combination of these methods to evaluate the sales force. For example, sales personnel engaged in missionary selling can be evaluated by using BOS and the Forced Choice Rating method. Irrespective of the costs, time, and incompleteness of the different methods of sales force performance, the activity is very important and cannot be ignored.

Check your progress 7

1. Most methods of ______________are based on either personality traits or are behavior-based and results-based.
   a. performance evaluation
   b. performance appraisal
2. __________ is the simplest of all the methods of sales force evaluation.
   a. Essays
   b. rating

3.__________ scales the sales manager identifies certain specific criteria for a particular type of job.
   a. Rating
   b. Essays

4.___________ rating is a method of rating that helps in comparing sales personnel by creating standards for measuring sales force performance.
   a. Forced-choice
   b. Choice method

5____________method of performance evaluation is useful when the sales personnel in the entire sales force working in different areas have to be compared.
   a. Ranking
   b. Essays

3.9 Monitoring and Reviewing Sales Force Performance

The performance of sales personnel has to be monitored at regular intervals to ensure that they are not deviating from their assigned duties and responsibilities. Monitoring also helps sales managers keep track of the progress made by the sales force toward established objectives. The sales force performance can be monitored with the help of sales reports, invoices, order forms, accounting records, and direct interaction. Continuous monitoring helps the sales manager to easily make the necessary adjustments from time to time without undertaking a major reorganization of the organizational structure, processes, and policies. Input-based measures require considerable monitoring and directing than output-based measures. Sales automation products and web-based technologies have made performance monitoring less cumbersome by making the relevant information available on time at significantly lower costs. Exhibit 16.6 gives a brief description of how Marico Industries has implemented a new software model to monitor sales through distributors, retailers, and the sales force.

The final step in the performance evaluation process, after monitoring sales force performance, is to review the performance of the sales personnel by conducting an evaluation interview. This helps the sales manager communicate to the sales personnel the differences between their actual performance and the performance standards. A one-to-one review helps provide feedback and allows sales personnel to discuss aspects for improvement, clarify doubts, and help in the overall development of the individual. Most organizations conduct performance review once a year. This is not sufficient in the present competitive scenario where the review must be conducted at regular intervals without any bias towards any salesperson. At PepsiCo, the review process is linked to corporate strategy. The company makes use of a timetable to integrate the corporate strategy with the performance appraisal. The corporate plan for the coming year is prepared in November and December of the previous year and the appraisal takes place in January /February. Performance evaluation is done keeping in view the requirements of the future based on the corporate plan.

Sales managers and sales personnel in organizations face several problems in the implementation of successful performance appraisal programs.

Check your progress 8

1. The performance of sales personnel has to be monitored at __________intervals to ensure that they are not deviating from their assigned duties and responsibilities.
   a. regular
   b. short
2. The______step in the performance evaluation process, after monitoring sales force performance, is to review the performance of the sales personnel by conducting an evaluation interview.
   a. final
   b. intermediate
3. A _________review helps provide feedback and allows sales personnel to discuss aspects for improvement, clarify doubts, and help in the overall development of the individual.
   a. one-to-one
   b. overall

3.10 Let Us Sum Up

After going through this block the students, teachers and the other readers would have certainly got the detailed information about this topic of measuring the performance of sales force and various determinants upon which this performance is based. In this block the said topic was discussed in very detail .The writer has tried his best in discussing the internal as well external factors were discussed in detail, these are those factors upon which performance and sales is based. The next topic of discussion was performance evaluation .The performance evaluation was also discussed in detail. Later in this unit the criteria for the Evaluation of Sales Force Performance was also discussed.

Through the study of this unit the students have got a lot of information on various determinants of sales, how measure and evaluate the performance of sales force.

3.11 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 8

Answers: (1-a), (2-a), (3-a)

3.12 Glossary

1. **Ethics –** Principle.

3.13 Assignment

Give a detailed note on the performance standards.

3.14 Activities

What are the Criteria for the Evaluation of Sales Force Performance? Describe.

3.15 Case Study

Collect various performance evaluation methods specifically for the sales persons from the Internet.

3.16 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

Block Summary

After studying this block the readers would have got the detailed insight of this block which has covered the topics of recruitment and selection process of salesman including the compensation and motivation of the sales personal and the evaluation of sales performance

The content of the whole block was divided into three units .The first unit covered the topic Recruiting and Selecting Salesman and has been discussed in very detail, whereas the second unit covered the topic Compensating and Motivating the Sales Personnel and Force which has even been discussed in detail. And the third unit covers the topic Compensating and Motivating the Sales Personnel and Force. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. This block will certainly prove to be very useful to the students and readers of sales and marketing stream who want to opt their carrier in this respective field.

Block Assignment

Short Answer Questions

1. Attitude Tests
2. Personality Tests
3. Tests of Mental Ability
4. Physical Examination
5. Interviewing Techniques
6. Types of Expense Plans
7. Bonus
8. Combination Salary Plans
9. Straight Commission Plans
10. Straight Salary
11. Personality Traits
12. Sales Skills
13. Motivation
14. Ego Drive
15. Quantity Standards

Long Answer Questions

1. Discuss the various methods of recruiting a salesman.
2. Write a note Performance of Sales force.
3. Write a note on compensation plan and its objectives.

Enrolment No. ____________

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	____________
Language and Style	☐	☐	☐	☐	____________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	____________
Conceptual Clarity	☐	☐	☐	☐	____________
Check your progress Quest	☐	☐	☐	☐	____________
Feed back to CYP Question	☐	☐	☐	☐	____________

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
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SALES AND DISTRIBUTION MANAGEMENT

PGDM-104

BLOCK 3:

FORECASTING SALES AND SALES BUDGET

Dr. Babasaheb Ambedkar Open University
Ahmedabad

SALES AND DISTRIBUTION MANAGEMENT

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

SALES AND DISTRIBUTION MANAGEMENT

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UNIT 2 THE SALES BUDGET AND COST ANALYSIS

Purposes of the Sales Budget, Sales Budget—Form and Content, Budgetary Procedure, Estimating the Costs of Distribution, Marketing Cost Analysis

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BLOCK 4: DISTRIBUTION MANAGEMENT, CHANNEL CONTROL AND SELLING

UNIT 1 DISTRIBUTION MANAGEMENT

Marketing Logistics, Marketing Channels, Channel Management

UNIT 2 CHANNEL CONTROL

Performance Measures in Marketing Channels, Models to Diagnose Channel Profitability, Appraisal of Channel Members' Contribution, Result of Channel Performance, Sources of Conflict, Types of Conflicts, Conflict Management Techniques, Channel Leadership, Elements of Channel Information Systems, Impact of Information Systems on Channel Flow

UNIT 3 WHOLESALING AND RETAILING

Wholesaling and its Importance, Types of Wholesalers, Strategic Issues in Wholesaling, Trends Shaping Wholesale Distribution, Impact of Information Technology on Wholesaling, Challenges in Wholesaling, Wholesaling in India, Future of Wholesaling, Retailing and its Importance, Evolution of Retailing, Classification of Retailers, Strategic Issues in Retailing, Trends in Retailing, Future of Retailing

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SALES AND DISTRIBUTION MANAGEMENT

BLOCK 3: FORECASTING SALES AND SALES BUDGET

BLOCK 3: FORECASTING SALES AND SALES BUDGET

Block Introduction

This unit which is based on forecasting and of sales and sales budget is considered to be one of the most important topic of this subject. As for effecting sales properly we should have a very clear picture of determining the about of goods that will be required in future as that we may prepare ourselves accordingly.

In this block the whole content has been divided into two units .The first unit covers the topic sales forecasting and has been discussed in very detail, whereas the second unit covers the topic. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. The sub topics covered under the unit Forecasting Sales are Sales Forecast Vital to Setting of Sales Objectives, Who is Responsible for Sales Forecasting?, What the Chief Sales Executive Should Know About Sales Forecasting, Uses of Sales Forecasts, Length of the Sales Forecast Period, Hazards Inherent in Sales Forecasting, Sales Forecasting Methods, Procedural Steps in Forecasting. The sub topics covered under the topic The Sales Budget and Cost Analysis are purposes of the Sales Budget, Sales Budget—Form and Content, Budgetary Procedure, Estimating the Costs of Distribution, Marketing Cost Analysis.

Block Objective

After learning this block, you will be able to understand:

- Forecasting sales.
- Sales budget and its importance.
- The Budgetary Procedure.
- How to calculate cost of distribution.

Block Structure

Unit 1: Forecasting Sales

Unit 2: The Sales Budget and Cost Analysis

UNIT 1: FORECASTING SALES

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- Sales Forecast helps to Setting up Sales Objectives.
- That who is Responsible for Sales Forecasting.
- The things about Sales forecasting which should be known by Chief Sales Executive.
- The Uses of Sales Forecasts.
- The Hazards Inherent in Sales Forecasting.
- The Sales Forecasting Methods.
- The Procedural Steps in Forecasting.

1.1 Introduction

Because the income from sales constitutes the life blood of most private enterprises, the logical starting point in the planning of business operations is the sales forecast. Charting the course of future operations is a responsibility that rests, to a large extent, on the shoulders of the chief marketing executive. He, in turn, relies for the actual preparation of the forecast primarily on the help of the marketing research manager and the sales manager, the former for the over-all forecast and the latter for the grass roots build-up forecast.

Although these marketing and sales personnel prepare or play major roles in preparing it, the sales forecast is not used solely for planning marketing activities;

the heads of such departments as production, personnel, and finance depend upon the sales estimate in formulating plans for their respective departments. The production manager uses this estimate for setting manufacturing schedules, and in making decisions regarding the level of plant operations. The personnel manager uses the sales estimate and the production plan in determining the numbers and types of employees that will be required during the operating period. The financial officers base their estimates of needed funds upon the predicted flow of income resulting from sales during the coming period. Similarly, other high executives, including the credit manager, the traffic manager, and the chief engineer, and other marketing executives such as the advertising manager, the promotion manager, and brand managers, use the sales forecast as a basis for making plans for their divisions.

1.2 Sales Forecast Vital to Setting of Sales Objectives

Not only is the sales forecast essential to the performance of the planning function, it is vital and preliminary to the setting of specific sales objectives. At the same time, since the sales forecast is affected by the plans and goals of the sales department, it should be stated only in these probabilistic, terms. With such a sales forecast to use as a basis for planning operations, it is possible to set forth departmental objectives more clearly and specifically. When the probable future sales volume, based on static plans and goals, is known, the formulation of plans for achieving this level of sales is facilitated. Goals or quotas can be more readily established for various segments of marketing channels—the manufacturer's sales organization, the wholesale distributors, and the retail dealers. If, in order to reach the predicted sales volume, additional salesmen, distributors, or dealers are required, their number can now be readily ascertained. Plans of this sort made without the benefit of a sales forecast are of the most nebulous kind, and often are found to be impracticable. The availability of a well-constructed sales forecast increases the chances that the plans made will be stated in realistic terms, and will work when put into effect.

Check your progress 1

1. The sales forecast is essential to the performance of the ________.

   a. Planning function

   b. Specific sale

2. The sales forecast is affected by the plans and goals of the _________.

   a. Sales department c. Specific sales

   b. Planning function

3. Goals or quotas can be more readily established for various segments of ___.

   a. Marketing channels c. Sales department

   b. Planning function

1.3 Who is Responsible for Sales Forecasting?

Sales forecasting is normally considered a function of marketing management, but preparation of the forecast itself may not be the responsibility of the chief marketing executive alone. In small concerns, he must be the one who does any forecasting that is done; but, if competent forecasting help is available, the chief marketing executive should not hesitate to enlist this assistance. Some companies, usually only the larger ones have one or more full-time staff economists whose chief function is to make, or assist in making, short-term and long-range sales forecasts. Although the use of economists in this way is by no means common, it is a practice that appears to be growing in popularity. In firms unable to afford full-time staff economists, the services of professional economic consultants are often used.

In concerns where professional staff or consulting economists are not employed, the marketing research director, if such an executive is part of the organization; either is assigned the sales forecasting task or assists in the making of sales forecasts. Sometimes the marketing research director has sole responsibility for forecasting, but in most instances it appears that this executive’s role is an advisory one rather than one in which full responsibility for the forecast is accepted.

If a company has a marketing research director, it is important for the chief marketing executive to seek his assistance in preparing the forecast. Not only should this executive have a thorough knowledge of the current status of the firm, he should also be well-informed on the competitive outlook, and the probable future of the industry. He is in charge of assembling and analyzing facts and opinions regarding the general state of business conditions, and of the economics of the industry within which the company is active. It is part of his job to translate this material into information useful to the company. He has at hand factual material pertaining to the distribution of the product and the price structure of the market. It is usually his responsibility to maintain statistics useful for sales forecasting purposes. A sales estimate is more reliable if it has been based upon such factual information.

Estimates of the probable course of operations prepared by the marketing research director need to be tempered in the light of the experience and judgment of the top sales executive. His direct contact with the market through his salesmen gives him a unique capacity to assess future sales projections prepared on an industry wide basis. He is better able to assess the probable impact of new products recently introduced by competitors. He is better able to evaluate the buying optimism and current financial resources of his company’s customers. In the final analysis, although the assistance of the marketing research director and the sales manager are of great value, the chief marketing executive should not abdicate completely the task of making a sales forecast.

Check your progress 2

1. Sales forecasting is normally considered a function of ________.

   a. Marketing management　　c. Planning function

   b. Marketing executive

2. Sometimes the ____________has sole responsibility for forecasting.

   a. Marketing research director　　c. Planning function

   b. Marketing management

3. A sales estimate is more reliable if it is based upon _________information.

   a. Factual

   b. Active

1.4 What the Chief Sales Executive should know about Sales Forecasting

The majority of smaller companies employing, or needing to employ, sales forecasting techniques have neither professional economists nor marketing research directors. In these concerns, the chief sales executive must usually "double in brass"—he must be his own economist and his own marketing researcher. The chief sales executive in such a firm is well advised to develop forecasting competence. He should have a grasp of available sales forecasting literature; and also should be aware of changes in the economic, political, and social environment surrounding the business. Trends that may have an effect on the company's future should be thoroughly evaluated. New policies, and changes in old policies, should be sized up in the light of their potential impact on the outlook for the company. It is not that the chief sales executive would be unaware of the significance of factors such as these if he were not charged with responsibility for making the forecast himself. But, if in addition to his other duties he has to do the forecasting, he must adjust his analytical powers and sharpen his ability to appraise changes, inside and outside the organization, in terms of their impact upon the company's future.

Even in the firm that makes professional forecasting assistance available, the chief sales executive should know certain basic things. He should be on speaking terms with the several methods used for forecasting, and he should be aware of their respective merits and limitations. He must know the various pitfalls that may be encountered and be able to recognize them in the context of the situation of his own company. Above all else, he should remember that no method is absolutely fool proof. All methods call for judgment on the part of someone. The quality of the final forecast presented by the chief marketing executive is influenced by the completeness of understanding by the chief sales executive of the forecasts presented by professional researchers, since it is often his task to adjust these figures.

Check your progress 3

1. The chief sales executive must usually "_______________."

   a. Double in brass c. Own marketing researcher

   b. Own economist

2. In firms that make professional forecasting assistance available, the ___________should know certain basic things.

   a. Chief sales executive c. Marketing management

   b. Marketing research director

3. All methods call for ___________- on the part of someone.

   a. Judgment

   b. Quality

1.5 Uses of Sales Forecasts

Sales forecasts may be made for long periods or short periods. Long-range sales forecasts, which are for terms as short as from five to ten years to as long as from fifty to one hundred years, are used mainly for planning changes in productive capacity, and for assisting in the formulation of long-run financial policies. Predictions of the probable sales experience of the firm in the comparatively distant future, although naturally of interest, are normally so tentative in nature that they are given only passing attention by those charged with responsibility for sales planning.

It is the short-term, or operating, sales forecast with which the sales executive is mainly concerned. By definition, the operating sales forecast is "an estimate of sales, in dollars or physical units, for a specified future period under a proposed. Marketing plan or program and under an assumed set of economic and other forces outside the unit for which the forecast is made."1 Short-term sales forecast may be made for a single product, or for the entire product line. They may be made for the manufacturer's entire marketing area, or for any subdivision of it.

The basic general purpose of the operating sales forecast is to predict how much of a company's output can be sold during a specified future period in certain markets. There are three additional, and more specific, purposes of the short-term forecast. First, it is a necessary starting point for the entire budgetary procedure. Without a reasonably good sales forecast, the effectiveness of the budget as an instrument of planning and as a mechanism of control is greatly reduced. Second, the sales forecast greatly facilitates and simplifies the task of establishing sales quotas for the various operating units of the business. Unless a forecast is available, quotas can be based only upon sales results experienced in past periods and a rough guess of what the future holds in store. Third, the forecast together with the budget is often the basis used by top management for improving coordination of policies and practices in the areas of marketing, production, inventory, financing, personnel, and purchasing. Similarly, when executives in charge of these functions find it possible to put their confidence in a reasonably accurate sales forecast, they can increase the effectiveness of their own coordinating activities within their individual spheres of operations.

Check your progress 4

1. Sales forecasts may be made for _____________.

   a. Long periods or short periods c. Short periods

   b. Long periods

2. It is the short-term, or _________________ with which the sales executive is mainly concerned.

   a. operating sales forecast c. sales forecast

   b. Long term

3. By definition, the ______________________ is “an estimate of sales, in dollars or physical units, for a specified future period under a proposed.

   a. operating sales forecast c. Short-term sales forecast

   b. sales forecast

4. _________________ may be made for a single product, or for the entire product line.

   a. Short-term sales forecast c. sales forecast

   b. operating sales forecast

1.6 Length of the Sales Forecast Period

When forecasts covering long periods are made, the probability of error is high. Competent forecasters predict the conditions that are likely to prevail in the near future with comparative confidence, and with a relatively high degree of accuracy; the results are much less reliable when they attempt to forecast conditions over longer periods. The longer the period being studied, the more certain factors that forecasters must take into account in making their estimates increase in volatility. It is extremely difficult to predict over extended periods such items as the probable costs of production, the trend of prices, and the changing nature of competition. Moreover, the longer the term covered by the prediction, the more likely it is that unanticipated events—such as wars, periods of major depression and prosperity, and inventions and technological advances—will upset the calculations.

The top management in each firm must make its own decision regarding the span of time to be covered by operating sales forecasts; and many factors affect this decision. Ideally, the forecasting period should be at least as long as the manufacturing cycle (the interval required to convert raw materials into finished products ready for marketing) of the most important products manufactured. The characteristics of customer demand for the products are also important. It is safer to predict for longer periods, when the volume of demand has held fairly constant from year to year. If demand has been erratic for reasons that are largely unexplainable, the forecasting period should be shorter. In some industries, as in the clothing trades, there are well-defined periods of high and low seasonal demand. Where this condition exists, it is often advantageous to adopt a fraction of a year as the forecasting period, thus adjusting the forecasting period to coincide with the marketing season. Other factors that should be considered include: the general state of business conditions, the length of the firm's accounting period, the availability of statistical data relating to past sales performance, and the degree of accuracy desired by top management. Most operating sales forecasts are for a period of three months to a year in advance, with the majority of firms apparently favoring the one-year forecast.

Check your progress 5

1. When forecasts covering ___________ are made, the probability of error is high.

   a. Long periods　　c. Short period

   b. sales forecast

2. Ideally, _______________ should be at least as long as the manufacturing cycle.

   a. The forecasting period.

   b. sales forecast

1.7 Hazards Inherent in Sales Forecasting

The greatest danger in sales forecasting is that management may be lulled into believing that the sales forecast is a substitute for common sense and judgment. The existence of a statistically determined forecast, even if seemingly perfect from the methodological standpoint, is no assurance of a completely accurate picture of conditions as they unfold. Management must constantly fight against the temptation to place “blind faith” in the forecast—the best forecast needs to be tempered by seasoned executive judgment.

Aside from this danger, there are other hazards in sales forecasting. The degree of forecasting accuracy tends to vary directly with the unit price of the product; the higher the unit price, the larger the dollar error when the forecast is off a given number of units. Forecasts are more hazardous, too, in fields where it is possible for consumers to postpone their purchases over extended periods, as in the case of home appliances. To compensate, at least partially, for this source of error, the forecaster ideally should have some measure of the “buying intentions” of consumers; and salesmen provide an important source for such information. Management should also avoid making the false assumption that the company forecast necessarily bears a direct relation to those for the industry or for the economy as a whole. Consumers may always switch to competitive or substitute products or they may simply allocate their incomes to other uses.

Check your progress 6

1. The degree of forecasting accuracy tends to vary directly with the ________of the product.

   a. unit price c. cost price

   b. sales price

2. _________are more hazardous, too, in fields where it is possible for consumers to postpone their purchases over extended periods, as in the case of home appliances.

   a. Forecasts c. Purchases

   b. Sales

3. The forecaster ideally should have some measure of the "________" of consumers; and salesmen provide an important source for such information.

   a. buying intentions

   b. Sales intentions

4. _______may always switch to competitive or substitute products or they may simply allocate their incomes to other uses.

   a. Consumers

   b. producers

1.8 Sales Forecasting Methods

The sales forecast may be constructed by utilizing one or more of a number of different methods. No single method is completely fool proof. All are characterized by certain pitfalls into which the unwary analyst is likely to fall. The forecaster should beware of "putting all his eggs in one basket." It is better not to rely solely upon a single method. The wiser course, and the one best for most forecasting situations, is to tackle the problem from a number of different angles. If all individually constructed forecasts seem to point in the same direction, more confidence can be placed in the report that is finally transmitted to top management.

Regardless of the specific methods chosen, it is usually advisable to cross-check by using both build-up and breakdown procedures. A breakdown procedure first arrives at an over-all company forecast; then the grand total is subdivided for various products, territories, and minor time intervals. A build-up procedure starts with individual forecasts for the different products, territories, and minor time intervals; these are then combined into a forecast for the company as a whole. Although methods detailed in the following discussion are normally considered as being build-up or breakdown procedures, actually most methods can utilize either procedure. As forecasting experience is gained, it may develop that one procedure consistently provides more reliable results. Nevertheless, a check forecast, arrived at by a different route, is a precautionary measure that normally repays its cost many times over. In other words, management is better able to judge the probable accuracy of the forecast when its attention is focused upon the variances that appear among different estimates.

1.8.1 Jury of Executive Opinion

In most applications of this method, individual opinions about the probable future level of sales activity are solicited from a small number of high-ranking executives. The actual forecast is derived from a rough averaging of these opinions. The executives chosen for the opinion survey should include qualified representatives from the sales, production control, marketing research, and financial departments. This group should not be a mere guessing committee; it should be a planning committee. Insofar as possible, each executive should be required to support his position with factual material. When executives are expected to supply evidence in defense of their opinions, they are likely to devote considerable thought and analysis to the assignment.

The obvious strong point of this method is that it is a relatively easy way to turn out a forecast in a short time. Then, too, the jury of executive opinion forecast represents the pooling of experience and judgment of a number of specialized people. This may be the only possible approach to sales forecasting if the company is so young that it has not yet accumulated the experience necessary to use other methods. This method also may be used when adequate sales and market statistics are missing, or when these figures have not yet been put into the form necessary for more refined forecasting.

The jury of executive opinion has obvious weaknesses. As the name indicates, its findings are based primarily on opinion, and factual evidence to support the forecast is often sketchy. Using this approach adds to the workload of highly paid executives; time that might be spent on the performance of other management functions must be devoted to the forecast. Moreover, a forecast made by this method is difficult to break down into estimates of probable sales by products, by time intervals, by markets, by customers, and so on. If the sales forecast is to be of maximum value for operating purposes, breakdowns of this sort are needed.

1.8.2 Poll of Sales Force Opinion

This method, which often is tagged "the grass roots approach," involves the combining of individual forecasts made by salesmen, branch and district managers, distributors and dealers, and other segments of the marketing organization. The logic underlying this approach is that forecasting responsibility is assigned to those who must later produce the results. The specialized knowledge of individuals or firms in closest touch with market conditions is utilized to the fullest possible extent. But there are other advantages inherent in the "grass roots" approach. If the sales force is used in developing the forecast, they should have fuller confidence in any quotas based upon it. Because the sample of opinion is large, the results should have greater stability and reliability, than if only executives' opinions are solicited. Finally, a forecast developed in this way is fairly easy to break down according to various marketing units such as products, territories, customers, salesmen, and middlemen.

The poll of sales force opinion method has a number of basic weaknesses. Perhaps the greatest is that too much emotion may enter into the forecast. Salesmen are not customarily trained to do sales forecasting work. As conditions warrant, they tend to be either overoptimistic or over pessimistic. Although a large sample should usually increase stability and reliability, because of the natural optimism of salesmen, errors on the high side are likely to exceed those on the low side. Moreover, simply because a large sample is involved, a crude method such as this, with many basic weaknesses, does not necessarily provide results in which it is safe to place high confidence. Salesmen are entirely too near the trees to see the forest; for instance, they are frequently unaware of broad changes taking place in the economic structure, and of trends in business conditions outside their own territories. It is also true that if the estimates are to be used in setting quotas, some salesmen may deliberately underestimate so that quotas can be reached more easily. Finally, this approach calls for great expenditures of time on the part of both executives and sales personnel. Sometimes this last disadvantage can be overcome to a certain extent, if distributors and dealers are used instead of company personnel; however, unless middlemen operate under exclusive franchises, they are not likely to give their best efforts to the assignment.

1.8.3 Past Sales

Past sales are widely used as a basis for predicting the coming year's sales. The forecast is made merely by adding a set percentage to last year's sales or to a moving average of the sales figures for several past years. Or, as Ferber has suggested, if it is assumed that there will be the same percentage sales increase next year as this year, the forecaster might utilize a "naive-model"projectionsuchas:

$$\text{Net year's sales} = \text{This year's sales} \times \frac{\text{This year's sales}}{\text{Last year's sales}}$$

This year's sales are inevitably related to last year's. Similarly, next year's sales are related to this year's, and to those of all the preceding years. Projecting present sales levels is a fairly safe method of sales forecasting, particularly for companies in more or less stable or "mature" industries; it is rare for a company's sales to vary more than 15 per cent plus or minus from the preceding year's experience. Because only a few readily obtainable figures are required, the analyst using this method is not confused by a mass of statistics. Finally, because this method is simple and easy to apply, the sales predictions are arrived at relatively fast.

The great limitation of the past sales approach is that past sales history is assumed to be almost the only factor influencing future sales. No allowance is made for sharp and rapid upswings or downturns in business activity, nor is it usual to make corrections for poor sales performance extending over previous periods. The accuracy of the forecast may depend largely upon how close the company is to the market saturation point. If the market is completely saturated, it may be defensible to predict sales by applying a certain percentage figure which is the equivalent of the annual replacement demand. But the firm whose product has achieved full market saturation is likely to find, since most companies of this type operate in industries producing durables or semidurables, that its prospective buyers are capable of postponing or accelerating their purchases to a considerable degree. Furthermore, this method also fails to take cognizance of inroads by competition. Thus, the past sales method is not a reliable guide for future operations in most situations. However, exceptions do exist, as in the case of those public utilities whose demand varies only slightly from year to year, and whose rates, because of public regulation, change very slowly over time.

1.8.4 Trend and Cycle Analysis

In trend and cycle analysis, study is directed toward the basic factors underlying sales fluctuations. By statistical means, the forecaster isolates and classifies the four chief types of variations—long-term trends, cyclical changes, seasonal variations, and irregular influences. Then, trend lines for the various underlying factors are extrapolated, or extended, to arrive at the sales estimate. This approach finds its principal use when patterns of fluctuations are so well defined that statistical analysis readily uncovers the relative influence of each major force.

For companies in most industries, the study and projection of cycles and trends finds practical application only in the making of long-range forecasts and plans. The results obtained may be reliable for a period of several years ahead; but the chances are great that predictions on a year-to-year or month-to-month basis will not be reliable. Also, this method is more reliable in making forecasts for an industry than for individual firms. Only where sales patterns are clearly defined is this type of analysis used successfully in building a short-term forecast. Another drawback of this approach is that it is extremely difficult for the trend and cycle analyst to “call the turns.” He probably can do a good job of explaining why a trend, once it is under way, continues in a certain direction; but it is predicting the turns that is important. On their correct prognostication depends to a large extent the maximization of sales opportunities when the trend is from down to up, and the minimization of losses when the trend reverses itself. This is most easily accomplished in forecasting long-term growth of a new .product, since such growth often follows the pattern of an S-shaped curve or ogive.

Ashley Wright, economist for the Standard Oil Company of New Jersey, has developed a statistical device, known as Wright’s Indicator that is used in making corrections for short-term variations in business conditions. This device is based upon the statistical concept that divergencies from the norm tend to cluster in a normal, or bell-shaped, curve. By using forty indicators of business conditions, and plotting them in a frequency distribution, Mr. Wright determines the statistical probability of a change in certain indicators' implying either a general change in business conditions or a short-term individual variation.

1.8.5 Composite Forecasts of Individual Product Lines

This method involves the combination of independent sales forecasts, secured through the use of one or more other approaches, for each of a concern's product lines. The special merit of this method is that the forecaster is compelled to consider the future of each product line before making his prediction for the enterprise as a whole. This is a logical approach for the multiproduct line manufacturer, particularly if his products are sold to different markets. For example, a producer of such diverse lines as films and photographic equipment, chemicals, vitamins, and scientific instruments soon learns that different approaches are required to forecast the sales of each line. The outlook for one line is not always, or even usually, closely related to the prospects of others. Different influences affect the future of each market, and independent predictions are more certain to produce the desired accuracy.

The main disadvantage of this approach appears to be the cost and time required in making several forecasts. The company using the method may find that its forecasts must cover different time intervals for each product. Several forecasts, each of different duration, are often necessary when management wishes to coordinate sales predictions with the manufacturing cycle for each line. As a practical expedient, especially for the company turning out hundreds or thousands of different items, products with similar characteristics are grouped into a smaller number of classifications ("blocks") for purposes of making the individual forecasts. Even though this greatly reduces the magnitude of the task, the problem of making several forecasts is still present.

1.8.6 Survey of Customers' Buying Plans

What more logical method of forecasting could be used than asking customer's about their buying plans in the future period being, forecast? This method is particularly appropriate for producers of industrial goods, where the number of customers is often limited, the producer normally sells directly to his customers, and customers are concentrated geographically. In such instances, it is possible to survey a sample of customers and prospects to obtain estimated requirements for the product during the planning period, and to project the sample results in order to obtain a sales forecast. Of course, this method can be used with consumer goods too, but the magnitude of the sample survey needed might require expenditures of time and money that are out of line with the usefulness of the results. However, the results of such surveys should be tempered by management's specialized knowledge, and access to pertinent information gathered from other sources. It is dangerous, in other words, to use the results of a survey of customers' buying plans as the sole basis for a company's sales forecast. The main specific objection to the survey approach to sales forecasting is its assumptions that customers know what they are going to do and, in addition, that buyers' plans, once made, will not change—at least part of the time, either or both assumptions are likely to be unwarranted.

Even though the survey of customers' buying plans would be classified as an unsophisticated method of forecasting, it can be rather sophisticated. If it is a true survey in the marketing research sense; and if the selection of respondents is made by probability sampling methods, it can be potentially accurate. However, since it gathers opinions rather than measuring action, a considerable amount of nonsampling error may be present. Furthermore, in actual practice, little or no attention is paid to the composition of the sample, and minimum effort is devoted to measuring sampling and nonsampling errors.

1.8.7 Industry Forecast and Share-of-the-Market Percentage

Because forecasters frequently are more accurate in their predictions for the industry than for the individual companies comprising it, some favora study of the outlook for the industry as the first step. Industry forecasts are made by one or more of the methods discussed in this chapter. The second step is to estimate the company's share of the market by applying a percentage based on past or expected sales performance. Care must be exercised, and judgment and experience brought to bear, in deciding the share-of-the-market percentage to be applied to the industry forecast. In determining an appropriate percentage, good use can be made of trade association figures, and of internal statistics pertaining to the share of the market enjoyed by the company. But these historical data must be considered in relation to the activities and market positions of competitors. It is necessary to examine and evaluate any trends that appear to point toward changes in the competitive structure of the industry. The forecaster must analyze the possible effects of contemplated changes in the company's promotional program, or its competitors'. He must also direct his attention toward competing industries themselves. The forecaster must always keep in mind that altering the percentage of the market the company expects to capture amounts, in effect, to changing the size of the sales volume objective. This is a decision of such importance that it should be subject to approval and review by top management.

Principal users of the industry forecast and share-of-the-market percentage method operate in industries where trade associations function as clearinghouses for the assembly and exchange of production and sales statistics. Unfortunately, this practice is confined to relatively few industries. Occasionally, it is possible to secure industry statistics from governmental sources. In the normal course of events, however, government figures are not available soon enough to be useful for forecasting purposes. Furthermore, it is often true that government statistics are not published in sufficient detail; figures for different products are lumped together, or breakdowns on a geographical basis or according to price classifications are not available. In the absence of usable government or trade association figures, the forecaster of necessity uses estimates of past industry sales, and such estimates are frequently unreliable.

1.8.8 Product-in-Use Analysis

In this method of sales forecasting, predictions are based upon a census, or records, of numbers of the product, or closely allied products, already in use. For instance, one office machine manufacturer whose product normally is used with a complementary office machine evaluates markets and establishes sales estimates on the basis of the numbers of the complementary product in actual use. In some cases, statistics of this type are exchanged by manufacturers of complementary but noncompeting products, but more often such figures are difficult to obtain. In some lines (for example, office machines and certain household appliances) product-in-use figures are obtainable from industry trade associations. From time to time, too, product-in-use data pertaining to a limited number of products are collected and distributed by governmental sources.

Although the dearth of statistics renders this forecasting method inappropriate in many industries, it is used by some forecasters for predicting replacement demand. When used for this purpose, the implicit assumption is that present users will favor the company with their replacement orders. The validity of this assumption, of course, depends upon: the satisfaction of present users with the product's performance, the loyalty of users to the manufacturer's brand, and the manufacturer's continued ability to merchandise and price the product competitively.

To assure the availability of product-in-use statistics, a small number of companies, mainly in the home appliance field, require ultimate buyers to fill out and return warranty cards to the manufacturer. The stipulation is that the product guarantee is void unless the warranty card is returned. Most concerns following this policy have a high percentage of returns. The warranty cards provide the data for estimating the numbers of the product in use, but such data still contain inaccuracies. It is next to impossible to keep score on sales at second hand, and of product removals from one area to another. Moreover, rates-of-usage vary with different buyers, thus complicating the task of calculating the quantity of the product scrapped or worn out each year.

It should be recognized that one assumption underlying this forecasting method is that the future market for the product will vary directly with the quantity already in use. This static assumption may or may not be valid. It is probably true for products sold in markets that are almost or fully saturated. In marketing situations of this type, demand is largely replacement demand/and initial purchases are of minor importance. The assumption usually does not hold for products in the pioneering or competitive stages of market development. Moreover, in so-called saturated consumer-goods markets, such as the household refrigerator market, product-in-use data must also be adjusted for population increases, and for changes in the rate of family formation.

1.8.9 Correlation Analysis

Correlation analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other factors. Because standard works in the field of statistics provide thorough treatments of the techniques of correlation analysis, there is no need to undertake a technical explanation of the subject here. "Briefly stated, the method involves the fitting of an equation to explain the fluctuations in sales in terms of related and presumably causal variables, substituting for these variables values considered likely during the period to be forecasted, and solving for the value of sales."5 In other words, there are three major steps in forecasting sales by use of correlation analysis techniques: (1) the identification of factors causally related to company sales, (2) the construction of a forecast of trends in these related factors, and (3) the derivation of the company sales forecast from these figures. Determination of the relation of sales to other factors facilitates sales forecasting; for example, if sales fluctuations bear a close relation to income, forecasts of income by government or private economists may be used as a basis for forecasting sales.

Application of the techniques of simple linear correlation is not very complicated. For the novice, however, the working of problems requiring the use of techniques of multiple and partial correlation involves many perplexing difficulties. The techniques of correlation analysis have been highly developed; if they are to be used for forecasting sales, the services of a competent statistician should be retained. In the not too distant past, the time required for solving complex problems in correlation analysis limited the application of this method for sales forecasting purposes.

But the perfection of electronic data processing machines and the development of improved systems of programming such machines have made it possible to work extremely complicated correlation problems quickly and accurately. For example, a manufacturer of automobile tires might make good use of correlation analysis to forecast sales—company sales might be compared with any of a number of other economic factors to determine whether or not a useful relationship exists. One tire manufacturer quickly discovered that a positive correlation existed between gross national product and its own sales. However, the correlation was too low to be of value in forecasting company sales. The same was found to be true of personal disposable income and of retail sales.

The straight line is the result of mathematical computation of the correlation between the two factors. If the correlation had been perfect, all the dots would have fallen on the line, but actually they are scattered fairly widely around the line. The relation between automobile tire sales and the sales of new automobiles were also measured, and it was found that a much higher correlation existed.

If high coefficients of correlation exist between company sales and certain other series, the forecasting problem may be simplified, especially if related series "lead" company sales. The probable course of sales may then be charted on what appears to be a fairly reliable basis, and the forecaster's attention can be concentrated on factors that might cause deviations from the indicated movement. But it is still necessary to examine other circumstances that might upset past relationships upon which the correlations are based. A forecast made by correlation analysis is founded on the assumption that relations the correlated factors have borne to each other in the past will also hold for the future. To have a "lead-lag" association in which deviations regularly occur in the related factors prior to a change in company sales is an almost ideal situation. Unfortunately, this ideal is rarely attained, except over relatively short periods. Although lead-lag relationships are fairly common, association's between the lead factors and sales in which the intervening time intervals remain fairly stable are most uncommon. These periods are not only subject to contractions or expansions without warning; they also exhibit great variations during different phases of the business cycle.

If the forecaster discovers a close association between company sales and some reliable barometer, his estimates will be improved by the predictions of probable changes in the barometer made by expert analysts. However, the greatest danger in using the correlation analysis method is that the forecaster may rely too heavily upon statistical computations. In fact, the higher the correlation, the more dangerous it is to use forecasts developed by correlation. The forecaster is tempted to abandon independent appraisals of future events in favor of the statistically developed forecast. Perhaps it is only natural to place blind faith in a method that seems infallible; but it is wise to check "too good" results with forecasts arrived at by other methods.

1.8.10 Econometric Model Building

Econometric model building seems to hold considerable promise as a method of forecasting for firms marketing consumer durables. The approach uses mathematical models in the form of equations to represent a set of relations between different demand-determining uncontrollable and sales. These models are used for forecasting. Correlation analyses (previously described) represent very simple models, but many more complex models may also be used under certain circumstances. Broadly defined, an econometric model is nothing more than a simplified abstraction of a real economic situation, expressed in equation form, and employed as a prediction system that will yield numerical results.

The econometric model-building approach seems a near-ideal way to forecast sales. Not only does it take into account the interaction of various uncontrollable that bear logical and measurable relationships to sales, it also uses correlation analysis techniques to quantify these relationships. To date, very little use has-been made of such models in forecasting the sales of individual companies, but numerous efforts have been made to use them for forecasting industry sales.This is because the uncontrollable affecting a specific company's sales are more numerous and more difficult to measure than those determining the sales of a whole industry. This suggests that it would be reasonable to use an econometric model to forecast industry sales, and then to apply some estimate of the firm's share-of-the-market percentage to the industry forecast to arrive at the company's sales forecast Probably the main factor blocking widespread adoption of the econometric model-building approach to sales forecasting is that it requires more complete information on a company's marketing situation than do less sophisticated approaches.

Check your progress 7

1. The actual forecast is derived from a rough averaging of these opinions.

   a. Jury of Executive Opinion

   b. Correlation Analysis

2. _____sales are widely used as a basis for predicting the coming year's sales.

   a. Past

   b. Future

3. In _______analysis, study is directed toward the basic factors underlying sales fluctuations.

a. trend and cycle

b. correlation

4. In this method of sales forecasting, predictions are based upon a census, or records, of numbers of the product, or closely allied products, already in use.

   a. Product-in-Use Analysis

   b. Trend and cycle analysis

5. _________analysis is a statistical process and, as used in sales forecasting, determines and measures the association between company sales and other factors.

   a. Correlation

   b. regression

1.9 Procedural Steps in Forecasting

Forecasting procedures vary among companies and among products, but any good procedure will be characterized by six main features: (1) identification of uncontrollable factors affecting the general business outlook and the future sales of the industry and company; (2) a set of criteria for selecting those uncontrollable factors most useful for forecasting purposes; (3) a forecasting method (i.e., some system for arriving at an industry or company sales forecast in quantitative terms described earlier in this chapter); (4) a scheme for breaking down the industry sales forecasts into a company sales forecast and this, in turn, into smaller breakdowns for purposes of planning and control; (5) conscious attention to deriving a sales volume goal consistent with an appropriate marketing plan; and (6) an evaluation system for appraising individual forecasts.

1.9.1 Identifying the Pertinent Uncontrollables

The first procedural step in forecasting company sales is the identification of the uncontrollables affecting the general business outlook and the selling opportunities that exist for the industry and the company in the period being forecast. Economic uncontrollables, as a group, are usually the fastest changing, with changes in psychological and sociological uncontrollables normally influencing a company's sales volume very slowly.

Among the economic uncontrollables that the forecaster should consider are: national income, gross national product, disposable personal income, consumer spending, private investment expenditures, corporate profits, compensation of employees, general price level, numbers of people employed and unemployed, consumers' propensities to save and to consume, and business expansion plans. One special type of economic uncontrollable that usually should be carefully studied is the matter of interindustry competition. Here the forecaster must try to determine the extent to which the products of the industry are in competition with the products of other industries, such as butter versus margarine.

Often buyers make their decisions between competing products on economic grounds, such as price; at other times, their decisions may be based on psychological or sociological factors, such as keeping up with the Joneses. Other important psychological and sociological factors are: size and composition of the population, public optimism or pessimism concerning the general economic outlook, trends of fashion, social group influences, cultural and religious influences, and habit.

1.9.2 Selection Criteria

In order to select the uncontrollables that will most strongly affect future sales, it is necessary to identify useful selection criteria. Three important criteria recommended for this purpose are: variability, potency of influence, and measurability.

- **Variability -** If an uncontrollable can be expected to vary significantly during the period being forecast, it is considered to have the necessary variability. Some uncontrollables, such as the age distribution of the American population, vary too slowly to have value in short-term forecasting. Of course, if the period to be forecast is ten years, age distribution might be a useful variable. Most of the uncontrollables that vary greatly during short time periods are economic forces.
- **Potency of Influence -** The relative potency of influence of an uncontrollable may have an important influence on a product's sales. Thus, although personal disposable income and mileage of interstate highways both have an influence on automobile sales, total income is a far more potent influence.
- **Measurability -** Since we want the forecast to be expressed in quantitative terms, we must restrict our selection of uncontrollables to those that can be measured. This is one important reason for the widespread use of economic uncontrollables. Not only are many measurable, but there is published quantitative information available for many of them. Similarly, much sociological information of a demographic nature is available through the census. The primary difficulty with such information is that it is not measurable in exactly usable form. Thus, information on income for the total population may be of little value if it is not broken down by type of consumer or geographic area.

1.9.3 Breaking down the Forecast

Normally, an industry forecast is prepared first and then broken down into a company sales forecast. Forecasting a company's market share varies greatly in complexity. In an industry such as steel, where the number of competitors is small and market share is fairly stable, determination of market share is a relatively simple task, mostly a matter of projecting past trends. But, in an industry such as women's clothing, where the number of competitors is large and the market share fluctuates widely, determination of market share is difficult. The ability to estimate the stability of a particular fashion becomes an important asset. Most situations lay between these extremes, where an important job is to estimate the actions and reactions of major competitors. Occasionally, the availability of industry data from trade associations simplifies this task of breaking down the forecast.

The company sales forecast must be further broken down by product and by geographical areas. One starting point for these breakdowns is historical percentage of sales; but this must be adjusted by other factors that influence sales making opportunities, such as population and disposable personal income. If a build-up method of forecasting sales, such as poll of sales force opinion is employed, a useful basis is provided for checking against the breakdown methods being used.

1.9.4 Derivation of a Sales-Volume Goal

The normal outcome of the forecasting process is the development of a sales-volume goal for the coming period. It should be remembered that a sales forecast contains an estimate of sales assuming a proposed marketing plan and a particular set of uncontrollables. If either factor is changed, the sales-volume goals will not be the same as the sales forecast. If the company alters its marketing plan, for example, by increasing advertising or reducing prices, the sales-volume goal may vary considerably from the forecast. The same will be true if certain uncontrollables, such as actions of competitors, change after the preparation of the sales forecast. The important thing to remember is that the sales-volume goal should be in line with management's profit aspirations and the company's marketing capabilities. The price reduction mentioned above would produce a satisfactory sales-volume goal only if it provided a profit satisfactory to management. Similarly, a bigger advertising campaign will produce a realistic sales-volume goal only if the company has the ability to make effective use of a larger advertising appropriation.

1.9.5 Evaluation of Forecasts

Before the sales forecast is submitted to top management, the sales and marketing executives have the responsibility of evaluating it carefully; this is true regardless of the extent of their personal involvement in its preparation.

Questions such as the following should be asked: Are there any variations here from what past experience would seem to indicate? Is the estimate of sales stated both in dollars and in units of the product? Does the forecast rely too heavily on trade association data? Has the forecaster considered any new competitive products? It is also necessary to maintain a continuing process of evaluation of the accuracy and economic value of the forecast as the forecast period advances. Forecasts should be checked against actual results, differences explained, and indicated adjustments made for the remainder of the period.

Check your progress 8

1. The first procedural step in ______company sales is the identification of the uncontrollable.

   a. Forecasting

   b. Finding

2. The normal outcome of the ________is the development of a sales-volume goal for the coming period.

   a. forecasting process

   b. selling process

3. The normal outcome of the forecasting process is the development of a____________goal for the coming period.

   a. sales-volume

   b. sales forecast

4. The company sales forecast must be further broken down by product and by ___________.

   a. geographical areas

   b. industrial areas

5. Before the sales forecast is submitted to__________, the sales and marketing executives have the responsibility of evaluating it carefully.

   a. top management

   b. lower management

1.10 Let Us Sum Up

In this unit we have focussed much on sales forecast. In this unit we have studied that sales forecasts may be made for long periods or short periods.

Long-range sales forecasts, which are for terms as short as from five to ten years to as long as from fifty to one hundred years, are used mainly for planning changes in productive capacity, and for assisting in the formulation of long-run financial policies. Predictions of the probable sales experience of the firm in the comparatively distant future, although naturally of interest, are normally so tentative in nature that they are given only passing attention by those charged with responsibility for sales planning. It is the short-term, or operating, sales forecast with which the sales executive is mainly concerned. By definition, the operating sales forecast is "an estimate of sales, in dollars or physical units, for a specified future period under a proposed. Marketing plan or program and under an assumed set of economic and other forces outside the unit for which the forecast is made."1 Short-term sales forecast may be made for a single product, or for the entire product line. They may be made for the manufacturer's entire marketing area, or for any subdivision of it. The next topic that we have studied is hazards Inherent in Sales Forecasting. The greatest danger in sales forecasting is that management may be lulled into believing that the sales forecast is a substitute for common sense and judgment. The existence of a statistically determined forecast, even if seemingly perfect from the methodological standpoint, is no assurance of a completely accurate picture of conditions as they unfold. Management must constantly fight against the temptation to place "blind faith" in the forecast—the best forecast needs to be tempered by seasoned executive judgment.Various method of sales forecasting were even discussed here in this unit.

So after going through this block the readers would have gained enough knowledge about sales forecasting and this is going to be of great help to them in future.

1.11 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a)

Check your progress 5

Answers: (1-a), (2-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 8

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

1.12 Glossary

1. **Forecasting -** to anticipate something of future.
2. **Forecast of Sales -** to calculate sales of future

1.13 Assignment

Write down the procedural steps in forecasting. Give an elaborate answer.

1.14 Activities

Explain the Sales Forecasting Methods.

1.15 Case Study

Collect at least five methods for sales forecasting from the web and make a summary on the same.

1.16 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

UNIT 2: THE SALES BUDGET AND COST ANALYSIS

Unit Structure

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Purposes of the Sales Budget.
- The Form and Content of Sales Budget.
- The Budgetary Procedure.
- To Estimate the Costs of Distribution.
- The Market Cost Analysis.

2.1 Introduction

To the sales department, the budget is a blueprint for making sales. It involves money invested in distribution facilities, promotional efforts, and manpower for selling. It is the foundation on which to plan sales objectives and means of achieving them during the coming year. When properly prepared and administered, it is translated ultimately into dollar sales and profits.

The sales budget, like the sales forecast, provides management with information necessary to the setting of company objectives. Whereas the sales forecast results in the establishment of goals for company total sales volume, the sales budgetary procedure ultimately leads to the setting of goals for company net profits from selling operations. Defined in the simplest terms, a sales budget consists of estimates of the probable dollar and unit sales, and the expenses of obtaining them. These two estimates are related to predict net profit on selling operations. The sales budget, then, is a projection of what a given marketing program should mean in terms of net profits and improvements in financial position.

The sales budget uses the sales forecast as a point of departure. The amount of involvement by the sales manager in this first step in budgeting depends on the degree to which build-up methods are used in forecasting. The preparation of the budget for sales expenses is primarily the responsibility of the sales manager, since he has personal control over many of these expenses. However, the actual preparation of the budget is a shared decision, involving everyone from the lowest level of sales management to the president.

2.2 Purposes of the Sales Budget

2.2.1 Mechanism of Control

The main emphasis in sales budgeting is on the control function. The completed budget, which is essentially a statement of sales and profit goals for various sales units, serves as a yardstick against which the progress made toward business objectives is measured. Comparison of accomplishments with different breakdowns of the budget provides a measurement of the quality of performance of such units as individual salesmen, sales regions, products, marketing channels, and customers. Furthermore, these evaluations tend to identify specific weaknesses in operating plans, thus enabling sales and marketing management to make indicated revisions and to take other remedial action to improve performance of individual marketing units. The sales budget itself, then, since it is a standard against which performance is measured, serves as an instrument for controlling sales volume, selling expenses, and net profits.

The computer, with its rapid processing of information, has enormously increased the effectiveness of control through the sales budget. Aided by a computer, management can be provided daily with details of actual performance, measured against budgeted performance. With this type of current and complete information, the sales manager can quickly identify variations from the budget, and take corrective action before the item gets too badly out of line with the budget.

2.2.2 Instrument of Planning

Although the emphasis in sales budgeting is on control, the planning function is also served. In contrast to sales forecasting, where planning is the main consideration, in sales budgeting, planning is subordinated- to controlling. Budget preparation requires planning, but the direction taken by planning in budgeting is determined largely by the planning that has gone into the sales forecast. The sales forecast shows where it is possible for the business to go; sales budgeting determine ways and means for the business to get from where it is to where it wants to go. The sales forecast reveals the magnitude of sales potentials; the budget planners calculate the expenses of converting forecasted sales into actual sales. Furthermore, the sales budget planners are expected to formulate the sales plan so that both sales volume and net profit objectives are reached. It is not enough to show how to achieve the required sales volume. It is necessary to show how this volume cansbe‘reached, while, at the same time, selling expenses are kept at a level that permits achievement of the predetermined profit goal. Thus, sales budgeting necessarily require the drafting of alternative sales plans, and the selection of that plan that is most appropriate for serving the firm’s sales volume and net profit goals. Although the sales budget is a quantitative expression of the sales plan, it is only a summary. It should be accompanied by supporting documents that show ramifications of the plan.

Check your progress 1

1. The main emphasis in sales budgeting is on the ________function.

   a. control

   b. planning

2. The __________itself, then, since it is a standard against which performance is measured, serves as an instrument for controlling sales volume, selling expenses, and net profits.

   a. sales budget

   b. sales plan

3. The sales budget planners are expected to formulate the __________so that both sales volume and net profit objectives are reached.

   a. sales plan

   b. selling expenses

4. Sales budgeting necessarily require the drafting of alternative sales plans, and the selection of that plan that is most appropriate for serving the firm's ______________and net profit goals.

   a. sales volume

   b. sales methods

2.3 Sales Budget—Form and Content

Although the completed sales budget is a projected statement of income and expense, it generally is presented in more detail than the conventional accounting profit and loss statement. Budgeted sales volume should be expressed in units of product as well as in dollars and cents. Thus, confusion caused by price fluctuations is averted. The budget section on planned sales volume should project not only total sales but also such details as sales of each product, sales through each marketing channel and to each class of customer, sales in each sales territory, and sales for each month or quarter. Similarly, budgeted selling expenses should be broken down according to type of expense and according to such classifications as sales territory, product, marketing channel, and time incurred. Not all these budget breakdowns are used in every company, nor is it feasible to use them all in every marketing situation. The rule should be to use as many budgetary breakdowns as are of assistance in planning, directing, and controlling sales efforts.

Check your progress 2

1. Budgeted ____________should be expressed in units of product as well as in dollars and cents.

   a. sales volume

   b. cost

2. The budget section on planned sales volume should project not only _________but also such details as sales of each product.

   a. total sales

   b. average sales

2.4 Budgetary Procedure

Company budgetary procedure normally begins in the sales department, because budgets covering activities of other departments depend so much on the basic information in the sales budget. Once top management receives and gives tentative approval to the sales budget, other departments prepare budgets outlining their plans for the future operating period. For instance, the production department takes its cue from the sales budget in preparing budgets for manufacturing expense and inventory, as well as in the planning of production schedules. Similarly, the financial department uses the sales budget as the starting point in the preparation of budgets for capital expenditures, earnings and cash position, and administrative expenses. It should be noted that the production department is mainly interested in the budgeted unit sales, whereas the financial department is concerned chiefly with planned dollar sates.

2.4.1 Refinement of Planning Skills—Result of Introducing Budgetary Procedures

Although the over-all company budget constitutes an important device for top management to use in coordinating the activities of various departments, this is not the main benefit derived from budgetary procedures. The very act of preparing budgets requires lower level executives—division managers, department heads, supervisors, and many others—to set aside time from their day-to-day duties to take stock of the present situation and, in a very real sense, to take thought for the future. This is good discipline, and also a valuable exercise in planning—not from the top down, but throughout the organization. It means that every executive, at every level in the sales department, is involved in budgetary procedures.

2.4.2 The Sales Forecast and the Sales Budget

Budgetary procedures differ from company to company, but most of the differences may be traced to the procedures used in forecasting sales. If a break-down forecasting procedure is used, the head of each organizational unit receives his sales goal from the next level above, and makes his plans to fit that goal. Adjustments in sales goals may be made if subordinates raise questions regarding their fairness and soundness; but the natural tendency is for subordinates to accept the figure passed down by their superiors. If build-up procedures are used for sales forecasting, it is more certain that the heads of even minor organizational units, such as executives in charge of district or branch sales offices, will assist in determining sales and profit goals, and in making plans to accomplish them. Therefore, it is desirable for sales forecasting to be done at least partially by build-up procedures, because participation in planning at all levels is essential to maximize benefits from sales budgeting. Democratic administration requires the widest possible participation in planning; and participation, from the organizational standpoint, is as much a vertical as a horizontal concept. It is as wise to have participation from each level of management, from the lowest to the highest, as it is to have the over-all company budget represent the best thinking from all divisions. The following discussion assumes that heads of even the most minor organizational units not only assist in forecasting sales, but have a voice in drafting plans to accomplish sales and profit goals.

2.4.3 "Selling" the Sales Budget to Top Management

The chief sales and marketing executives must recognize that every budget proposal they make to top management is in competition with many worthwhile proposals submitted by the heads of other divisions. At budget-making time, top management receives more proposals than it is financially possible to carry out simultaneously. Therefore, in appraising proposals, top management looks not only at intrinsic merits but at the probable over-all value or return to the organization as a whole. Too few marketing and sales executives realize that the sales budget has to be "sold" to top management. The budget should be presented to top management just as a salesman would make a presentation to a new prospect.

Since a competent company president or executive vice-president has too many varied responsibilities to concern himself with details of any one department, it is safe to assume that he is wholly or partially ignorant of the problems faced by the department, and of many of the problems faced in putting together a good over-all sales program.

As in any other selling task, the starting point should be a careful assessment of the wants and needs of the prospect. For the top executive, the major want' is benefit to the company. How does the company, and incidentally the top executive, stand to gain from the proposed sales plan and budget? To top management, the budget is a proposal to spend money to bring in profit. It is the job of top management to divide the available money among the various departments of the firm; and the share received by each depends on the ability of -the executive concerned to "sell" his boss on the benefits to accrue from the plan. Obviously, the sales budgeting process does not proceed without consideration of the nature, mix, and cost of the marketing effort needed to achieve the sales goal. The selection of marketing methods and the right mix is part of the over-all task of budgeting.

2.4.4 Handling Competition for Available Funds within the Marketing Division

Similarly, the chief sales executive must be prepared to argue effectively for a maximum share of the funds made available to the marketing division. The sales executive, like the advertising manager, marketing research manager, customer service manager, product managers, and any other staff executives in the marketing department, submits abudget proposal to the chief marketing executive. From the proposals he receives from subordinates, the chief marketing executive must select those which are of the greatest potential benefit, and which the company can afford to implement. In discharging this function, the marketing executive must check to assure that the plans presented are the result of careful study, that the proposed expenditures will enable the subordinate to carry out the plans, and that the forecasted sales are attainable.

The sales executive should understand that the amount' of money finally allocated to his department depends upon the value of the individual budgetary proposals to the company as a whole. He must also keep this in mind in dividing his own budget among his subordinate divisions. If a build-up sales forecasting and budgeting procedure has been used, each subordinate has already prepared a forecast of his own sales, and an estimate of the expenses that will be incurred in achieving these goals; thus the task of division is simplified. However, when the budgetary 'responsibility is subdivided in this way, each subordinate executive should be held responsible for budgeting only the expenses that are under his own control.

2.4.5 The Actual Budgetary Procedure

The preparation of the budget normally starts at the lowest level in the organization and works upward. The lowest level involved in this budgetary process is sometimes called a financial performance center. Thus, each district sales manager is asked to prepare an estimate of his sales and expenses for the coming period, plus an estimate of his district's contribution to overhead. This budget will include rent, heat, light, secretarial costs, and all other expenses of operating the district office. It will also include the salaries of the salesmen and the district manager, and all selling expenses incurred by the district. These district budgets are submitted to the divisional or regional office, where they are added together and included with divisional expenses in a divisional budget. In turn, these divisional budgets are submitted to the sales manager for the particular product or market group. At the end of this chain of subordinate budgets, the chief sales executive compiles a final selling budget for the company.

While the sales manager and his subordinates have been preparing budgets, the staff departments in the marketing department have been doing the same, showing credits for work they will be expected to perform for the sales departments during the year. The office of the chief sales executive prepares its own budget, and this is then combined with the budgets of the sales departments and the staff marketing departments, to give a total of selling and other marketing expense for the company.

At each level in the budgetary process, each individual budget must be approved by the executive to whom it has been submitted before all can be combined. Each management level within the sales division approves the budgets for which it is responsible, incorporates them into its own budget, and submits this new budget to the next higher level for approval. In each instance, a detailed description of the units' plans for the coming period is submitted as support and justification for the budget. Without this information, there would be no satisfactory basis for evaluating and approving the budget submitted. When changes are made in the budget, corresponding changes must be made in the plans. For example, a cutback in funds requested for new salesmen would necessitate a reduction in the planned number of salesmen to be hired.

Other divisions within the company use the same preparation period to compile their budgets, with the sales forecast as their point of departure. The production division goes through a similar process of building up an expense budget from each operating subdivision, and combining these until a total budget is prepared for the division. The comptroller's division, research and development, personnel, and all other divisions have simultaneously been going through the process of budget preparation. These division budgets are all submitted to the president, who in turn submits a final total budget to the board of directors. Just as in the preparation of the sales budget, the process of preparing a total company budget may require numerous modifications and changes in plans.

At each step in the budget-making process, the attempt is made to eliminate as much detail as possible to pass upward to the next step, so that the final company budget is relatively simple and undetailed. The approved budget is then distributed downward in the organization in a process exactly the reverse of that used in preparation of the budget. Each subordinate budget must be revised to reflect changes in the company budget. At each step downward, the details previously deleted are added back so that the lowest operating unit receives a final budget that is just as detailed as the one originally submitted, even though it may be considerably changed.

2.4.6 Using the Budget for Control Purposes

Once the approved budgets have been redistributed to all organizational units, control features of the budgetary procedure go into operation. Individual items in each budget serve as "standards" against which management measures performance. From this point, each level of management is expected to compare performance against standards on some systematic basis.

For purposes of control, each sales manager receives a budget progress report on a periodic basis. This report may be prepared on a monthly basis, but more effective control can be achieved if progress reports are made available weekly. In this way, corrective action can be initiated before actual performance moves too far from budget performance. The report shows actual sales and expenses for the week, the month to date, and the year to date, budgeted sales and expenses, and the difference between the two. Sales performance figures may be broken down further in whatever ways will be useful to the executives using them—for example, by product, by package size, by salesman's territory, or by customer.

When actual performance shows a variance from budgeted performance, two courses of action are available to the sales executive concerned. The first alternative is to determine whether the variance is a result of poor performance by the sales group. It might be discovered that a salesman's travel expenses were out of line because he had not been covering his area efficiently. In this case, steps would be taken to insure that he organizes his traveling more carefully, so that expenses and budget can be brought back in line in future periods. However, if it turns out that travel expenses have increased because of the necessity of calling on new customers not previously covered, the second alternative course of action would be necessary—to revise the budget to reflect changed conditions.

It is important to remember that the budget is not an end in itself, but merely a tool. Every effort should be made to bring actual performance into line with budget estimates; but if unanticipated conditions are encountered; there should be no hesitation about revising the budget accordingly. At the same time, the budget should not be changed too readily—if it is to be changed each operating period, it serves no reai purpose. This emphasizes the importance of care and accuracy in the initial preparation of the budget.

2.4.7 Effect of Errors in Budgetary Estimates

As brought out above, actual operating conditions sometimes differ from those assumed at the time of budget preparation. Sales volume, expense, and net profit goals may be too high or too low, either because of changes in the strength of demand or because of changes in price. Particularly when estimates of the number of units to be sold differ from the number of units actually sold, significant variations occur in some expense items. Overhead and certain other expenses do not vary with volume, but there are expenses, such as salesmen's commissions, that tend to vary directly with volume. Still other expenses, such as sales supervisory expenses, are semivariable, fluctuating with changes in volume, but not directly so. Therefore, if estimated unit sales volume is off by very much, the usefulness of budgeted expense figures as standards of performance is impaired. Although the budget may still be useful as a point of departure in appraising performance, there remains the puzzling matter of determining how much allowance should be made for changed conditions.

2.4.8 Flexibility in Forecasting and Budgeting

If budget estimates are consistently, or even frequently, greatly in error, it may be that more time should be spent in planning before budgeting is begun. Perhaps sales forecasting methods are being misapplied, or are simply inappropriate for the particular budgeting situation in question. Considerable skill is required to do a good job of forecasting, and some companies do not have such skill. However, experience shows that in most fields sales can be forecast for a sufficiently long period, and within limits of accuracy that are sufficiently close to serve the purpose of stabilizing production. If it is possible to forecast sales within the limits needed to stabilize production, it should be possible to forecast sales within the limits of accuracy required for purposes of budgeting expenses.

Some companies, either intentionally or because of difficulties experienced in securing accurate sales forecasts, use budgetary procedures without the benefit of definite forecasts. One way to do this is to prepare alternative budgets, based on different assumptions about the level of sales volume. Thus, efficiency may be evaluated; even though wide variation exists between expected volume and actual volume. “Low-volume”and“high-volume” forecasts are prepared on breakeven-style charts, and interpolated to adjust for the difference between the two alternative budgeted sales figures and the actual operating level. However, so-called flexible budgeting is the subject of considerable criticism, because whenever it is used; plans are being made on the basis of a wide range of probabilities.Some experts have referred to flexible budgeting as crutch for weak executives who have not absorbed the art of forecasting. Nevertheless, most writers on sales management argue that some flexibility in the sales budget is desirable. Professor Phelps, for example, states that companies cannot authorize a year in advance expense appropriations so inflexible that there is no need to review or revise them later.10 When new market opportunities appear, full advantage must be taken of them. And, if competitors initiate action not foreseen when the, budget was made; funds must be allocated to counteract these actions. Such a realistic attitude toward the dynamic character of the market is a necessary part of effective sales budgeting.

When the budget is in error because of faulty sales forecasting, the accepted procedure is to alter the various estimates accordingly by applying standard ratios of costs to the adjusted volume figure. This system, known as "variable" budgeting, is the one used by most businesses today.

Check your progress 3

1. Some experts have referred to __________as crutch forweak executives who have not absorbed the art of forecasting.

   a. flexible budgeting

   b. rigid budgeting

2. If ______are consistently, or even frequently, greatly in error, it may be that more time should be spent in planning before budgeting is begun.

   a. budget estimates

   b. sales estimates

3. When ________performance shows a variance from budgeted performance, two courses of action are available to the sales executive concerned.

   a. actual

   b. standard

4. Once the _________budgets have been redistributed to all organizational units, control features of the budgetary procedure go into operation.

   a. approved

   b. standard

5. _________procedures differ from company to company, but most of the differences may be traced to the procedures used in forecasting sales.

   a. Budgetary

   b. Company

2.5 Estimating the Costs of Distribution

The sales budget is drafted with a view toward obtaining an optimum net profit for the forecast volume of sales. Note that management sets the optimum—not the maximum—net profit as its short-run profit goal. Although profit maximization is the objective over the long-run, other considerations such as the necessity for providing "business-building" customer services, and for scheduling calls on prospective new accounts, make profit optimization the short-run goal. In other words, some selling expenses would not be incurred if management did not look beyond the immediate period covered by the budget. But a forward-looking management considers such present expenditures as investments that should return sales and net profit dollars during succeeding budgetary periods. Management reasons that certain expenditures made during the period just ahead should permit the realization of future savings in similar expenditures. Whether or not these savings are realized depends upon the soundness of long-range marketing plans, and the accuracy with which management calculates the length of time over which the expenditures in question should pay off in sales and net profit dollars.

Thus, both immediate and long-run marketing plans should be taken into account in arriving at estimates for the items of selling expense included in the sales budget. Indeed, the most appropriate immediate marketing plan must be an integral part of the plan covering a longer period. However, marketing plans for the period just ahead must be drafted in sharper outline than those for longer periods, such as for those covering five, ten, or twenty-five years. For the immediate budgeting period, marketing plans are drafted in terms of the types and amounts of marketing efforts that should be applied to attain the sales and profit goals finally approved by top management. If the sales volume goal for the coming budget period calls for an additional $1 million in sales, management must identify the activities that reaching this goal will entail. In turn, these activities, which may be, stated in such terms as the numbers of new dealers needed in various classifications, must be translated into estimates of the expenses that will be incurred in performing them.

Therefore, after marketing management succeeds in expressing its plan for the forthcoming budgetary period in terms of the activities to be performed, the next step is to convert these activities into dollar estimates for the various items of selling expense to be incurred. For instance, if the selling plan calls for salesmen to travel a total of 500,000 miles in the course of the year ahead, and a straight mileage allowance of 8 cents per miles are paid, an item of $ 40,000 to cover salesmen's mileage allowances must be included in the selling expense section of the sales budget. The paying of 8 cents a mile for salesmen's travel, a previously established practice, aids in estimating the costs of reimbursing salesmen for travel; but management must still determine the total number of miles salesmen are to travel. In budgeting items of selling expense, then, management must: (1) estimate the volume of performance for the activity involved and (2) multiply this volume by the cost of performing some measurable unit of that activity.

2.5.1 Standard Costs of Distribution

When the total cost of performing a specific marketing activity is analyzed and the cost of performing one measurable unit of the activity is determined, the first step in establishing a standard cost for the activity has been taken. The second step is to compare the historical cost of performing one unit of the activity with what the cost should be, assuming "standard" performance, and considering the effect of changed conditions on costs. A standard cost, therefore, in marketing as well as in manufacturing, is a predetermined cost that represents the expenditure required for having a standard employee performs one measurable unit of the activity when he works under standard conditions. Unfortunately, however, the techniques of determining standard costs of distribution are much less refined than those used for computing standard costs of production. Some firms, though, have developed standard distribution costs accurate enough to provide management with a means for appraising the relative efficiency with which various marketing activities are performed. In these firms, the availability of standard costs permits the executive to compare current costs with known yardsticks of what costs should be. By determining the reasons for variations, the executive is enabled to find the soft spots in the selling program more quickly, and to apply remedial action where it is most needed.

The employment of standard costs of distribution simplifies the job of estimating individual items in the selling expense portion of the budget. Any predicted volume of sales, or any division of sales among the various products, classes of customers, or territories, can be converted into selling expense estimates through the application of standard costs. Standard costs, or any costs for that matter, are not a substitute for sound business judgment; but the presence of reliable cost data eliminates to a great degree bias and sheer guesswork in the making of business decisions.

2.5.2 Other Methods of Estimating Budgeted Selling Expenses

Because the usefulness of the standard cost system of estimating selling expenses is restricted by the rather crude techniques of computation, most companies rely upon other methods for securing estimates of selling expenses. Some manufacturers simply total their selling expenses over a recent period and divide this sum by the number of units of product sold, thus arriving .at an average cost per unit sold. This figure is then multiplied by the forecast for unit sales volume, to obtain an estimate for total budgeted selling expenses. Sometimes, the average cost per unit sold is adjusted for changes in such factors as the strength of competition, general business conditions, and basic marketing policies. Other manufacturers calculate for past periods the percentage relationship that obtains between total selling expense and sales volume. This percentage, which may or may not be adjusted to take account of changes in conditions, is then applied to the dollar sales forecast to secure an estimate for budgeted selling expenses. Finally, some companies build up their estimates for total selling expenses by applying historical unit cost figures to individual items of selling expense. Although this is not a true standard distribution cost method, it does force management to focus upon individual items of expense rather than upon the total. Consequently, the expense estimates in the budget should possess greater accuracy than if total selling expense percentages or total selling expenses per unit of product were used.

Check your progress 4

1. _______and long-run marketing plans should be taken into account in arriving at estimates for the items of selling expense included in the sales budget.

   a. Immediate

   b. future

2. Profit optimization the ______run goal.

   a. short

   b. long

3. _______costs, or any costs for that matter, are not a substitute for sound business judgment.

   a. Standard

   b. actual

4. Some companies build up their estimates for total selling expenses by applying ________unit cost figures to individual items of selling expense.

   a. historical

   b. standard

5. A forward-looking management considers ______ present expenditures as investments that should return sales and net profit dollars during succeeding budgetary periods.

   a. selling expenses

   b. production expenses

2.6 Marketing Cost Analysis

Marketing cost analysis is essentially a search for ways to improve the profit picture through the exposure of areas of relative strength and weakness. Through marketing cost analysis, total selling expenses are broken down and assigned to various segments of marketing operations, thus providing a valuable guide for appraising present and planning future operations. In marketing cost analysis, selling expenses are allocated according to such operating segments as size of order, customers, trade channels, territories, salesmen, and products.

2.6.1 Objectives of Marketing Cost Analysis

The general objective of marketing cost analysis is to determine the relative profitability of various aspects of marketing operations. In a given case, the specific objective is to suggest answers to such questions as: How small can an order be and still be profitable? What is the minimum size of a profitable account? Which trade channels provide relatively the most profit for a given volume of sales? Which territories are profitable and which are unprofitable? How great a relative profit contribution does each salesman make?

Marketing cost analyses can only suggest the answers to such questions. They point out the areas in which managerial action may be necessary; but the specific action should be determined only after other marketing factors are considered. The answers to more complex questions, involving cross-analysis of various expense allocations, may also be suggested. For instance, if the expenses of selling different products are cross-analyzed with the expenses incurred by individual salesmen in selling each product, insight may be gained on how salesmen's time may be allocated more efficiently among the various products. Here again, however, other factors should be considered; among the most important of these are the relative sales potentials for each product in the individual salesman's territory. Finally, marketing cost analysis may be helpful in connection with problems of price justification arising under the Robinson-Patman Act, and other federal, or state legislation.

2.6.2 Basic Techniques in Marketing Cost Analysis

No one specific method of marketing cost analysis is equally appropriate for all manufacturers. Each manufacturer must design his own system to best fit the needs of his business. However, there are certain techniques that most marketing cost analysis systems share. These techniques can be summarized as follows:

a. The separable, or direct, expenses are measured and assigned directly to, customers, commodities, and so forth.

b. The common, or indirect, expenses are allocated or assigned to functional-cost groups. (A functional-cost group is the cost of a single activity; thus a functional classification puts together all the expense items that have been incurred for the same activity).

c. In some cases, only the variable marketing expenses are included in the functional-cost groups; in other cases, both the fixed and the variable expenses are included.

d. The factors that measure the variability of the various marketing functions performed by the manufacturer are identified, and the amounts of these factors, in the aggregate, are determined.

e. A measurement is made of the share of the variable activity of each of these functional-cost groups which is utilized by the segment of sales whose cost is being measured. This indicates the share of the cost of that function allocated to a particular segment of sales.

f. The excess or deficit of dollar gross margin over the sum of the direct expenses and the shares of the various functional-cost groups allocated to a segment of sales indicates its relative profitability or unprofitability.

2.6.3 Illustrative Problem and Solution

Marketing cost analysis is essentially a matter of allocating expenses to various segments of marketing operations, separable expenses directly and common expenses according to logical bases of apportionment, and of determining relative profitability. The following discussion, and Figure 1 below illustrate the procedures used in solving a simplified marketing cost-analysis problem.

Data for the illustrative problem are presented in Figure above. Such information is assembled from basic accounting and other internal records, and is necessary for the solution of any marketing cost-analysis problem. If management desired analyses of marketing costs according to such breakdowns as territory, class of customer, marketing channel, or salesmen, additional information would be required.

In this problem, sales commissions are a separable expense for analyses both by product and by size of account, but advertising expense is separable only for the analysis by product. The so-called common expenses are the ones for which the selection of allocation bases is most troublesome. In contrast to the analysis of production costs, where frequently a single basis, such as the number of machine hours, is used for allocating all manufacturing expenses, marketing cost analysis requires the apportionment of marketing expenses on several bases. It is important to understand that allocation bases are factors that measure variability in the activities for which specific expense items are incurred. Allocation bases, therefore, should permit logical assignment of portions of common expense items to various segments of sales. The expense item should vary directly with the volume of activity measured by the factor; and, in most instances, the expense item should be caused by the volume of activity. Some marketing expense items, such as the costs of credit management, may be allocated according to some logical basis in any type of marketing cost analysis. But other marketing expenses, such as salesmen's salaries, may be allocated to customers but not usually to products, unless studies are available showing the distribution of salesmen's time among the various products.

For purposes of analyzing marketing costs by product, it is assumed in this problem that costs of credit management and of billing and miscellaneous bookkeeping tend to vary directly with sales volume. It is further assumed that costs of warehousing and of packing and shipping are functions of the weight of one unit of product multiplied by the number of units handled. This latter assumption also holds for the analysis by size of account. But, in analyzing by size of account, the basis for allocating credit management expenses is not sales volume but the number of customers in the size class. This same basis is used for allocating sales travel expense and sales office variable expense. In the analysis by size of account, billing and miscellaneous bookkeeping expenses are allocated on the basis of the number of orders rather than of the volume of sales. Advertising expense incurred for advertising specific products is assigned in the analysis by product but not in the analysis by size of account. Sales salaries, which cannot be allocated to products, are allocated to the groupings by size of account according to sales volume multiplied by the number of customers in each size class. It should be noted that in neither type of analysis called for in this problem is it possible to allocate all the items of expense. However, because the purpose of marketing cost analysis is to determine relative profitability rather than exact profitability, this is not a serious shortcoming.

Check your progress 5

1. Through ______cost analysis, total selling expenses are broken down and assigned to various segments of marketing operations.

   a. marketing

   b. sales

2. No _____method of marketing cost analysis is equally appropriate for all manufacturers.

   a. specific

   b. general

3. The separable, or direct, expenses are measured and assigned __________to, customers, commodities, and so forth.

   a. directly

   b. indirectly

4. The general objective of marketing cost analysis is to determine the relative _________of various aspects of marketing operations.

   a. profitability

   b. cost

5. In analysing by size of account, the basis for allocating credit management expenses is not sales volume but the number of _____in the size class.

   a. Customers

   b. sellers

2.7 Let Us Sum Up

This unit will be of great help in understanding the concepts realting to sales budget. Sales budget are very necessary and its preparation normally starts at the lowest level in the organization and works upward. The lowest level involved in this budgetary process is sometimes called a financial performance center. Thus, each district sales manager is asked to prepare an estimate of his sales and expenses for the coming period, plus an estimate of his district's contribution to overhead. This budget will include rent, heat, light, secretarial costs, and all other expenses of operating the district office In this unit we have studied about the sales budget in very detail .So from the above discussion we have understood the purpose and mechanism of control .

This is going to be of great help for the students in understanding the topic of sales budget apart from this we have even learnt budgetory procedure as well as objectives of marketing cost analysis.The basic techniques in marketing cost analysis was also discussed here in detial.

2.8 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a), (4-a)

Check your progress 2

Answers: (1-a), (2-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a), (4-a), (5-a)

2.9 Glossary

1. **Budget -** it is an estimate of the finance.

2.10 Assignment

What is a Sales Budget? What are the purposes of Sales Budget?

2.11 Activities

Describe the basic techniques in marketing cost analysis.

2.12 Case Study

Visit any of the organization which is familiarized to you and collect information about the Sales budget and the techniques of marketing cost analysis they used.

2.13 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads Turning Cold Prospects into Hot Customers - by James Obermayer.

Block Summary

After going through we have certainly got much information on the topics of sales forecasting, sales budget and cost analysis. When ever we do any business it is our prime concern that we should be in a positon where we earn sufficient profit and for this cost analysis and sales forecasting is considered to ber very important and this is what has been discussed in this block .In this block the whole content was divided into two units. The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable.

The readers after going through this block must have got a detailed information on these topics. They will certainely be benefited with these topics and they would be able to use this knowledge practically while working in a organisation on some future date.

Block Assignment

Short Answer Questions

1. Correlation Analysis
2. Product-in-Use Analysis
3. Trend and Cycle Analysis
4. Hazards Inherent in Sales Forecasting.
5. Uses of Sales Forecasts.
6. Flexibility in Forecasting and Budgeting.
7. Effect of Errors in Budgetary Estimates.
8. Budgetary Procedure.
9. The Actual Budgetary Procedure.
10. Illustrative Problem and Solution.

Long Answer Questions

1. Discuss the various sales forecasting methods.
2. Discuss the purpose of sales budget.

Enrolment No. [ ]

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	________
Language and Style	☐	☐	☐	☐	________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	________
Conceptual Clarity	☐	☐	☐	☐	________
Check your progress Quest	☐	☐	☐	☐	________
Feed back to CYP Question	☐	☐	☐	☐	________

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

SALES AND DISTRIBUTION MANAGEMENT

PGDM-104

BLOCK 4:

DISTRIBUTION MANAGEMENT, CHANNEL CONTROL AND SELLING

Dr. Babasaheb Ambedkar Open University
Ahmedabad

SALES AND DISTRIBUTION MANAGEMENT

KNOWLEDGE MANAGEMENT & RESEARCH ORGANIZATION

Knowledge Management and
Research Organization
Pune

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

SALES AND DISTRIBUTION MANAGEMENT

Contents

BLOCK 3: FORECASTING SALES AND SALES BUDGET

UNIT 1 FORECASTING SALES

Sales Forecast Vital to Setting of Sales Objectives, Who is Responsible for Sales Forecasting?, What the Chief Sales Executive Should Know About Sales Forecasting, Uses of Sales Forecasts, Length of the Sales Forecast Period, Hazards Inherent in Sales Forecasting, Sales Forecasting Methods, Procedural Steps in Forecasting

UNIT 2 THE SALES BUDGET AND COST ANALYSIS

Purposes of the Sales Budget, Sales Budget—Form and Content, Budgetary Procedure, Estimating the Costs of Distribution, Marketing Cost Analysis

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BLOCK 4: DISTRIBUTION MANAGEMENT, CHANNEL CONTROL AND SELLING

UNIT 1 DISTRIBUTION MANAGEMENT

Marketing Logistics, Marketing Channels, Channel Management

UNIT 2 CHANNEL CONTROL

Performance Measures in Marketing Channels, Models to Diagnose Channel Profitability, Appraisal of Channel Members' Contribution, Result of Channel Performance, Sources of Conflict, Types of Conflicts, Conflict Management Techniques, Channel Leadership, Elements of Channel Information Systems, Impact of Information Systems on Channel Flow

UNIT 3 WHOLESALING AND RETAILING

Wholesaling and its Importance, Types of Wholesalers, Strategic Issues in Wholesaling, Trends Shaping Wholesale Distribution, Impact of Information Technology on Wholesaling, Challenges in Wholesaling, Wholesaling in India, Future of Wholesaling, Retailing and its Importance, Evolution of Retailing, Classification of Retailers, Strategic Issues in Retailing, Trends in Retailing, Future of Retailing

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Dr. Babasaheb
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PGDM-104

SALES AND DISTRIBUTION MANAGEMENT

BLOCK 4: DISTRIBUTION MANAGEMENT, CHANNEL CONTROL AND SELLING

BLOCK 4: DISTRIBUTION MANAGEMENT, CHANNEL CONTROL AND SELLING

Block Introduction

The importance of sales and distribution management can never be underestimated. As a sale is the only source of revenue for the entire organisation therefore this subject will never lose its importance.

In this block distribution management, channel control and whole selling and retailing has been very well discussed. The topic under this block has been divided into three units and these topics are one of the most important topics of sales .The topics have been very well explained by the writer. Efforts have been made to include all the contents of curriculum in this block.

The whole content has been divided into three units. The first unit covers the topic distribution management and has been discussed in very detail, whereas the second unit covers the topic channel control which has even been discussed in detail. Whereas the final unit covers the topic wholesaling and retailing which was covered in very detail? The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. This block is certainly going to be very helpful to the readers of the block.

Block Objective

After learning this block you will be able to understand:

- Marketing logistics.
- Logistics Management importance and its functions.
- The Marketing Channels.
- The Channel Management.
- Modifying Channel Arrangements.

Block Structure

UNIT 1: DISTRIBUTION MANAGEMENT

Unit Structure

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Marketing Logistics.
- The Importance and Functions in Logistics Management.
- The Local and Global Challenges in Logistical Management.
- The Evolution of Marketing Channels.
- The Channel Members and their Roles.
- The Channel Management.
- Recruiting Channel Members.
- Motivating and Evaluating Channel Members.
- Modifying Channel Arrangements.

1.1 Introduction

Of the living things on earth, ants are known to be the most hardworking. All of us would have seen ants scurrying along, one behind the other, transporting food from wherever they find it, to their dwelling places. Any obstruction in the path does not deter these little creatures for moving forward. They quickly locate the most efficient path around the obstruction and once again resume their journey. Just as these little creatures transport things that they need from where they are available to their destination or place of storage, in the business world too, goods and products are transported from the place of manufacture to the place where they are required.

In the highly competitive business environment of today, companies find it difficult to maintain their competitive advantage over others only by developing innovative strategies pertaining to the product, price, place, or promotion. Though they have tried out various methods to build a competitive advantage for themselves like making changes in the product design, pricing the product differently, and even trying to reduce the cycle time for the product to reach the retailer’s shelves from the manufacturing location, they have realized that competitors can easily duplicate these efforts. Thus, the emphasis of all companies today is to build a sustainable competitive advantage. And logistics provides a means by which they can do just that.

In this unit on Marketing Logistics, we will examine the various aspects pertaining to logistics management. We begin the chapter with a discussion on the importance of logistics in the current business environment. This will be followed by a description of the various functions in logistics management and the use of technology in logistics. The chapter will then discuss the importance of streamlining the logistics process and the strategic issues involved in logistics management.

Way back in 1934, a Moscow University Professor, G.F. Cause, known as the father of Mathematical Biology, conducted an experiment on protozoa (minute single cell organisms) of the same genus by putting two of them together in a bottle containing an adequate supply of nutrients. The experiment found that only one of the protozoa survived, despite the availability of ample amount of food. Based on his findings. Cause propounded the Principle of Competitive Exclusion, which stated that no two species that lead identical lives can coexist.

Competition has begun and evolved with life. With resources being limited, competition among similar species has led to the vanquishing of one species by another and the extinction of species, the not able examples being the dinosaurs. To survive, every species needs to have an inherent advantage over others of the same genus.

The law of nature is applicable in the business world too. Businesses that survive are those that displace their competitors. To do this, businesses need aunique and distinct advantage that differentiates them from competitors. Businesses can use the following distinguishing features - place, price, product, promotion or customer sendee - to gain a competitive advantage.

First, businesses have to be successful in controlling manufacturing costs and in coping with competitive pricing. They then have to look at innovative practices and methods to make their goods and sendees' available to end users at lower prices and better quality. To achieve this, marketing channels are very important. Businesses are concentrating more and more on enhancing channel performance.

In this unit, we will examine various aspects pertaining to marketing channels. Beginning with a description of how marketing channels evolved, we will go on to discuss channel members and their roles. These will be followed by a description of various channel functions and the dimensions involved in designing marketing channels. The chapter will end with a discussion on channel flows and costs involved in different types of channel flows.

In this unit, we will discuss the selection and recruitment process of channel members, the criteria for selecting channel members. The chapter concludes with a discussion on managing channel relationships.

1.2 Marketing Logistics

1.2.1 Logistics and its Importance

The origin of the term 'Logistics' has been traced to the Latin word logugea, which means a lodge or hut. Logistics is often erroneously thought to be a purely military term due to its initial association with the military. In fact, the creation of the post of a Marechal General des Logisin the French Army in 1670 is the first recorded instance of the use of the term in a military organization. Webster's dictionary too defines logistics as "The branch of military science having to do with procuring, maintaining, and transporting material, personnel, and facilities." History is witness to the fact that the most successful war campaigns have been the ones in which the winning side was equipped with a superior logistics network. An efficient logistics network was instrumental in quickly and efficiently transporting supplies, materials, equipment, and troops to the site of action. Operation Desert Storm, in which the US army was successful in efficiently moving its troops and tanks to the site of action during the Gulf War in 1991, is a good example of how a superior logistics network contributes to a winning military campaign.

In business too, logistics plays a similar role as in the military. It is a complex process by which companies transport products, parts, and materials from the place where they are manufactured to the place where they are required. Companies across the world are increasingly realizing the importance of attaining a competitive edge over their competitor's by efficient logistics management.

Liberalization of markets across the world has led to an increasing number of companies expanding their business by setting up manufacturing and marketing facilities in various parts of the world. The high growth potential in the liberalized economies of the Asia-Pacific region has encouraged transportation and logistics companies such as Federal Express (FedEx), DHL, United Parcel Service (UPS), and TNT, to think of expansion plans. The tremendous scope for growth, exceeding 20% per year, in these economies has also led to third party logistics providers expanding their operations in these regions. Notable among third party logistics providers are Maersk, Exel, Kueline& Nagel, Tibbett and Britten, Schneider Logistics, and TNT.

The overriding importance being given to logistics in various businesses can be attributed to the following reasons:

1. Companies now have a wider choice of alternatives available to them to maintain cost and service standards. These alternatives may be in the form of shipping products through containerization, using mini computers and sophisticated satellite communication systems to track shipments, or transporting them by air to ensure speedy delivery of the products. All these alternatives have a cost attached. This has made it essential for companies to ensure that they maintain an efficient logistics management system so that they can gain an advantage over their competitors.

2. The location of retail outlets is based on proximity to the market. During periods of energy shortages, transportation costs become the primary concern of companies. These costs play a crucial role in the companies' plant and warehouse location decisions. Thus, during periods of energy shortage, having their own logistics system helps companies minimize transportation costs and benefits them in the long term.

3. The growing complexity of product lines and the increasing shortage of raw materials are forcing companies to focus on logistics management to ensure constant and steady supply of raw material to manufacturing locations.

4. Yet another reason for companies to increase their focus on logistics is the belief that an effective system of computerized inventory control will help them tide over any crisis that may arise on account of swings in business cycles, changes in interest rates, increase in cost of labor, etc.

These reasons have led to companies in various industries laying increasing emphasis on logistics and logistics management.

1.2.2 Functions in Logistics Management

Logistics is a complex process, involving several functions. These include procurement or purchasing, inward transport, receiving, warehousing, stock control, order picking, materials handling, outward transport, physical distribution management, recycling, and returns & waste disposal functions.

Procurement /Purchasing

Procurement is the process of buying goods and services for the user department based on order specifications given by that department. Procurement begins with sending the purchase order to the supplier. The procurement function involves various activities such as identifying new suppliers, qualifying the suppliers, negotiating terms and conditions of supply, organizing delivery of orders, arranging for insurance, finalizing the mode of payment, and sending the purchase order to the supplier. This function is considered to be a support function in logistics. It also involves monitoring the performance of the suppliers for adherence to quality standards as the quality of inputs in the form of parts supplied by the suppliers, affects the quality of the final product. This, in turn, has an impact on both customer satisfaction and the revenue of the company. Thus, the effectiveness of the procurement function plays a crucial role in determining the company's competitive advantage.

Inward Transport

Inward transport is the function in the logistics process in which parts and components are moved for storage in warehouses before they are transported to the places where they are required. Since the direction of movement of the goods is inward (toward the logistics service provider), the function is known as inward transport.

Receiving

Receiving is the function in which the material is received at the warehouse for storage. When parts and components are received at the warehouse they have to be checked with the purchase order, inspected for damage, soiled, and stacked according to the date of arrival.

Warehousing

Warehousing is the function in the logistics process in which the material received for dispatch is stored for various durations of time. The warehousing function serves as an efficient way to balance the demand and supply of goods supports the post-production processes of manufacturers by providing space for storing the produced goods prior to sale. For example, products such as electricity bulbs need to be tested to ensure that they work for the duration specified on the package. So after they roll off the production line and before they are dispatched to wholesalers and retail outlets the products are stacked in warehouses while they undergo quality control tests to ensure that they meet the prescribed quality standards. During the warehousing period, if any defect is observed in the products being tested, the manufacturer can recall the entire batch from the warehouse. Products such as wine and canned food are other examples of products that require long storage before sale. Wines age with lime and fetch the manufacturer a better price if sold after a long period after they are produced. Similarly in the case of canned food, storing the cans in warehouses helps the manufacturer to ensure that there is no bacterial growth and that the food is safe for human consumption.

Stock Control

Stock control in logistics is the function that involves keeping track of the amount of stock present in the inventory. The stock control manager is responsible for stock taking and stock checking receipt of the stock al the warehouse and inspection of lie stock to check for loss or damage during transit. Efficient stock control ensures the smooth operation of the logistics process.

Order Picking

Order picking is the function of picking or retrieving products stored in the warehouse from their respective storage locations to cater to customer orders. Since order picking comprises almost 60% of the labor activities in the warehouse, it is considered to be one of the most labor-intensive activities in the warehouse.

Logistic service providers seeking to increase the efficiency of their order picking function try to minimize the expected order picking lime - that is, the time consumed in the various components of order picking. In all, there are four components of the expected order picking time. These include travel time processing time, administrative time and waiting time.

In warehouses products are stored in containers which are stacked on top of each other, with aisles or passageways between columns of containers. Travel time is the time the worker takes to travel within the aisle and acrossaisles in the warehouse to locate the order. Processing time is the time the worker spends in various tasks at the location point of the order and includes tasks such as searching for the order extracting it from the various others that are present at the same location and then documenting the order. Administrative time is the time the worker spends at the start and Finish of an order picking tour. It includes the time spent on administrative and start-up tasks. Examples of start-up tasks include collecting a pick device such as a pick up cart or trolley and obtaining the list of orders to be picked from the storage locations. Waiting time is the time between the completion of one order picking tour and the start of the next.

Materials Handling

Materials handling is the function that involves the movement of materials required for operations. The movement may take place from the receiving area to the storage location from the storage location to the dispatch location. Etc. Materials handling mainly involve loading unloading and storage of material. Efficient materials handling ensures that material is transported without delay or damage. It ensures the constant flow of material and its availability when needed. Efficiency in materials handling helps in reduction of operations cost, effective utilization of men, material, and storage space effective stock management and control, and effective rotation of the stock, ultimately resulting in reducing material wastage.

Outward Transport

Outward transport is the function of dispatching material to meet the user requirements. It involves activities such as matching the material with the order requisition, and checking the material for packaging and any damage.

Physical Distribution Management

This function in logistics management involves all those activities that help in the delivery of the finished goods to the customers. Physical distribution management involves the design and administration of systems that will help regulate the flow of materials and finished goods from the warehouses to the customer.

Recycling, Returns, and Waste Disposal

This function comprises the reverse logistics process. While the logistics process moves materials and goods from the manufacturer to the customer, reverse logistics is the process in which the materials and goods move from the customer back to the manufacturer. This may happen in four situations - one, when the goods comprise material or parts of material mat can be recycled to produce the same product (for example, paper, glass, polythene bags, etc.); two, when the products are defective and have to be returned to the company; three, when the product is transported in packaging or containers that are returned to the manufacturer to use for sending a fresh batch of products (for example, Bibo water cans, Coca-Cola, Pepsi bottles, etc.); and four, when the waste generated from the product has to be effectively disposed of by the manufacturer or a third party firm to prevent it from causing harm to the environment.

1.2.3 Importance of Communication in Logistics

With businesses moving from a production-driven or manufacturing-oriented economy to a service-driven economy, there has been a concurrent shift in the emphasis of companies from transportation to communication. Speed, sendee, and decisiveness have become the basis for competition amongst various companies. Businesses are forced to take up measures mat facilitate speed and decisiveness in order to ensure their survival in the new economy. The increasing demand for a shorter cycle time and reduced costs have made companies focus more and more on improving their communication process. Communication becomes all the more important in a vital function such as logistics management because it conveys the actual status of goods and products to the various groups of people involved in logistics. It helps logistics sendee providers to improve their service by keeping a closer watch on inventory management and to take the necessary steps to avoid losing customers.

Satellite technology has assumed a key role in facilitating logistics service providers to establish communication links with their customers as well as with the various elements that make up the logistics chain of processes. The speed of service delivery and quality of service has become major factors in deciding the competitiveness of these companies. For example, when a customer places an online order for a product, say a microwave oven, he expects the oven to be delivered at his doorstep as quickly as possible. The speed with which one logistics company transports the product from die manufacturing or warehouse location to the point of delivery helps it gain a competitive advantage over its competitors. Customers also want to remain updated on the status of the delivery during the transit of the product. Logistics companies are taking the help of satellite technology to provide this information to customers. The use of satellite technology and sophisticated hand-held devices by the drivers of UP& helps customers obtain real time information about the shipment of the product. These hand-held devices, known as Delivery Information Acquisition Devices (DIAD) make it easy for the drivers of the UPS cargo vehicles to record and upload the latest information regarding the status of the shipment delivery onto the UPS network. They also help the driver remain in constant contact with the company and be instantly; updated on information regarding changes in pickup schedules, traffic patterns, etc.

1.2.4 Technology in Logistics

Technology has become a key factor by which logistics companies are gaining a competitive advantage over other players in the industry. Advances in technology in the form of WAP phones, personal digital assistants (PDAs), etc., allow customers of logistics companies to keep track of the shipment's progress along the logistics chain of processes.

Logistics companies rely on various types of technology such as electronic data interchange, artificial intelligence, expert systems, communication technology, and bar coding and scanning to improve the quality of their service.

Electronic Data Interchange (EDI)

Electronic data interchange is the exchange of routine business information between distantly located computers. The exchange of information takes place in a standardized electronic format through the use of networks such as the Internet Unlike in e-mail where the exchange takes place between two persons, the exchange of information here takes place between computer applications. Also, unlike e-mail which facilitates the exchange of only textual messages, EDI facilitates the exchange of structured business messages such as invoice forms, purchase orders, etc.

Artificial Intelligence

Artificial Intelligence (AI) is automated intelligence. It reproduces human intelligence in an automated or machine form. It refers to the ability of a machine to process data and responds with human-like intelligence. Artificial Intelligence systems can carry out all those activities that involve human intelligence such as understanding language, learning, reasoning, problem-solving, etc.

Expert Systems

An expert system can be defined as an artificially intelligent computer program that makes use of the knowledge and problem solving logic of human experts to solve problems at an expert level. Expert systems can be applied to logistics management to solve operational and strategic level problems in all functional areas of logistics. They aid in decision-making, strategic planning, and fusing information gathered from diverse sources. In this way, they help companies gain a competitive advantage over others.

Communication Technology

The communication technology that the logistics service providers use plays an important role in helping them achieve a competitive advantage over others in the industry. What makes the quality of information support a vital aspect in achieving a competitive edge is the need for logistics service providers to have a tighter control over their operations. With faster response time being the demand of customers nowadays, logistics service providers seek efficient information and communication systems that are directly linked to the physical flow of goods. Having such a communication system will allow them to forecast, plan, organize, and monitor the operational processes involved in the logistics function and prepare them to handle any disruptions that might occur in the flow of goods.

Bar Coding and Scanning

Bar codes area series of black and white stripes printed on labels glued to items, and provide a unique identification to these items. Bar codes work on auto data capturing technology, which is based on reflective optics. The black and white stripes in bar codes absorb and reflect light rays in various intensities, and thus help identify the product.

Bar codes require a scanner for reading the code. The bar code scanner reads the bar code on labels and converts the black and white stripes into a series of letters and numbers. These are then passed on to a computer.

Although bar coding began first in the grocery industry, mere is now no industry that is untouched by it. Wherever we go, whether to a supermarket, library, or a greeting card store, bar coding seems to have pervaded every business, even to the extent of replacing the traditional method of pricing goods and products.

Check your progress 1

1. _________________ is also known as reverse logistics.

   a. Green logistics c. Global logistics

   b. Traditional logistics

2. _____________ is the most important of cultural differences.

   a. Language c. Culture

   b. Logistics

3. _____________logistics involves transport on surface and by air.

   a. Global c. Traditional

   b. Green

1.3 Marketing Channels

1.3.1 Evolution of Marketing Channels

Behind every product or service that reaches consumers, there are marketing channels in the background, which play a significant role. A marketing channel is a set of interdependent individuals and organizations involved in the process of making a product or service available to the end-user for use or consumption. Also known as distribution channels, these have evolved over time. The evolution has been influenced by market forces, which bring about institutional change, reallocation of functions and changes in relationships among channel intermediaries. These complex forces reshape marketing channels and play adominant role in their growth. Both customers and competitors stimulate competition.

In other words, the evolution of marketing channels has taken place in tandem with businesses' response to environmental forces.

As businesses passed through the distinct phases of the production era, the sales era, the marketing era and the human or relationship marketing era, marketing channels too evolved from being production-oriented to being customer-centric in nature. The evolution of marketing channels in each of these distinct phases of business evolution is described in the following paragraphs.

The production Era

The late 19th and early 20th centuries were characterized by technological advancements in the fields of agriculture, transportation and communication. Improved plant and machinery provided business with the technical capacity to produce goods in large quantities. Moreover, the demand for goods matched their supply. That is, markets had the capacity to absorb produced goods. These factors led businesses primarily focusing on production. Managements laid more emphasis on production volumes, capacity expansion and improvement of plant efficiency.

The Sales Era

The sales era began in the 1920s, when industrialization and economic prosperity were at their peak. Many dominant factors affected businesses during this period. Continuous improvements in technology and labour efficiency drove production levels to new heights. The mass production that began in the previous era continued in this sales era. However, this period did not witness a commensurate growth in demand for the goods that were manufactured. In the sales era, markets were characterized by 'consumption saturation' and failed to generate the required demand at a time when industrial production was at its height. Economic prosperity turned to economic recession (The Great Depression) and worsened the demand situation by the late 1920s. To sum up, the sales era was marked by consumption saturation and economic recession. Businesses responded to the challenge of low demand by developing mass distribution systems that could be used to support huge production volumes.

The sales era also witnessed an elevation of the sales position in the eyes of managements. It was realized that selling involved much more than creation of goodwill and required a lot more than convincing skills and minimum knowledge. This increased the responsibilities of the sales manager from supervision and control of the sales force to recruiting and selecting effective individuals to form the sales force. The term 'scientific salesmanship' came into use to describe the application of management and behavioral science principles to the selling process. Managements' company-oriented outlook was evident from the expectations they had from sales personnel. Businesses expected sales persons to generate high-volume sales for the company.

The Marketing Era

The 1950s witnessed recovery from economic recession. There was further technological advancement and erosion of industrial boundaries. The technological advancements that took place during the Second World War resulted in new manufacturing processes that glossed over industrial boundaries. For instance, the steel industry began to face competition from the plastic industry as plastic items began to replace those made of steel. Similarly, the glass industry faced tough competition from paper-based products. This era was marked by the emergence of more educated and sophisticated consumers and growing concern among companies about rising costs and price constraints. The biggest problem faced by businesses was the abundance of goods in the market coupled with the customers' limited potential for consumption. Businesses realized the need to determine the changing tastes of consumers and to cater to these to survive and succeed. Businesses also had to be wary of market changes and address them. This gave rise to the marketing concept.

Relationship Marketing Era

The present day highly competitive marketplace has forced businesses to first determine the needs and wants of users and then produce goods and services that fulfil these needs, The success of goods and services, and of the company itself, depends on customers.

So, businesses worldwide are focusing on customers- existing and potential- and adopting strategies to attract and retain them. One such measure is relationship marketing, which involves the creation of customer loyalty by using an appropriate combination of product, pricing, promotion, distribution and service. Relationship marketing is based on the premise that customers need constant attention. It involves understanding customer needs, offering them the relevant product at the appropriate time, having an interactive two-way flow of communication with customers and engaging in a long-term mutually benefiting relationship with them.

A business that focuses on relationship marketing aims to establish a long-term relationship with its customers and serve them over time. It anticipates future needs of customers and attempts to meet these needs. Relationship marketing is a complex selling process.

1.3.2 Channel Members and their Roles

The key constituents of a marketing channel are manufacturers, intermediaries and end users. The term ‘manufacturer’ refers to the producer of the good or service that is being sold. Manufacturers possess and own the merchandise till it leaves the production site and reaches the next member in the distribution channel. They negotiate with buyers on sales and merchandising terms.

Apart from manufacturers, middlemen form an important element in the marketing channel. They execute some marketing functions more efficiently than producers do. Depending on their role in the distribution process, middlemen can be classified as merchants, agents and facilitating intermediaries. Merchants differ from agents in that the former own the title to the merchandise, while agents do not own the title but negotiates it.

Facilitating intermediaries do not involve themselves with the transfer of title but only act as facilitators. Examples are warehouses, advertising agencies, research agencies etc. Merchants and agents can be further sub-divided into retailers and wholesalers. Retailing includes both store as well as non-store retailing. Common store retailers are discount stores, departmental stores and so on. Non-store retailing involves selling through one to one marketing such as door-to-door sales, mailers etc.

Wholesalers can also be categorized into agents and merchant wholesalers. Agents can be manufacturing agents, sales agents or brokers. Each of these follows a different method of distribution of merchandise to the end user. A manufacturing agent has less control over pricing goods or services compared to a sales agent.

The merchant wholesaler plays a major role in the distribution system. Depending on the extent of services provided, merchant wholesalers can be further divided into service wholesalers and limited function wholesalers. Service wholesalers perform almost all wholesale functions including delivery, credit storage and distribution. Limited function wholesalers carry out a few specific wholesaling functions and specialize in them. End users are also members of marketing channels as they receive the merchandise from the other members and are the final consumers. describes an innovative distribution model launched by Hindustan Lever Limited (HLL) in rural India using rural women from Self Help Groups as channel members.

Roles of Channel Members

Channel members or channel intermediaries perform various roles in their capacity as a medium of distribution of goods and services. Some roles performed by channel members are described below:

1. **Facilitate the search process of buyers and sellers:** Channel members or channel intermediaries facilitate the search process of buyers and sellers and help reduce uncertainty in them. By making products and services available to end users, channel members lower uncertainty among end users regarding product or service availability. In the absence of channel intermediaries, manufacturers too would be unclear about how to reach target markets. Therefore, the presence of channel members spares end users from the cumbersome routine of having to locate manufacturers and buying from them. Likewise, the manufacturer is spared the additional activity of having to reach target customers. For example, in the insurance industry, insurance agents, who sell insurance products of various companies, serve as channel members. In the role of channel member, an insurance agent brings the insurer (the producer) closer to the customer, and at the same time, reduces the uncertainty in customers and makes them aware of available products and insurance policies.

2. **Sorting:** Channel members perform the role of sorting where they try to eliminate the differences in the assortment of goods and services offered by the company. Discrepancies occur in this process due to differences in the pattern of manufacturer supply and customer demand. Manufacturers produce large volume of goods in limited variety, while consumers often seek a wide variety of goods in limited quantity. Sorting by the channel intermediaries involves activities such as sorting out, accumulation, allocation and assorting. In the first, intermediary's break down heterogeneous supplies of goods received from various manufacturers. Arrangement of fruits according to size and quality is an illustration. Accumulation is the opposite of sorting out. Channel intermediaries procure goods from various manufacturers and club together or assemble goods that

are similar to form a homogenous supply. One-stop stores are examples of channel members who aggregate goods produced by various sellers at a single location. Allocation refers to the process of breaking up similar supplies into smaller lots. For example, wholesaler's break up a homogenous supply of goods and sell small lots to retailers. The latter further break up the lots into smaller quantities to sell to customers. Assorting refers to the process of putting together various products in the form of a package for the purpose of reselling.

3. **Making transactions routine:** Typical activities in a transaction involve ordering of goods or services, fulfilling orders and paying for goods and services purchased or availed. Both the buyer and the seller must accept the terms and conditions of the sales transaction. Channel members help in making transactions routine through, standardization and automation. Standardization means setting a standard pattern for performing routine activities. For example, standardization of activities such as placing orders, lot size, payment, etc helps increase efficiency in performance. Likewise, automation of processes such as reordering, etc helps prevent errors. Thus, channel members contribute toward increasing efficiency and minimizing distributional costs.

4. **Contractual efficiency:** Ina marketing channel, several relationships result from; transactions or exchanges that occur between various channel members. A transaction I in a distribution channel involves the product flow from the manufacturer to then wholesaler to the retailer and finally to the customer i.e. Manufacturer—Wholesaler— Retailer—Customer. At the same time, money might flow through the channel in the reverse direction i.e. Customer—Retailer—Wholesaler-Manufacturer. Channel intermediaries have to optimize the number of exchange relationships required to complete a transaction. If each channel member has to interact with all other channel| members, then the number of relationships would be huge. The presence of intermediaries reduces this number and makes the process simpler. However, adding intermediary's beyond a certain point might result in inefficiency as the law of diminishing returns will set in.

1.3.3 Channel Functions

Channel functions involve all the activities by means of which products flow from manufacturer to end users. During the flow, the materials that go into the making of the product are transformed from basic raw material into the final product. Channel functions play an important role in determining channel structure. As the product moves through different stages in the marketing channel, various members in the channel perform various functions.

The most common functions of a marketing channel can be broadly categorized into exchange, supply or logistics and facilitating. Buying and selling are part of the exchange function. The logistics function includes transportation and storage, while facilitating includes standardization and grading, financing, risk bearing and providing market information.

The functions performed by a marketing channel are described in detail below.

1. **Facilitating the Strategic Aim of Channel Members:** Marketing channels facilitate the strategic aim of channel members and help them attain goals. For instance, in a “banc assurance” arrangement, banks serve as marketing channels for insurance companies. In this role, banks sell insurance products to their customers and help insurance companies fulfil their strategic aim of increasing market share.

2. **Fulfilling the Interaction Process:** Marketing channels coordinate the ordering systems, delivery timing and merchandising and help fulfil the interaction process with the customer. Distribution is a complex process involving several members and their activities. Marketing channels, by coordinating all aspects of the distribution process, facilitate the smooth flow of products and goods from producers to consumers.

3. **Market Coverage and Product Availability:** A marketing channel has to ensure market coverage and the availability of the products. The marketing channel does this by contacting existing and potential customers. It also provides customers support services in the form of credit, delivery and technical advice at prices affordable to customers and profitable to companies. The number of channels required to ensure adequate market coverage depends on factors like market potential, the manufacturer’s

market share, frequency of purchase of the product, technical knowledge required to sell the product and extent of product differentiation.

4. **Market Development:** Apart from making goods and services available to existing and potential customers and providing support services, the channels also contribute towards expanding the manufacturer's market share by soliciting new business fulfil customers. New customer accounts solicited by the channel intermediary add to the company's market share.

5. **Technical support:** The extensive use of computers in almost every sphere of society has made the world highly dependent on technology. This dependence has made it mandatory for marketing channels to offer customers the needed technical support in addition to selling the product. Many end users will need require technical information on how to use a product. Technical support is required for optimal product performance, usage and the important task of maintenance. Technical support is required more for technologically sophisticated products. Hence, marketing channels should ensure adequate technical support to end users.

6. **Market information:** Marketing channels can be a valuable source of markets information. As they directly interact with customers, they play a pivotal role in providing valuable data on customer preferences. However, analysts feel that marketing channels are yet to reach the desired level of performance in providing market information. Most channel members, despite having Electronic Data Processing systems in place, do not have complete and current data required for market analysis and planning.

7. **Inventory management:** One critical factor that affects customer service and manufacturers' profitability is the inventory levels maintained by marketing channels. The channels have to maintain a certain level of inventory to be able to meet customer demands. This level should be such that liquidity and profitability of the inventory holder are balanced. Excess inventory might lead to blocking of funds, which in turn will affect the marketing channel's profitability. At the same time, inadequate inventory might lead to delayed delivery of products and anger customers. Businesses are now depending on information systems to efficiently manage inventories.

8. **Risk taking:** If the manufacturer were to himself undertake the responsibility of distributing finished products, there would be exposure to

risks such as spoilage of goods in transit or storage, physical damage to goods, misplaced items and product obsolescence. Such risks can result in manufacturers not realizing the full benefits of selling products. Marketing channels, by taking on the responsibility of distribution to customers, reduce manufacturers' risks.

Check your progress 2

1. _____________is also known as distribution channels.

   a. Marketing   c. Risking

   b. Ordering and payment

2. _________ flows are associated with collection costs and costs due to bad debts.

   a. Payment   c. risking

   b. Marketing

3. _______________ represents the flow of goods from the producer to the final consumer through intermediaries.

   a. Possession   c. Marketing

   b. Ownership

1.4 Channel Management

1.4.1 Recruiting Channel Members

To be successful in the market, companies have to focus on strengthening core competencies and outsource other activities. Distribution channel function is a key area that can be outsourced, but channel members have to be selected carefully. This is very important for any company as they represent the company in the market. Replacing existing channel members is a complex phenomenon, especially in international markets. Therefore, firms have to tread cautiously while recruiting so that an ideal channel member can be selected. An ideal channel member will be one who will serve the right customer at the right time with the right attitude. For selecting channel members, who suit the company's requirements, a careful recruiting and screening procedure is essential.

Once companies recognize the significance of recruitment and selection of proper channel members, they should start recruitment by considering some guidelines that should be followed for effective recruitment. The first is to assess the exact role to be played by channel members, in other words, the nature of the job they have to perform. Then, the qualifications of the channel member have to be analysed in terms of the firm's requirements. Subsequently, the authority to be delegated to channel members needs to be specified. Finally, a change that may occur in the future with regard to the role played by channel members has to be specified.

Recruiting as a Continuous Process

Recruiting channel members should be a continuous process for two main reasons. The first, obvious one is that channel members may leave the organization. The other is that the organization might feel the need to change existing channel members. Therefore, recruitment of channel members has to be a continuous process. Factors influencing these reasons can be numerous. For instance, a change in the company's product policy may need new types of channel members. Alterations in customers' tastes and preferences will also influence the company to change existing channel members if they are unable to cater to the changed conditions.

Recruiting Manufacturers

It is not that manufacturers only recruit channel members, it can be the other way round too. In recent times, there is a growing number of retailers who choose the right kind of manufacturer for maximizing their sales.

Screening

Screening is done for the process of elimination. In the channel member recruitment process, screening involves elimination of applicants who do not match set criteria. There are certain guidelines for screening channel members. The foremost is to screen based on the market segments the channel members have to serve. The second is to assess the channel member's capability to serve the market and compatibility of service with the product's stage in the product life cycle. As distribution requirements change during the different stages of the product life cycle, it is essential to select channel members who best suit these requirements. For instance, if a new type of air purifying equipment is launched, it needs highly specialized distributors during the initial stage of the product life cycle. They should be able to explain technical intricacies to customers clearly. Once the product reaches the maturity stage, specialized distributors are not needed for demonstrating technical details to customers, as they are well aware of the product and its usage. Usually, manufacturers tend to select distributors who are successful in the market. But, successful distributors carry a large number of products and may not have space for more products. However, this does not mean manufacturers should settle for sub-standard or ineffective channel members. Instead, they should select appropriate channel members who can allocate sufficient time for effective distribution and improve sales. This is especially important in the present environment where customers are keen on convenience and service while making purchase decisions. Finally, the last criterion for screening channel members is support. If channel members need financial and strategic support during the initial stages of the relationship, the company can extend such support, if it feels that the accrued benefits will offset the costs involved. Otherwise, the company should screen out such applicants.

1.4.2 Criteria for Selecting Channel Partners

Once screening is over, the firm will be left with a small list of potential channel members for selection. From this list, the company has to spot the most suitable channel members who will best fit its requirements. Some criteria for selecting channel partners are sales, product, experience, administrative and risk factors. Let us elaborate these.

Sales Factors

The primary factor to be considered while selecting channel members is the member’s ability to sell the company’s products in the market. Apart from sales factors, the channel member’s knowledge and expertise of the market are also important preconditions for selection.

Product Factors

Product factors involve the channel member’s expertise and knowledge of the products to be handled. The channel partner’s ability to handle products effectively and deliver the required after- sales services to customers is primary factors that determine selection of a channel member.

Experience Factors

It is important to have a look at the distributor's experience. Assessing the type of customers handled in the past and their satisfaction levels will provide a good insight and help selection of channel members.

Administrative Factors

Administrative factors such as the amount of work the channel member is handling and the distributor's pricing patterns are some factors that have to be considered at this stage for evaluating channel members.

Risk Factors

Risk factors include evaluation of the potential channel member's past performance, the channel member's commitment to the organization's progress, costs incurred in selecting a member and subsequent dealings with all stakeholders of the company.

1.4.3 Motivating Channel Members

As channel members act as intermediary's between manufacturers and end consumers, companies have to ensure that channel members are motivated enough to put in their best. To develop motivational measures, it is important for firms to first understand the different needs of channel members and the problems they face from time to time. For instance, Intel decided to let channel members choose the advertising media for effectively reaching out to its customers. Distributor advisory councils help firms determine the needs and problems of channel members.

Distributor Advisory Councils

As said, distributor advisory councils are necessary to determine the needs and problems of channel members. They help in information exchange between channel members and manufacturers so that both parties can understand the duties and responsibilities of one another. The role of the distributor advisory council is to encourage channel members to contribute significantly to the planning process and improve channel performance. Thus, these councils give channel members a sense of belonging, which motivates them to put in their best performance. Personal contact with channel members also provides sufficient information to manufacturer's about their needs and problems.

Some other strategies that can be used for motivating channel members are relationship marketing, where the manufacturer will try to forge stronger relationships with distributors, to enhance their performance. The company should offer appropriate benefits and incentives to distributors to help them improve the supply chain, reduce the capital employed, lower the operating costs, lower the risks involved, enhance customer finance schemes and engage in sales promotions.

Check your progress 3

1. _____________ is done for the process of elimination.

   a. Screening

   b. Recruiting

2. _________________ involve the channel member's expertise and knowledge of the products to be handled.

   a. Product factors   c. Risk factor

   b. Experience factor

3. _______include evaluation of the potential channel member's past performance

   a. Risk factors

   b. Product factor

1.5 Let Us Sum Up

This unit focussed on the marketing logistic portion and discussed its functions and importance; it even discussed the technology and its process. The later portion of this unit covered the topics such as marketing channels and channel management. The marketing channels about the channels evolution, role and its functions. The other portion included the topic channel management the topics that have been covered under this heading were about channel members, how to appoint or recruit channel members. The writer even discusses about the criteria of selecting the channel partners.

From the point of view of the students this topic can be considered very important so after going through this unit all the content required by them is made available to them in a very simple and easily understandable language by the writer.

1.6 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a)

Check your progress 2

Answers: (1-a), (2-a), (3-a)

Check your progress 3

Answers: (1-a), (2-a), (3-a)

1.7 Glossary

1. **Recruitment -** Creating a pool of required work force in an organization.

1.8 Assignment

Describe in detail how technology is used in logistics.

1.9 Activities

Which are the criteria for selecting channel partners?

1.10 Case Study

Browse through the Net and collect at least three methods for designing marketing channels.

1.11 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

UNIT 2: CHANNEL CONTROL

Unit Structure

2.0 Learning Objectives

After learning this unit you will be able to understand:

- The Performance Measures in Marketing Channels.
- The Models of Diagnose Channel Profitability.
- The Appraisal of Channel Members' Contribution.
- The Result of Channel Performance.
- The Sources of Conflict.
- The Types of Conflicts.
- The Conflict Management Techniques.
- Channel Leadership.
- The Elements of Channel Information Systems.

- The Impact of Information Systems on Channel Flow.

2.1 Introduction

A distribution channel consists of several relationships that assist channel members in carrying out various channel functions. Suppliers tie up with various intermediaries in the distribution channel as the latter help suppliers or manufacturers achieve the objectives of making products available to end customer cost effectively. While designing or structuring a distribution channel, an analysis of the performance of channel partner's by supplier's becomes necessary to evaluate the channel's effectiveness. Evaluation of the functioning of intermediaries or resellers should identify the ways in which they help manufacturers achieve business objectives. A distribution channel can be assessed in terms of performance dimensions such as channel effectiveness, channel efficiency, channel productivity, channel equity and channel profitability.

In this unit, we will examine how to evaluate the performance of a marketing channel. Beginning with measures that analyse the performance of a marketing channel from the macro and the micro perspective, we will proceed to discuss strategic profit model - a diagnostic tool for estimation of channel profitability. These will be followed by a discussion on the contributions made by channel members and their appraisal using activity based costing and direct product profit. The chapter will end with a discussion on the result of channel performance that emphasizes and evaluates the quality of services offered to customers.

2.2 Performance Measures in Marketing Channels

The performance of a marketing channel can be evaluated from various perspectives. The evaluation assesses the channel's financial performance and looks into societal contributions made by individual members of the channel. From the societal perspective, the performance of marketing channels can be evaluated by measurement of overall channel performance in terms of the channel's efficiency, equity and effectiveness. To evaluate at a micro- level, an individual channel member's financial performance is determined by studying the channel tasks undertaken by the member. The following section deals with evaluation of channel performance at macro and micro levels.

2.2.1 Channel Performance at a Macro Level

A marketing channel's performance is measured in terms of the intermediaries' ability to meet the manufacturer's objectives. Performance at macro- level is evaluated in terms of contributions made by the intermediaries to the society. Major elements that will determine the success of an intermediary are channel efficiency, productivity, effectiveness, equity and profitability.

Channel efficiency is a channel performance dimension that judges the ability of intermediaries to undertake necessary channel functions by incurring minimal costs. Productivity deals with the extent to which the total channel investment in the form of inputs have been optimized to yield maximum outputs. Productivity and efficiency deal with maximizing outputs for a given level of inputs while keeping costs down irrespective of problems encountered during the distribution process. The channel's performance is also measured by the intermediary's assistance to suppliers in meeting their objectives. The intermediary's contribution towards the supplier's efficiency and productivity is determined by the extent of contribution to the suppliers' profit and sales.

However, the CEO's of about 75 % of financial service companies perceive channel productivity as an area of concern.

Channel effectiveness is another dimension that measures channel performance and considers its ability to satisfy customer needs. It focuses on issues like lot size, delivery time, location convenience and assortment breadth. It has been observed that channel effectiveness in industrially and technologically developed countries is usually higher than that in developing countries. Developed countries meet customer demands better and cost effectively as well.

Channel equity refers to the distribution of opportunities available to all customers in accessing the market channels of a region. It has been observed that even in advanced countries there is no equitable distribution of accessibility of marketing channels. Even in countries like the U.S, the under- privileged see no equity in distribution and pay more for products of inferior quality.

Channel profitability is concerned with a channel member's financial performance and is discussed in the section "Models to diagnose channel profitability."

2.2.2 Channel Performance at a Micro Level

Channel performance at micro- level involves a closer look at the performance of individual intermediaries associated with a marketing channel. Each intermediary should aid the manufacturer attain the objectives of goal attainment, pattern maintenance, integration and adaptation.

Goal attainment refers to achieving the firm's goals by interacting with the task environment and maximizing outputs given the constraints of costs and company-specific obstacles.

Pattern maintenance involves coordination of processes and functions among organizational units to help the system function smoothly.

Channel effectiveness is another dimension that measures channel performance and considers its ability to satisfy customer needs. It focuses on issues like lot size, delivery time, location convenience and assortment breadth. It has been observed that channel effectiveness in industrially and technologically developed countries is usually higher than that in developing countries. Developed countries meet customer demands better and cost effectively as well.

Channel equity refers to the distribution of opportunities available to all customers in accessing the market channels of a region. It has been observed that even in advanced countries there is no equitable distribution of accessibility of marketing channels. Even in countries like the U.S, the under- privileged see no equity in distribution and pay more for products of inferior quality.

Channel profitability is concerned with a channel member's financial performance and is discussed in the section "Models to diagnose channel profitability."

Integration refers to the coordination among the components of a channel or an organization to meet common objectives and maintain the entityas one single unit. Adaptation is the modification of resources required to meet system objectives.

An organization must be able to fulfil all four objectives to facilitate smooth functioning of the system. Table 1 presents a framework to assess the reseller's performance from a seller's viewpoint.

Framework for Assessing Reseller Performance

Supplier's Objective	**Reseller's Objective**	**Reseller's Contribution**
Goal- attainment	Efficiency	Contribution to profits
	Productivity	Contribution to sales
Pattern maintenance	Human resource development	Reseller competence
Integration	Stability	Reseller loyalty
	Control	Reseller compliance
Adaptation	Growth	Contribution to growth
	Adaptation	Reseller Adaptability
	External legitimacy	Customer satisfaction

An intermediary's or reseller's performance and their contribution towards the manufacturer's objectives can be measured on three different types of scales — the facet scale, global scale and composite scale.

Facet scales are used for a detailed study of any facet of reseller performance like sales performance, financial performance, reseller competence, reseller loyalty, reseller compliance, reseller adaptation, reseller growth or customer satisfaction. These facets can be used as measures of reseller performance. Global scales are used for summarizing the performance or contribution based on a few performance parameters. Composite scales require individual facets to be added as it is assumed that an entity is made up of its components.

Check your progress 1

1. A _______channel consists of several relationships that assist channel members in carrying out various channel functions.

   a. distribution

   b. sales

2. ________efficiency is a channel performance dimension that judges the ability of intermediaries to undertake necessary channel functions by incurring minimal costs.

   a. Channel

   b. sales

3. ________deals with the extent to which the total channel investment in the form of inputs have been optimized to yield maximum outputs.

   a. Productivity

   b. sales

2.3 Models to Diagnose Channel Profitability

Apart from measuring a reseller's contribution to meeting the manufacturer's objectives, evaluation of channel performance also involves measuring the financial performance of a reseller or a channel intermediary. In other words, channel profitability has to be analysed.

Channel profitability is a dimension that considers the financial performance of channel members in terms of Return on Investment (ROI), liquidity of the channel member, financial leverage, growth pattern and potential for sales and profits.

Of all the financial dimensions, profitability or ROI is accepted as a good performance indicator in both the whole sale and retail trades. Profitability forms an important element in ascertaining the financial well-being of a business. The Strategic Profit Model (SPM) functions as an efficient tool to evaluate the profitability of channel members.

The term 'profit' is somewhat ambiguous in terms of its reference. It is sometimes used for profit before tax, sometimes for profit after tax and sometimes for dollar (or any currency) profit. However, return on net worth (RONW) is the most commonly used measure of profitability and the SPM uses RONW to measure the profitability of a business.

2.3.1 Strategic Profit Model

The SPM is a tool for planning and evaluating the financial performance of a business. It considers RONW as the most informative and significant measure of profitability of a business. It uses data from the income statement as well as from the balance sheet to measure profitability and performance of a business. The formula used in strategic profit model is given below.

$$\text{Profit Margin x Asset Turnover} = \text{Return on Asset}$$
$$\text{Return on Assets x Financial Leverage} = \text{Return on Net worth}$$

The formula can be broken into

$$\text{Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}}$$
$$\text{Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$
$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$
$$\text{Financial Leverage} = \frac{\text{Total Assets}}{\text{Net Worth}}$$
$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Hence, the formula for the strategic profit model can be simplified into:

$$\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} = \frac{\text{Net Profit}}{\text{Total Assets}}$$
$$\frac{\text{Net Profit}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Net Worth}} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

The SPM identifies three areas, which have to be focused on to improve a firm's return on net worth. A firm can maximize its profitability in terms of RONW through profit margin management (net profit/net sales), asset management and debt management. Management of profit margins, assets and debt are discussed in detail in the following section.

Profit Margin Management

A significant and perhaps vital factor for an owner is the profit margin (net profit/net sales). The net profit margin considers profit as a percentage of sales. The ratio is useful for planning and analysis as it describes the way in which a firm manages its costs in relation to its revenues. Margin management involves planning and controlling sales and expenses and plays an important role in improving business profitability.

Asset management

Another factor expressed in the SPM that can help a firm improve financial performance and profitability is its assets. The utilization of an asset is commonly determined by its turnover ratio that measures the amount of sales generated for each dollar of investment in assets.

Asset turnover ratio is calculated as:

$$\text{Assest Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

A higher turnover ratio indicates that assets are being converted into sales more number of times and is an indicator of better productivity. However, for comparison of a firm's financial performance with other industries, the asset productivity has to be measured in terms of profits. The return on assets ratio measures the ratio of net profit to total assets. It relates the profit margin percentage and the asset turnover ratio to obtain the ratio of net profit to total assets that measures the asset productivity in terms of profit.

$$\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

I.e. Profit Margin x Asset Turnover = Return on Assets

The management can work towards better asset turnover by increasing sales for a given level of assets or decreasing assets for a given level of sales through better management of current assets like cash, accounts receivable etc.

Financial leverage

Return on assets measures the effective utilization of the firm's assets but does not assess the return on net worth. A company can maximize its profitability using debt management as a tool. Debt management for a firm involves considering the cost of debt, the impact on shareholders and the company's financial soundness. A company uses bonds, debentures etc. as instruments of borrowing to raise debt capital. Financial leverage is one of the elements in debt management and refers to the contribution of owners and creditors in financing a firm. The leverage ratio is a measure of debt capital that a firm has used. It establishes a relationship between total assets and net worth and measures the leverage taken by the owners of the company using their capital or the net worth.

Leverage ratio is calculated as

$$\text{Leverage Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}}$$

To decide the composition of owners' and creditors' funds in the capital structure, the management has to consider costs associated with debt and equity. The cost of debt covers the interest rate to be paid on borrowed funds, while cost associated with equity refers to the rate of return to be paid to shareholders. The company has a greater obligation in terms of interests to be paid to bond, debenture or other debt holders. Interest to debt holders has to be paid before shareholders are paid their returns as the former do not have ownership rights in the company and are legally entitled to receive payments before shareholders. Since the risks assumed by a debt holder are less (as payment is more or less guaranteed) than those of shareholders, the rate of interest earned by debt holders is less than returns earned by shareholders. The difference in rates of return earned by debt holders and shareholders leads to financial leverage. Financial leverage deals with increasing the debt component in the capital structure so that returns to shareholders are maximized due to the lower costs associated with the debt component. In other words, financial leverage involves using an optimum debt component in the capital structure to maximize shareholders' returns. Financial leverage rises with an increase in debt.

When the rate of interest to be paid to debt holders is higher than returns to shareholders, bringing in additional debt will lead to a reduction in a firm's net worth. A higher debt component is not advisable in times of high interest rates.

Higher leverage in capital structure should be carefully considered as it has an inherent risk of bankruptcy if the company is not able to make regular payments to creditors.

Thus, the strategic profit model identifies the best way to achieve a company's financial targets through systematic control and evaluation of margin management, asset management and debt management.

2.3.2 Economic Value Analysis

Managers use EVAasa tool to determine the true cost of capital, to decide on financial resource allocations. EVA considers the cost of both debt and equity capital. EVA ensures that capital is allocated most efficiently. It is extensively used in cases that require decisions on cost justification. It is determined as the difference between the net operating profit after tax and the total cost of capital.

EVA is computed as

EVA = after-tax operating profit - total annual cost of capital

EVA also examines the capital used by an intermediary in the distribution channel.

Check your progress 2

1. A ___________turnover ratio indicates that assets are being converted into sales more number of times and is an indicator of better productivity.

   a. higher

   b. lower

2. Return on __________measures the effective utilization of the firm's assets but does not assess the return on net worth.

   a. assets

   b. investments

2.4 Appraisal of Channel Members' Contribution

A firm's financial performance is analysed through the SPM and economic value analysis. These also serve as tools to improve productivity and profitability of intermediaries in a marketing channel. However, to study channel performance in detail, activity based costing and direct product profitability have to be used.

2.4.1 Activity Based Costing

Activity based costing (ABC) is a method that calculates the cost of a product or service depending on the activities that constitute the making of the product/service. It measures the cost of performing activities within an organization and provides accurate cost information to decision makers. ABC provides better reports of overhead costs involved in the production process by considering all indirect and support expenses incurred and linking them with activities and processes. These costs are then associated with the products or services concerned.

The basic assumption of ABC is that the manufacture of a product leads to a series of activities that govern associated costs, unlike classical or traditional costing, where it is assumed that costs are directly governed by the products or service.

ABC performs a micro- analysis and identifies all activities associated with production of a particular product or a group of similar products, irrespective of the size of the group or the number of products in each category.

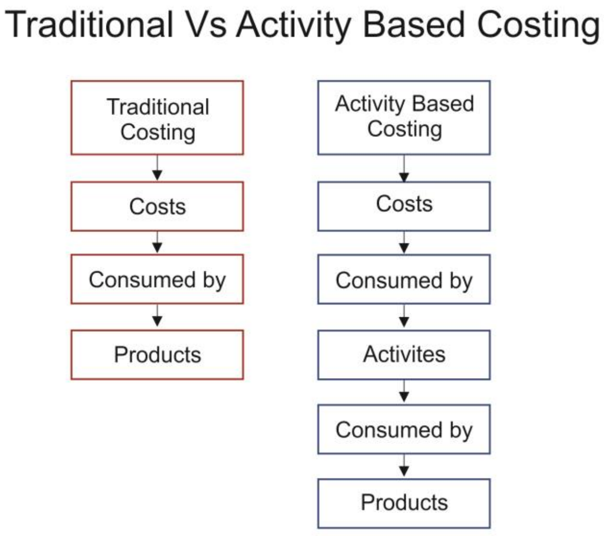

Fig 2.1 Represents these Approaches Diagrammatically.

The identification of activities is followed by a description of revenues generated and resources utilized by each activity. This allows a manager to prioritize activities based on revenues and costs associated and focus on top priority activities. The managers can separate the expenses and associate those with a level of activity and resources utilized. They must find means to carry out activities with lower resource utilization. Reduction in utilization of resources for a given level of output or an increase in output for a given level of resources, contributes directly to increased profits.

Usage of ABC has helped companies like Procter & Gamble to increase profits as it enables cost-revenue analysis at a micro- level. Controlling costs by looking only at financial statements will not help managers, as control over expenses cannot be exercised from a macro- level.

Managers can use ABC to identify activities related to a segment of business, ascertain revenues, resources and costs associated with activities and take necessary steps to earn more profits.

Activity based costing involves:

- **Activity accounting:** This involves determining product costs accurately. Special emphasis is laid on attributing overhead costs related to production, unlike in traditional accounting.
- **Cost drivers:** Cost drivers are activities that incur costs.
- Direct traceability: Costs are allotted to products or processes on which they are incurred, allowing managers to track them at any point of time.
- **Identification of costs that do not add value:** Costs that do not add any value to the product or service, or the process concerned are identified so that they can be minimized or eliminated.

ABC is combined with Economic Value Added for better understanding and calculation of after-tax profitability.

The concept of ABC can be applied to distribution channels for cross comparison of productivity and costs incurred across channels. An activity based costing process in a distribution channel involves identifying the channel resources used and costs incurred in making the product reach end users, allocation of costs to specific channel activities, allocating flow costs by channel and preparation of profit and loss accounts for each channel.

2.4.2 Direct Product Profit

Allotment of shelf space is an important parameter for sellers as products differ in their contribution to sales and profits. Channel members give more priority to allocation of shelf space to profitable items. Different approaches like mathematical programming, non- linear programming and direct product profit (DPP) are adopted by intermediaries while allocating shelf space. Of these, DPP is an important tool used by retail outlets for shelf management.

Direct product profit represents a product's contribution to the channel member's profits. DPP is a method used to derive contribution to profits on the basis of an item's gross margin.

DPP looks beyond gross margins as it is believed that gross margin alone might not reflect a product's true performance. It subtracts direct costs like warehousing costs, delivery costs and costs incurred in placing products on the shelf, from gross profit. Any cash discounts offered are added to gross profits.

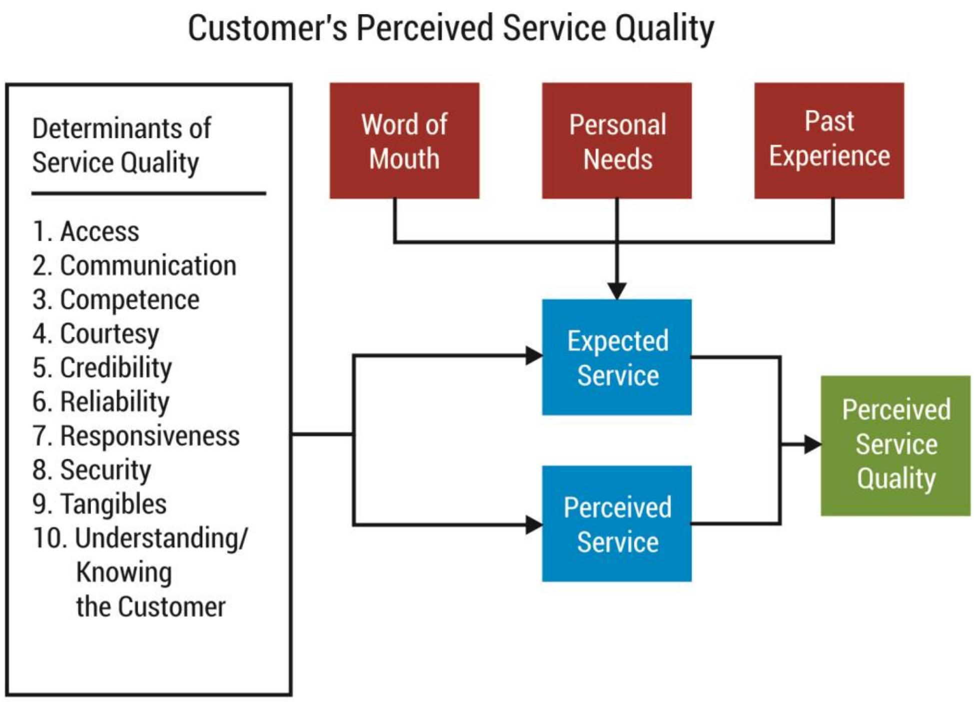

Fig 2.2 Customer's Perceived Service Quality

Financial performance of individual items is taken into account to arrive at direct product profit. As individual profit and loss statements are created for each product carried by intermediaries, this method requires accounting data provided by implementation of costing techniques like ABC.

DPP helps channel members identify products that require high costs for storage and maintenance. The intermediaries then rework the packaging, sizing or distribution methods to reduce costs.

Check your progress 3

1. ______________ is a method that calculates the cost of a product or service depending on the activities that constitute the making of the product/service.

   a. Activity based costing

   b. Unit costing

2. The identification of _________is followed by a description of revenues generated and resources utilized by each activity.

   a. activities

   b. cost

2.5 Result of Channel Performance

Distribution channels comprise intermediaries who facilitate the flow of goods and services manufactured, from producers through the channel to end users. The efficiency of channel performance is measured by the quality of goods and services offered by channel members. Though there are methods available to test the quality of tangible goods offered, measures to evaluate the (intangible) quality of services offered by channel members are inadequate.

Evaluation of service quality offered is difficult both for consumers and producers. Consumers cannot evaluate service quality objectively as they perceive it by comparing their expectations with the actual service offered. Figure 21.2 gives a diagrammatic representation of the dimensions involved in a customer's perceived service quality.

The characteristics of intangibility, heterogeneity and inseparability of services further complicate evaluation. The intangibility of services arises because they are experiences and are not physical entities with distinct identifiable features like style, colour etc. Owing to the intangible nature of services, a set of standards or specifications cannot always be found for services? Hence, their quality cannot always be measured objectively.

The heterogeneity of services adds to evaluation problems. The quality and process followed for offering services are not consistent among all producers and at all times. Inseparability refers to simultaneous production and consumption of services. For most services, the production and consumption take place simultaneously. Examples are the services offered by medical practitioners, lawyers etc. Participation of clients in the delivery of services also has an impact on the quality of services offered. Such situations make evaluation complicated.

Parasuraman, Zeithamland Berry (1985) identified 10 ten dimensions, based on which consumers perceive quality of service.

Though these dimensions were formulated after research in the services industry, they are as relevant in distribution or any other business. Hence, all businesses can focus on these dimensions and work towards offering better services to customers to be successful and score high on channel performance.

Check your progress 4

1. __________channels comprise intermediaries who facilitate the flow of goods and services manufactured, from producers through the channel to end users.

   a. Distribution

   b. sales

2.6 Sources of Conflict

There are many reasons why conflicts arise in distribution channels. Learning about them is the first step in conflict analysis. Conflicts primarily arise because of faulty channel design. The different sources of conflicts can be broadly divided into — those arising from attitudinal differences and those arising from structural differences among channel members. Structural causes arise mainly due to goal divergence or incompatibility among channel members, tendency towards autonomy and greater control by channel members and competition for scarce channel resources (financial, technological support), especially from manufacturers in multi-channel systems. Attitudinal sources arise from differences in perception, channel roles and channel communications. Unexpected changes in the competitive environment, consumers and markets, differences in economic and ideological objectives among channel members, etc., also lead to conflicts. In addition to external changes, market channel strategies adopted by channel members are also an important source of channel conflicts. Exhibit 22.1 describes some common marketing channel strategies that become a source of conflict between the manufacturer and intermediaries.

Now, we will discuss some prevalent sources of conflicts in distribution channels. They are role incompatibility, differing perceptions of reality and clashes over domain.

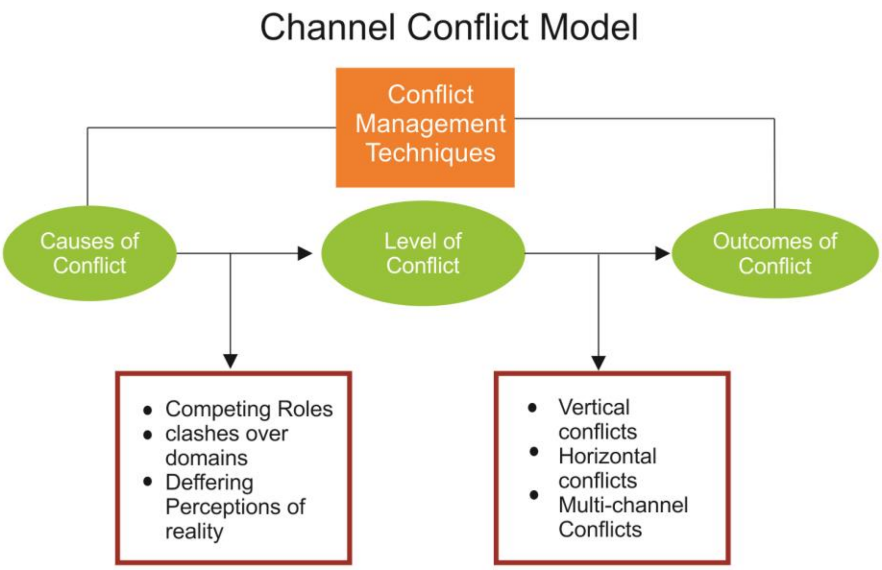

Fig 2.3 Channel Conflict Model

2.6.1 Goal Incompatibility

Conflicts may arise due to differences or incompatibility of goals among channel members. Differences in policies and procedures of a channel member may be problematic and impede the progress of other channel members. Channel conflict arises when a channel member has a set of goals and objectives that are incompatible with those of other channel members. This divergence of goals may lead to one channel member acting in a way that is detrimental to goal achievement for another channel member. This may occur without the former being aware of its impact on the latter.

Goals may differ within an organization. The goals decided by top management may vary from 'operational' goals that are set as a result of day-to-day operational policies. Hence, it is necessary to ensure that operational goals are aligned with other goals of the organization.

Difficulty in measuring goals is another reason for goal incompatibility, leading to channel conflicts. It becomes impossible for channel members to compare the compatibility of their mutual goals and measure the extent of performance of other channel members. For example, customer service levels. Such lack of awareness leads to a sense of doubt and conflict.

2.6.2 Differing Perceptions of Reality

This is another prominent source of conflicts in distribution channels. It is perception of reality that guides channel members to anticipate future events and their consequences. This, in turn, induces channel members to develop alternative courses of action and estimate the probable results. The perception of reality also has an influence on the goals and values of channel members. However, perceptions of reality can vary. Some different perceptions of channel members may be:

- When one channel member wrongly perceives the role of another channel member regarding marketing channel functions and flows, conflicts arise.
- Lack of proper communication flow among channel members affects the way reality is perceived by them.
- Information influences the decision-making process, which affects the behaviour of channel members.

Thus, when channel members have divergent approaches to interpreting information, decisions made and goals set, conflicts arise among channel members.

2.6.3 Clashes over Domains

Conflicts in marketing channels stem from the domain definition and the extent to which other channel members accept it. The domain of channel members consists of three elements. They are product range, population and territories served, and functions or duties to be performed. Differences in domain will automatically lead to conflicts among channel members.

Product range

Handling a large number of products leads to reduction in loyalty among channel members. Distributors cannot show the same level of loyalty towards the products of all manufacturers. This variation in loyalty will lead to conflict of interest between manufacturers and distributors.

Population and territory coverage

When there are many channel members catering to a particular consumer segment, conflict over customer accounts and territory coverage is bound to arise. Channel members may service certain accounts and other channel members may compete for the same accounts. Unless clearly defined in the terms of the contract, channel members do not prefer to share accounts with other channel members who have recently joined the channel. Hence, it is necessary for manufacturers or suppliers to specify territories for channel-members.

The same is true in franchising. Market territory expansion is a major source of conflicts in franchising. The franchiser's decision to increase market penetration with the help of new franchisees may reduce the sales of existing franchisees. This may occur despite the franchiser protecting the territories of existing franchisees. This is because a franchisee attracts customers from beyond the assigned territories too. When a new franchisee enters the region, customer's beyond the actual territory may shift to the new franchisee due to proximity of location. Hence, even though the franchiser does not infringe the contract, franchisees become dissatisfied.

Performance of channel functions

In a channel, members are expected to perform certain functions based on interdependence and common expectations. Sometimes, channel members may feel that they are being asked to reciprocate by performing functions incompatible with their organizational goals. This happens when channel members prefer to undertake only channel functions that help them attain individual goals. As these goals are not common to all channel members, functional conflicts arise. For instance, manufacturers have a strategic outlook towards marketing their products, while retailers concentrate on operational aspects. For example, let us consider the product refund policy. To avoid inconvenience of operations, retailers may not train their personnel to identify whether a product returned is genuinely faulty, and then refund customers. Owing to this lacuna, manufacturers will face losses when many products are returned and retailers have to be compensated. Thus, a difference in roles among channel members causes conflict.

Other than the above-mentioned sources of conflicts, the channel structure by itself can lead to conflicts among channel members.

Check your progress 5

1. Conflicts primarily arise because of ___________channel design.

   a. faulty

   b. complexed

2. __________may arises due to differences or incompatibility of goals among channel members.

   a. Conflicts

   b. Errors

3. The goals decided by ___________management may vary from ‘operational’ goal.

   a. top

   b. lower

2.7 Types of Conflicts

Channel conflicts can be divided into different types depending on timing and levels of the channel. They are pre-contractual and post-contractual conflicts, vertical, horizontal and multi-channel conflicts. We will briefly discuss each aspect in the following section.

2.7.1 Pre-contractual and Post-contractual Conflicts

Channel conflicts may arise at two different points of time in the channel relationship. It could be before a relationship develops or after it commences between channel members. These conflicts arise whenever channel members enter into new relationships. It is frequently seen in agency relationships.

Pre-contractual problems crop up when the principal decides to offer a contract to an agent. The major issues here are whether a particular agent has the characteristics the principal wants and what strategy the principal should employ to find this out. For example, these problems occur during recruitment of new salespeople or marketing personnel, selection of dealers for then- distribution channels and choosing advertising agencies.

Post-contractual conflicts happen once the relationship between channel members begins. The causes are generally unforeseen events or contingencies, which must be identified and dealt with immediately. One major issue that appears in post-contractual conflicts is the method by which agents should be evaluated, so that their actions confirm to the principal's goals. For instance, differences may arise between the principal and agent while designing compensation programmes for sales personnel or other facilitating agencies. For instance, Porsche, the UK based car manufacturer, had to abandon its plans of converting its franchisees into commission agents in the US, when nearly 80 per cent of the franchisees sued the company for damages over this move.

Thus, at both stages of the channel relationship, it is necessary to identify and manage conflicts to ensure proper channel coordination. Channel members must take all necessary precautions to identify possible sources of conflicts and design mechanisms to prevent them.

2.7.2 Channel Level Conflicts

Conflicts can take place at different levels of the channel system. For instance between manufacturer and retailer, wholesaler and retailers, between two wholesalers or retailers at the same level and so on. Channel level conflicts can be divided into vertical, horizontal and multi-level channel conflicts. Vertical and horizontal types of conflict are commonly called intra-channel conflicts.

Vertical channel conflicts

Vertical channel conflicts occur between channel members operating at different levels within the same channel structure. For example, conflict between manufacturer and distributors, when the manufacturer tries to enforce pricing and service policies on the distributor or expands distribution, is a type of vertical channel conflict. When Levis Strauss decided to allow Sears and 1C Penney to sell its branded jeans, it led to conflict with the 12,000 small retailers who were earlier exclusive sellers of the brand.

Horizontal channel conflicts

Horizontal type of channel conflicts arises between channel members operating at the same level within the channel structure. For example, a conflict between two franchisees over clash of domains comes under this type of conflict.

Multi-channel conflicts

Multi-channel conflict comes to pass when the manufacturer has established two or more channels catering to the same market. For example, conflicts arise between the manufacturer and wholesalers, when the manufacturer tries to bypass wholesaler's by resorting to newer channels like the Internet or direct mail. IBM avoided potential conflicts in its multi-channel distribution system by deciding to restrict the number of dealers selling its microcomputers to 2,500. It wanted to avoid excess number of distributors. IBM also decided to sell all but three of its company-owned stores. This was beneficial to dealers, as they did not have to face competition from company outlets.

Though conflicts are generally perceived as dysfunctional, a complete elimination of conflict among channel members is not recommended. This is because channel members may become complacent in developing symbiotic relationships with other channel members and will not compete effectively. Innovation may also be lost. Hence, a certain level of conflict acts as a constructive mechanism in channel relationships.

Check your progress 6

1. ______ contractual conflicts happen once the relationship between channel members begins.

   a. Post

   b. Pre

2. Channel level conflicts can be divided into vertical, horizontal and ________channel conflicts.

   a. multi-level

   b. single- level

2.8 Conflict Management Techniques

The types of intra-channel conflicts prevailing in a distribution channel and the characteristics of their sources have important implications for channel members. Intra-channel conflicts that arise due to structural differences require different conflict management techniques. Conflicts between two channel members (dyadic framework) can be solved either by one channel members modifying/changing its organizational goals or by conceding some amount of autonomy/resources to the other channel member. Conflict resolution processes can be done through mutual agreement or the use of channel power.

Conflict resolution mechanisms can be divided into two categories. In the first (systematic mechanism), the conflict resolution mechanism is based on the policies that channel leaders implement to resolve channel conflicts in a streamlined manner. These conflict resolution mechanisms are aimed at increasing interaction and communication among various channel members. Some systematic mechanisms include joint memberships in trade organizations, exchange of personnel between two or more channels, distributor councils, arbitration and mediation boards and various programmes such as co-optation. The second category of conflict resolution mechanisms is based on behavioural and attitudinal responses channel leaders have to solving conflicts in a distribution channel. These responses of channel members can be divided into problem-solving, persuasion, bargaining and political strategies.

Some strategies implemented under both categories are discussed in the following sections.

2.8.1 Negotiation (Bargaining)

Negotiation or bargaining is used by channel members as a method of resolving conflicts. Negotiations usually take place over price, cash credit, discounts, delivery, inventory levels and other elements in the marketing mix. In negotiations, goal differences are considered as fixed and conflict resolution mechanisms do not mean that common goals have to be developed. The outcome of negotiations varies depending on the number of channel members and the extent of balance of power among them.

During negotiations, channel members indulge in low risk behaviour, where information exchange is kept to the minimal to lessen the financial, social and physical costs incurred. Channel members, during the bargaining process, sometimes behave rigidly and stick to their stand. Threats, promises and conditional commitments are commonly seen during negotiations. Negotiations generally occur under asymmetrical power conditions. For example, negotiations between a retailer and manufacturers of private store labels take place in conditions where the retailer has a strong bargaining power. Asymmetric negotiations also occur between franchisers and franchisees.

The negotiation process is very important for channel members, especially in marketing channels, because its efficiency has a direct impact on the selling and purchasing costs among channel members.

Some differences commonly seen during negotiations under asymmetric power conditions are:

Initial bids

During bargaining, channel members with greater power than their partners make more demanding initial bids. Similarly, weak bargainers send less demanding bids or conditions.

Extent of flexibility

Channel members with greater power do not yield much from their initial bargaining conditions compared to channel members who have less power.

Time of negotiation

When negotiations take place in asymmetric power conditions, more powerful channel members are able to obtain an acceptable agreement faster than less powerful channel members.

Communication content

Channel members with greater power frequently make use of commanding language and actions during negotiations with other channel members.

Negotiation outcome

In asymmetric power conditions, channel members with more power achieve agreements that give them a larger share of total profits of the channel group. In this process, the overall profitability of the channel decreases.

2.8.2 Persuasive Mechanism

Persuasive conflict resolution mechanism is another method used by channel leaders to resolve conflicts. The objective is to move both parties (channel members) towards a common set of goals. In this method, each channel member tries to influence and change the view of other channel member with regard to the conflicting issues. The basic approach used in persuasive conflict resolution mechanism is to highlight the importance of mutually beneficial common goals over individual goals and also reduce differences present in individual goals of each channel member. However, in this method, channel members involve in high risk behaviour by sharing important information to arrive at a common goal. This is in contrast to the low-risk behaviour observed during negotiations. This type of conflict resolution mechanism is often seen between franchisers and franchisees. For instance, franchisers may have to persuade franchisees to maintain product quality levels consistently across franchises to project a uniform image.

2.8.3 Problem-Solving Strategies

This method is also used as a conflict resolution mechanism to settle conflicts in distribution channels. Here, both parties share common objectives but differ on the criteria used for decision-making. Open transfer of information about goals and objectives happens and both parties try to sort out differences by seeking alternative solutions. Cooperation and coordination is also present between channel members, unlike in negotiations. Channel members are ready to concede or modify certain conditions to reach a mutually acceptable solution.

Check your progress 7

1. Conflict resolution processes can be done through ____________ or the use of channel power.

   a. mutual agreement

   b. mutual understanding

2. The _________resolution mechanisms are aimed at increasing interaction and communication among various channel members.

   a. conflict

   b. dispute

3. The ______category of conflict resolution mechanisms is based on behavioral and attitudinal responses channel leaders have to solving conflicts in a distribution channel.

   a. second

   b. first

2.9 Channel Leadership

Effective channel management can be achieved if channel members appoint effective leaders who take abroad inter-organizational perspective of distribution opportunities and problems. These leaders must emphasize the need for developing cordial channel relationships. Frequent conflicts due to differences in role perceptions, goals and objectives forces channel members to take the help of channel leaders. Channel leadership can be effective only when the leader judiciously plans the channel control mix. Channel leaders can use positive reinforcement as well as negative reinforcement to ensure that channel members comply with formulated policies.

2.9.1 Role of Leadership Power in Resolving Conflicts

Channel leaders can use their leadership power to manage and resolve conflicts effectively, leading to improvement in coordination and functioning of channels. The effectiveness of channel leaders depends on the extent of power they hold and the acceptance and attitude of the rest of the channel members. Channel leaders must seek to reduce functional conflict and levels of dysfunctional conflict in the channel. Channel leaders can use different methods to resolve channel conflicts. They include coercion, economic rewards and the use of legitimate, expert and referent power. Let us briefly look at each aspect.

Reward power

Channel leaders can use reward power to resolve channel conflicts. This is based on the belief of channel members that the channel leader is capable of granting benefits if they comply with the dictated policies. For example, the channel leader may have the power to grant better promotional allowances or higher margins to channel members.

Coercive power

Channel leaders can use coercive power to control the actions of channel members. The channel leader can use negative reinforcement methods like sanctions, cancellation of exclusive distribution rights or decrease in margins to ensure that all channel members toe the line.

Expert power

The channel leader can make use of expert power to align the activities of channel members for better cooperation and coordination. Expert power can be in the form of knowledge about certain channel functions that other members are unaware of, but would stand to benefit from. For example, the manufacturer may have expert knowledge about competitor's products, which will be beneficial for dealers.

Referent power

Channel leaders have the right to permit other channel members to be associated with certain trade associations. They can develop policies that permit memberships of channel members in certain associations, only on condition of compliance with rules and regulations.

Legitimate power

Channel leaders can reduce conflicts by using their legitimate power, which gives them the right to make certain decisions and ensure that other channel members follow them.

The role of the channel leader in resolving conflicts will be restricted if power sources cannot be used extensively. The extent to which channel leaders can effectively inhibit conflict depends on the extent to which the channel leader can direct the use of leadership power over each channel member. The level to which leadership power has an influence on the performance of channel members is also crucial. The channel leader’s role in resolving conflicts will be restricted if power sources cannot be used extensively.

Check your progress 8

1. Effective channel management can be achieved if channel members appoint effective who take abroad inter-organizational perspective of distribution opportunities and problems.

   a. leaders

   b. members

2.10 Elements of Channel Information Systems

As stated earlier, a CIS is mechanisms to preserve, collect, interpret and transmit useful and timely information to respective channel members. The basic elements of a channel information system are a hardware and networks and database for CIS.

2.10.1 Hardware and Networks in an Information System

Hardware and networks consist of software, computer components, programs and other related technologies that help efficient transmission of information among channel members. The hardware and networks used in information flow among channel members can be differentiated, based on applications, into:

1. Business-to-business applications
2. Retailing applications
3. Business-to-consumer applications

4. Interactive applications for consumers

Let us elaborate these:

1. Business-to-Business Applications

Information systems facilitate the transmission of relevant information among channel members within a distribution channel. Owing to increasing competition and changing consumer tastes, channel members have begun to cooperate and coordinate with each other so that they can develop a competitive advantage through a distribution system. CIS facilitate the sharing of information among manufacturers, suppliers, wholesalers and retailers, improve inventory management, develop efficient production schedules, reduce transaction costs, help assortment planning, new product development and order processing and replenishment.

2. Retailing Applications

Retailers use information system to enhance communications between headquarters and retail outlets. Some retailers use computer-based networks running on proprietary software while some use satellite information networks to transmit information between different units. IT plays a critical role in enhancing in-store service for customers by providing value-added delivery services. It also helps retailers to configure their stores, prevent stock-outs and develop product assortments that give superior value to customers. A retail information system (RIS) involves software management and training, server and database technologies and wide and local area networking. IT-based systems extensively used in retailing applications are Shipping Container Marking technology (SCM) and Electronic Shelf Labels (ESL)

3. Business-to-consumer online applications

Companies use electronic sales channels to provide information to customers' about products and senders. These channels include online Internet services and interactive multimedia. For example, Digital Equipment Corporation (an American-based computer company acquired by HP) has its own on-line catalogue and ordering service, Digital's Electronic Store. This contains information on the entire range of computer products the company manufactures. The customers can place online orders for products they want without hassles. Electronic markets are one step ahead of electronic stores and include products of competitors too in the company's database. The Apollo Information System of

United Airlines and Sabre Information System of American Airlines provide details of availability of seats and reservation for all airlines.

4. Interactive multimedia applications

Shopping through interactive multimedia has become an important marketing channel. Companies and retailers are increasingly using online information systems for mutual benefit. Unlike other information systems, online systems enable customers to respond to information in the form of queries or purchase orders. J. C. Penny, an American retail giant, uses Telaction, an interactive online shopping system that provides customers a virtual shopping experience from the comfort of their home. Customers access this system through cable television channel and obtain product information using a push-button telephone. Similarly, Sears- Roebuck and IBM have created Prodigy, a home shopping and entertainment system that users can access through personal computers.

Private information service providers are also available. Customers can access such systems and collect information for a range of products and services. Information services like Dow Jones News Retrieval Service and CompuServeInformation Service are well known in America. The diffusion of computer technology has become the major determinant for the success of online information services. Customers enter the product features and the system gives a list of products matching the criteria. If the customer decides to purchase a product, the information-system directly sends the order to the manufacturer's shipping centre.

2.10.2 Databases for Channel Information Systems

A company can achieve greater accuracy in results by using information stored in a database. However, data stored in databases has to be converted into useful information for distribution channels to become more efficient. In this section, we will discuss the importance of databases and their application by channel members in distribution channels.

Data Warehousing

Data warehousing involves copying and storing data from different operational databases into a centralized database, known as a data warehouse.

Data warehousing allows employees from different departments to access information stored in the centralized database. This is advancement on traditional operational databases where access to stored data was complicated and collection of relevant information by users was not easy. Information in a data warehouse is arranged so that it is comprehensible to the user, who can obtain information needed to solve a particular problem without wasting time scanning the mounds of information in the database chain selling apparel for women, has used data warehousing to good effect.

Retail Database Systems (RDM)

Retail database management technology enables retailers to gather useful data about individual customers from the information base in an easy, cost-effective and simple manner. By giving a query, an employee of the retail chain, such as the chief financial officer, can access relevant information from the in-house database. In a very short time, the retail database system delivers the information in the form of customer analysis reports. Since RDM systems are updated every 24 hours, they provide up-to-date information about customers quickly. RDM also helps retailers divide customers into different segments, manage promotion campaigns and analyse results. Customer buying habits can also be evaluated at individual customer level. An in-house RDM system can provide retailers with information on the purchase patterns of customers in a given region so that promotional material can be developed to aid cross-shopping. For example, based on information obtained from an in-house database, the retailer can work out a special Father's day promotion campaign for all customers coming under the same postal code, and who have purchased gifts on Mother's day. An RDM system can provide retailers with information that allows them to categorize customers into various types like window shoppers and those who actually purchase a product.

Let us now discuss some information management systems in use at present.

Precision Code

It is a Windows NT geocoding system used by retailers in the US. It categorizes customer's based on geographic region. Using a Qualitative Marketing Software geocoding engine, it calculates the address or intersection latitude and longitude coordinates of customers. It then adds these coordinates and market segmentation codes from leading segmentation packages to customer address files. Thus, the information system standardizes customer address records (modifies street, city, and state names within the customer’s file) to adhere to United States Postal Service (USPS) standards.

Data designs for healthcare

This is a Windows 95-based database management system designed specifically for the health-care industry. It enables health-care professionals to gather and compile data from different information systems into a single database. Data Designs combines patient, physician and contract information into a single file. It also assesses medical plans, contracts and claim proposals. The system evaluates physicians for consistency across contracts, categorizes and monitors patient’s .into groups for specific diagnosis and makes outcome comparisons.

Archer Retail Database Marketing System 4.2 (ARDMS)

Retail Target Marketing Systems, an American software solutions provider, developed Archer Retail Database Marketing System 4.2 (ARDMS), an information system designed for large retail companies. ARDMS is a decision support system enabling retailer to develop individualized marketing programs for customer’s based on current customer information and buying patterns. Retailers can also segregate customers into segments, transfer data, and organize promotion campaigns and so on.

Another example of a company making use of information systems to improve customer service down the channel is Toyota Motor Sales Corporation. In the USA, Toyota uses a centralized database system and surveys to collect information from dealer’s about customers service experiences. All dealers are required to link their databases to the centralized database. Dealers are provided with survey results so that they can improve their operations. Exhibit 23.4 describes the importance of databases in ensuring smooth channel operations.

Data gathered at various channel levels can be used to improve the management of functions at other channel levels. Data collection requires the development of a well-designed and efficient database. A company can use its database to formulate customer-retention and product-promotion strategies, improve customer service, study consumer behaviour patterns and keep track of sales at different outlets across the world on a periodic basis.

Check your progress 9

1. It is a variation of the continuous replenishment program used in the apparel industry

   a. ECR

   b. QR

2. A _________ helps integrate the process and communication of information about every transaction, right from product purchase at consumer level back to the manufacturer's level.

   a. TBIS

   b. QR

2.11 Impact of Information Systems on Channel Flow

With the advent of information systems, companies have adopted numerous methods through which products can be delivered to the consumer or end-user. Gone are the days when manufacturers circulated their products through traditional relationships with distributors or a group of exclusive dealers. Companies can use CIS to improve channel functions and flow. Implementing a channel information system can affect channel flow, right from inventory holding to ordering and payment. Efficient performance of channel functions improves channel flow, which leads to lower costs of operating the channel, reduction in channel conflicts and gaining competitive advantage.

Let us look at some ways in which information systems impact channel flow.

2.11.1 Transaction Flow

Inter-organizational systems using IT have influenced channel distribution significantly. Electronic Data Interchange (EDI) systems, a category of inter-organizational systems, facilitate the flow of products and services between channel members. EDI involves electronic exchange of purchase orders, invoices, shipping manifests and other business documents between retailer and supplier computer systems. It has proven more efficient than mailing or faxing documents and entering them manually later. EDI greatly reduces errors that occur when information is manually entered. Many organizations have therefore turned to EDI systems. Even in 1988, 75% of the Fortune 100 and 39% of the Fortune 500 companies used some form of electronic data transmission to perform different channel functions like ordering, invoicing and providing shipping or backorder notification.

EDI systems improve the speed and accuracy of transactions between channel members and provide complete data on channel transactions. Faster transactions reduce order processing times. This improves channel flow through better flow of goods between channel members. Quick response is a source of competitive advantage to downstream channel members. For example, General Electric (GE) uses electronic data transmission systems to help its independent appliance dealers compete with category specialists like Circuit City. GE delivers products directly to customers from its warehouses within 24 hours of order entry into GE's computerized system. This has helped independent appliance dealers to maintain minimal inventory levels, reducing operational costs.

2.11.2 Inventory Flow

Information systems have a marked influence on inventory management of channel members. Efficient processing and flow of information is crucial for wholesalers, suppliers and retailers, as it can give competitive advantage. Better information flow leads to better inventory management. This helps channel partners shore-up bottom lines, especially in the retail industry where most channel members make significant investments in stocking goods.

Continuous Replenishment Program (CRP) is an inventory management method using information systems. CRP advocates increased information sharing so that products are delivered on time at the right place with maximum accuracy. When such sizeable information is transmitted across channel members with speed and accuracy, the transit time become minimal. This leads to lower product refusal and returns. CRP also reduces the costs of transportation planning and invoicing, contributing to smoother flow of various channel functions. CRP, however, has to be compatible with the processes of different channel partners and aligned with their business objectives. The software and hardware must be customized.

Toshiba America Information Systems Inc., a California-based information systems developer, has designed a web-based configuration and ordering system for its channel partners. Distributors and value-added resellers (VARs) can ask the company to ship products directly to customers without having to stock products. Toshiba plans to use the configuration system to reduce inventory levels down to two weeks and deliver standard stock keeping units (SKUs) in a week's time. The system will make the ordering process easier for resellers and enable Toshiba to ship products directly to customers.

2.11.3 Distribution Flow

Information systems have improved product flow from the manufacturer to retail stores. A typical case is Pepsi Pennsauken, one of PepsiCo's biggest bottlers in the US. At Pepsi Pennsauken, wireless technology has helped the company save thousands of dollars and its reputation too. The bottler had a problem of not being able to receive sales orders in time from its sales personnel. With New Age teas, juices and waters competing for market share, the situation was grim for PepsiCo.

Generally, bottlers sell soft drinks to retailers either on a route-sales basis (where drivers travel on specified routes, take orders from retailers and deliver cases on the spot) or pre-sell (where sales personnel take orders in advance and deliver them the following day). Every weekend, the bottling company had a backlog of 30.000 to40, 000 cases because the sales reps and route drivers could not communicate order details back to the company over the telephone because of busy signals. To overcome this, Pepsi Pennsauken gave its sales reps and route driver's hand-held computers that instantly transmitted information to distribution centres over a wireless network. The distribution centre had access to data, moments after it was sent from the retail outlet. Thus, by the time the drivers returned, their delivery schedule was ready. This enabled Pepsi Pennsauken to reduce its fleet from 39 trucks to 19. There was also a 25% increase in labour efficiency and the company was able to deliver orders within 24 hours.

To better understand how information systems can improve the flexibility of channel functions and flow.

Many organizations have developed software an application programs that facilitate channel flow. One such is Vital Suite 3.0 developed by International

Network Services, a California- based network and business solutions provider. Vital Suite 3.0 contains a Business Transaction Management System that helps identify and keep track of transactions using sales-order automation, supply-chain management, order fulfilment and other applications. The software also helps identify causes of slowdown in transactions and related performance issues.

2.11.4 Promotional Flow

Information systems are also useful to improve a channel's promotional efforts. Direct marketers have used databases for a long time to send catalogues and other promotional material to prospective buyers. Many companies use electronic-based promotional systems nowadays. E-based systems help channel members identify and customize promotional activities aimed at customers. For example, Procter & Gamble, with the help of Philips Consumer Electronics, placed point-of-sale kiosks in Boots and Tesco supermarkets throughout the UK. P & G developed these kiosks exclusively to promote their new 'Oil of Ulay' colour cosmetics line. Each kiosk is tailor-made to suit the consumer profile of each store and is staffed by a colour consultant from P&G or the concerned retailer. Consumers enter their personal details at these kiosks and get suggestions about products suitable to their skin types and complexion.

Negotiations between channel members have also changed due to the adoption of different information systems. New technologies like EDI, Quick Response System, Continuous Replenishment Program, Efficient Consumer Response etc., have led to channel members discarding old-fashioned negotiation methods. Upstream channel members are aware of information on consumer tastes, product specifications and delivery schedules. Similarly, downstream channel members get to know of the costs and difficulties of production and distribution. This has led to retailers consciously demanding the best prices and quality products. Mass merchandisers and manufacturers also want to reap the advantages that retailers and vendors have, by negotiating for changes in prices and delivery schedules. Channel members are able to spend more time.

Check your progress 10

1. EDI systems improve the _______and accuracy of transactions between channel members and provide complete data on channel transactions.

   a. speed

   b. performance

2. Information systems have a marked influence on _______management of channel members.

   a. inventory

   b. assets

3. ___________is inventory management method using information systems.

   a. Continuous Replenishment Program

   b. Fixed programs

2.12 Let Us Sum Up

In this unit we have studied about the performance Measures in Marketing Channels. In this we studied the performance of a marketing channel can be evaluated from various perspectives. The evaluation assesses the channel's financial performance and looks into societal contributions made by individual members of the channel. From the societal perspective, the performance of marketing channels can be evaluated by measurement of overall channel performance in terms of the channel's efficiency, equity and effectiveness. To evaluate at a micro- level, an individual channel member's financial performance is determined by studying the channel tasks undertaken by the member. We even studied about the types of Conflicts. This portion is going to be of great help to the readers who want to get a detailed insight of marketing channels.

2.13 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a), (3-a)

Check your progress 2

Answers: (1-a), (2-a)

Check your progress 3

Answers: (1-a), (2-a)

Check your progress 4

Answers: (1-a)

Check your progress 5

Answers: (1-a), (2-a), (3-a)

Check your progress 6

Answers: (1-a), (2-a)

Check your progress 7

Answers: (1-a), (2-a), (3-a)

Check your progress 8

Answers: (1-a)

Check your progress 9

Answers: (1-a), (2-a)

Check your progress 10

Answers: (1-a), (2-a), (3-a)

2.14 Glossary

1. **Conflicts -** Disputes that arises in organization

2.15 Assignment

What is the impact of Information Systems on Channel Flow? Explain.

2.16 Activities

Describe about the performance measures in Marketing Channels.

2.17 Case Study

Make a comparison chart for performance measures in marketing channels.

2.18 Further Readings

1. Sales Management - by Chris Noonan.
2. Managing Sales Leads: Turning Cold Prospects into Hot Customers - by James Obermayer.

UNIT 3: WHOLESALING AND RETAILING

Unit Structure

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Wholesaling and its Importance.

- The Types of Wholesalers.
- The Strategic Issues in Wholesaling.
- The Trends Shaping Wholesale Distribution.
- The Impact of Information Technology on Wholesaling.
- The Challenges in Wholesaling.
- The Wholesaling in India.
- The Future of Wholesaling.
- The Retailing and its Importance.
- The Evolution of Retailing.
- The Classification of Retailers.
- The Strategic Issues in Retailing.

3.1 Introduction

Distribution channels typically consist of individuals and marketing organizations mat assist in the flow of goods and services from the producer to the consumer. As goods and services flow from the producer to the consumer, they pass through several intermediaries in the form of wholesalers, retail outlets, etc. Wholesalers purchase the goods from the manufacturer. Retail outlets like departmental stores and supermarkets then purchase the goods from these wholesalers. And consumers buy the goods from the retail outlets.

Thus, wholesalers are individuals or organizations that specialize in procuring goods from the producers and making them available to the lower level intermediaries in the distribution channel. Wholesalers act as facilitators for distributing goods and products. Of the various intermediaries in the distribution channel, it is the wholesalers who form the vital link between the manufacturers and the resellers. By taking up the distribution of goods produced by the manufacturer, a wholesaler allows the manufacturer to concentrate on production and other vital aspects that contribute to improving his profitability.

Retailing plays a fundamental role in the distribution process. The origin of the won 'retail' is from the French word 'retailer', which means to break up or 'to cut a piece off. Retailing consists of all activities involved in selling goods or services to the end consumer. Being a large employer and a major service sector component, the retail sector plays a major role in the economy of developed nations. Retailers offer consumers the convenience of utility of time, place and possession by providing the right product, at the right time and at the right location.

In this unit, we will discuss various aspects pertaining to retailing. We will with a discussion on retailing, its importance and evolution. This is followed by a classification of retailers. The chapter then examines strategic issues in retailing followed by a discussion on retailing trends. Finally, we end with a brief discussion on the future of retailing.

3.2 Wholesaling and its Importance

As mentioned earlier, a distribution channel connects the producers or manufacturers with various customer segments through a number of intermediaries such as wholesalers, retailers, etc.

Each intermediary plays an important role in making the products available to the end users. A wholesaler gets the goods from the producer and delivers them to other intermediaries down the channel. The intermediaries, in turn, make the goods available to the consumers. For example, software wholesalers of the 1-2-3spreadsheet applications purchase the product from its manufacturer, Lotus Development Corporation, and sell them to computer retail dealers. These dealers in turn, sell them to individuals or organizational customers.

A wholesaler is distinguished from other intermediary's by means of the particular class of customers to whom he supplies the merchandise. Wholesalers resell the merchandise to retailers, to industrial, commercial, farm or professional business users, and also to other wholesalers. They may also purchase or sell merchandise on a commission basis. In such transactions, the wholesaler plays the role of an agent or a broker.

Wholesale trade is most common in food products, beverages, drugs, tobacco products, household goods, etc. In India, for example, the Agricultural Produce Market Committees (APMCs) located in various cities deal in the wholesale trade of fruits and vegetables and make them available to customers through the markets.

Wholesalers simplify the product and information flows between the manufacturer and the end users in a distribution channel. They perform those functions in the distribution channel that would not be profitable for the manufacturer or the retailer to perform himself.

The type of support the wholesalers provide is difficult and expensive for the manufacturers or the retailers to take up themselves. Wholesalers make bulk purchases of goods from manufacturers and store them until the ultimate consumers need them. Maintaining large inventories of the goods or products is both uneconomical and impractical for manufacturers as well as retailers. Wholesalers also take up a few sales and marketing functions of the manufacturers, as for instance, order processing, customer service, and maintaining sales contacts. This frees up the time and resources the manufacturer spent on activities involving these functions. Wholesalers also make goods available to resellers in large quantities at a discounted price. The fig 1 depicts the various levels of intermediaries in a distribution channel.

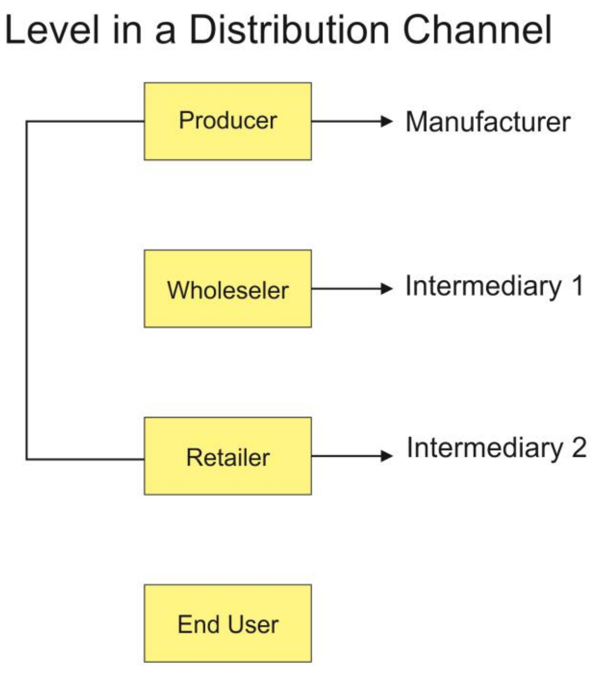

Fig 3.1 Levels in a Distribution Channel

Wholesaling ads value to the goods offered by the manufacturer by making these available to the end consumers at the right place, right time and right price.

The functions of a wholesaler can be broadly categorized into transactional, logistical, and facilitating functions. The transactional function involves buying, selling, and risk taking. The buying function involves purchasing goods or products from the producers and storing them in warehouses to make them available to consumers when the need arises. The selling function involves distributing the manufacturer's goods to retailers, thus enabling the manufacturer to reach individual customers through retailers. The risk-taking function involves obtaining the title to the goods and products produced by the manufacturer and storing them in inventory despite the risk of theft, spoilage, and possible product obsolescence.

Check your progress 1

1. _________trade is most common in food products, beverages, drugs, tobacco products, household goods, etc.

   a. Wholesale

   b. retail

2. _____ adds value to the goods offered by the manufacturer by making these available to the end consumers at the right place, right time and right price.

   a. Wholesaling

   b. retail

3.3 Types of Wholesalers

The evolution of distribution channels was accompanied by the introduction of several intermediaries in the distribution channel to make the products easily available to the end users. The period also saw an increase in the types of intermediaries to meet the growing needs of the customers as well as the producers. In this section, we will discuss the different types of wholesaler intermediaries that have evolved over time to meet the needs of producers and the retailers. Figure presents the classification of wholesalers into various types.

Wholesalers can be divided into three broad categories - merchant wholesalers, agents &brokers, and manufacturer's wholesalers.

3.3.1 Merchant Wholesalers

Merchant wholesalers take over the title of ownership to the goods from the producer and are responsible for the stock owned. They buy and assemble goods in large lots and resell them in small quantities to retail outlets, industrial, commercial or professional users through salesmen. They sell and buy in the domestic market on their own account and make payments to the manufacturer for the goods purchased Merchant wholesalers perform various functions of wholesaling such as extending credit to customers, delivery and merchandise servicing, and rendering trade related advice.

Based on the range of services or functions they perform, merchant wholesalers can be further classified into full-service merchant wholesalers and limited-service merchant wholesalers.

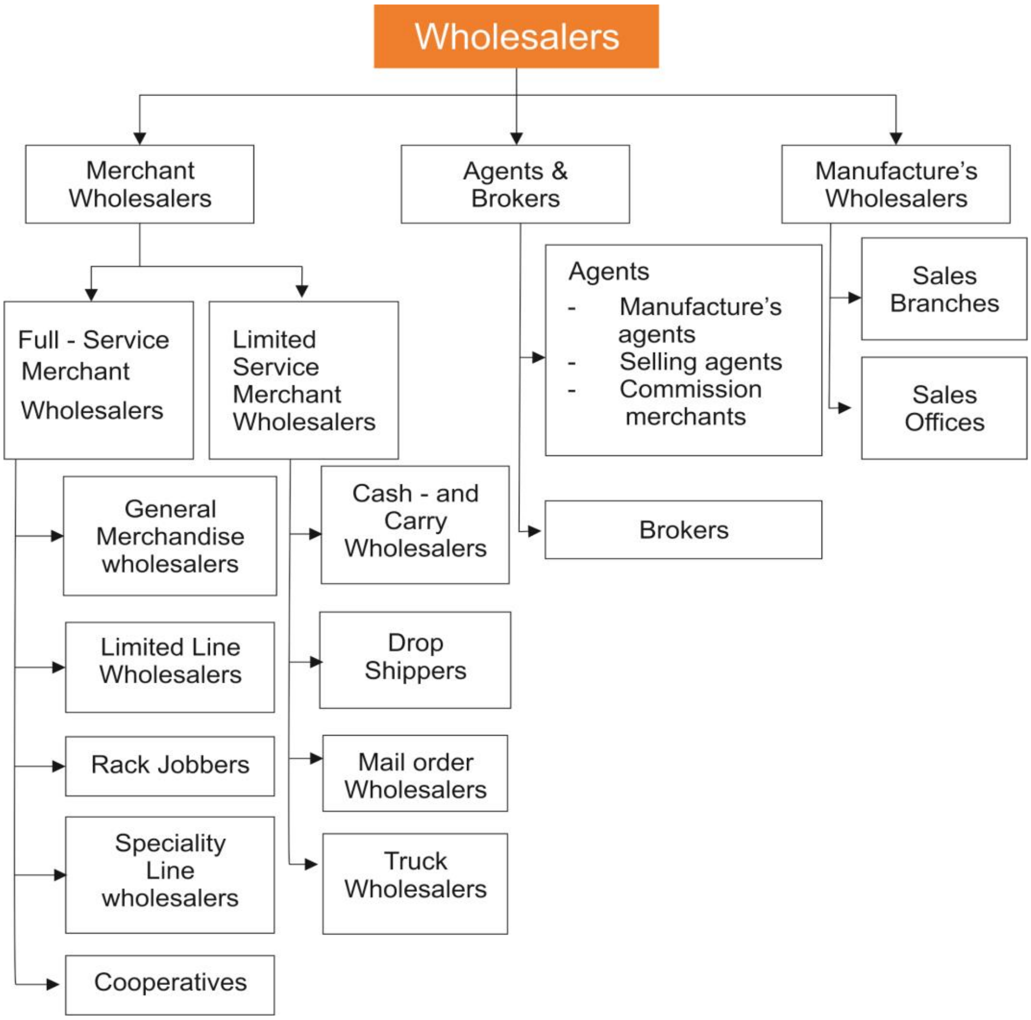

Fig 3.2 Types of Wholesalers

Full-Service Merchant Wholesalers

Full-service wholesalers provide most of the services of a wholesaler like storing, delivery, providing credit facility, warehousing, taking title to the goods, etc. Depending on the products carried and the services offered, full-service merchant wholesalers are further classified into general merchandise wholesalers, limited line wholesalers, specialty line wholesalers, rack jobbers, and cooperatives.

- General merchandise wholesalers carry a wide range of products that are resold to the retailers. They mostly cater to the needs of small retailers and carry almost all the products that customers need.
- Limited line wholesalers offer a narrow range of products to retailers. They create an extensive assortment of products that are purchased from different producers and make them available to the retailers and other organizational customers.
- Specialty line wholesalers carry a very specialized range of products, which is usually a single product or a few products from a product line. Examples of specialty line wholesalers are tobacco wholesalers, hardware wholesalers, etc.
- Rack jobbers purchase goods from the manufacturers, and display and stock them at the retailer's place. The rack jobber receives payment from the retailer only when the items are sold (consignment selling). However, the complexities involved in this form of distribution make rack jobbing an option that not many retailers prefer.

Yet another example of cooperatives is seen in the dairy industry. Some of the well-known dairy cooperatives in India are Gujarat Cooperative Milk Marketing Federation (GCMMF), known for the household brand, Amul; Andhra Pradesh Dairy Development Cooperative Federation Ltd (APDDCF), known for the brand, Vijaya; and Punjab State Cooperative Milk Producers' Federation Ltd (MILKFED), known for the brand, Verka.

Limited-Service Merchant Wholesalers

Limited-service merchant wholesalers do not undertake all the functions of a wholesaler. They specialize and so offer only limited services to retailers. Limited-service merchant wholesalers include cash-and-carry wholesalers, drop shippers, mail-order wholesalers, truck jobbers, rack jobbers, and manufacturers' sales branches.

- **Cash-and-carry whole saler:** Cash-and-carry wholesalers do not perform the activities of delivery, credit facilitation, and promotional activities but they undertake warehousing and own the title of the goods purchased from the manufacturers. Cash-and-carry wholesalers do not arrange for transportation. The retailers have to arrange for transportation after paying the wholesaler for the goods purchased. Wholesale furniture outlets are an example of cash-and-carry wholesalers.

  Cash-and-carry wholesalers adopt different strategies to move their products from the display shelf. For example, cash-and-carry wholesalers in Okachimachi district of Tokyo, in keeping with their 'no inventory' policy, slash prices of electronic gadgets that remain on the shelves for more than a day. In their efforts to display the latest gadgets on their shelves these wholesalers do not mind selling slow moving products at very low prices which might even sometimes affect their margins.

- **Drop shippers:** A drop shipper does not physically handle the merchandise. Once he obtains the order from the customer, he locates a manufacturer who can fulfil the order and arranges for him to deliver the goods to the customer directly. Thus, drop shippers do not perform the storage function of wholesalers. The risk of the drop shipper begins at the time of his taking the order and lasts till the time the goods are delivered to the customer. It is during this duration that the drop shipper takes over the .title of the goods. According to Jupiter Research, most online retailers lose money in shipments and in handling deliveries and plan to use drop slippers to reduce costs.

- **Mail-order wholesalers:** Mail-order wholesalers make extensive use of catalogs instead of using the services of a sales force for marketing. Thus, mail-order wholesalers do not perform the personal selling function in wholesaling. Mail orders are usually used to buy jewellery, cosmetics, etc. The customers of a mail-order wholesaler include the retailers, and institutional and industrial buyers.

3.3.2 Agents and Brokers

Agents and brokers facilitate purchases and negotiate sales between buyers and sellers. They work on a commission basis without taking over the title of the goods. So what distinguishes agents and brokers from merchant wholesalers are that they do not take over the title of the goods and do not offer all the services of a wholesaler. Agents and brokers are also termed as functional middlemen. Agents represent buyers or sellers on a permanent basis (for example, insurance agents), while brokers represent buyers or sellers only temporarily (for example, real estate brokers, securities and financial services brokers). Both agents and brokers specialize in a particular product or type of customers.

Brokers

Brokers bring the buyers and sellers together and negotiate between them. They receive a commission for their services from the parties involved in the negotiations. They do not undertake the wholesaling functions such as carrying inventory, facilitating credit, or risk-taking. They only bring the buyer and seller together. A broker does not receive payment until the product is sold and has to ensure the best deal for the customer. The broker also has to ensure the timely delivery of the customer’s order. He has to keep himself informed about the trends in the industry and share them with the clients. A broker can offer discounts and freebies to the retailers on the products he promotes. He also takes back the goods if they are not sold. Depending on their field of specialization, brokers can be classified into real estate brokers, securities and financial services brokers, tea brokers, etc.

Real estate brokers facilitate the buying and selling of property and real estate by bringing together prospective buyers and sellers. Securities and financial services brokers help in the buying and selling of securities and provide securities brokerage and related financial services to clients. US-based Charles Schwab is an example of a securities and financial services broker.

- **Agents:** As mentioned earlier, agents represent buyers or sellers on a permanent basis. An example of an agent is an insurance agent who acts as an intermediary between the insurer and the insured for the duration of the policy. Agents can be further categorized into manufacturer’s agents, selling agents, and commission merchants.

- **Manufacturer's agents:** Manufacture's agents are independent intermediaries and represent two or more sellers. They offer complementary products of the various sellers they represent and therefore, customers have access to complete product lines. Depending on the industry and their performance, manufacturer's agents receive commissions ranging between 5 and 25% of the sales made. Manufacturers who sell through agents have significant cost benefits since they have to pay the commission only after the sale takes place. The manufacturers also save on cost incurred in recruiting and training a sales force. Apparel, furniture, and electrical goods are usually sold through manufacturer's agents. Exhibit 24.3 describes the advantages to a company from hiring manufacturer's agents.

3.3.3 Manufacturer's Wholesalers

Manufacturer's wholesalers perform the same set of functions as merchant wholesalers. These intermediaries are owned and operated by the manufacturers themselves. Manufacturers often undertake wholesaling operations through sales branches and sales offices in order to have control over inventory, selling, and promotion.

Manufacturer's sales branches are captive wholesaling operations owned and controlled by the manufacturer. They sell the manufacturer's products and provide support services to the manufacturer's sales force, especially in regions where there is a high demand for his products. A sales branch undertakes the functions of granting credit, inventory, delivery, and sale of goods. Manufacturer's sales branches are common in electrical supplies and in plumbing. Westinghouse Electric Supply Company and General Electric Supply Company are examples of manufacturer's sales branches in electrical equipment.

A sales office is a lot like an agent but is owned and operated by the manufacturer. It does not carry any inventory. A sales office can also sell products from other manufacturers that are complementary to the products of the parent manufacturer.

Check your progress 2

1. ____________wholesalers take over the title of ownership to the goods from the producer and are responsible for the stock owned.

   a. Merchant

   b. traders

2. ___________wholesalers provide most of the services of a wholesaler like storing, delivery, providing credit facility, warehousing, taking title to the goods, etc.

   a. Full-service

   b. part service

3.4 Strategic Issues in Wholesaling

The highly competitive market place, changing customer preferences, disintermediation, i.e., direct selling without intermediaries, and e-commerce have made it necessary for wholesalers to design innovative strategies to survive in the business. Fig gives a diagrammatic representation of the intermediaries found in electronic marketing channels.

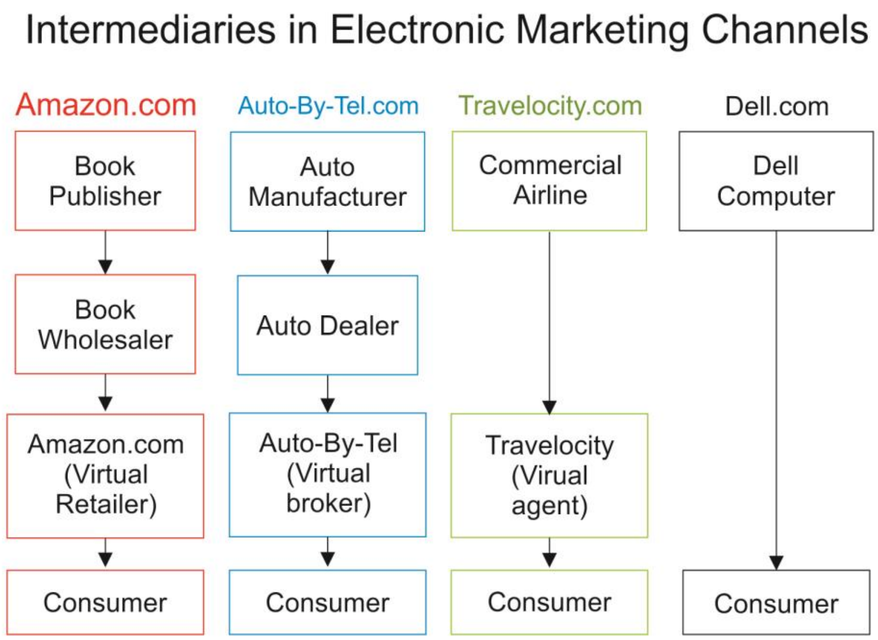

Fig 3.3 Intermediaries in Electronic Marketing Channels

Some key strategic decision areas in wholesaling include those pertaining to the target market, product assortment, and the 4 Ps of marketing.

3.4.1 Target Market Decisions

Like in any other business, there is a need for wholesalers also to identify their target market. The target market comprises an identified group of customers upon whom the wholesaler can focus for the bulk of his business transactions.

The target market for a wholesaler can be identified on the basis of size (large, medium, or small retailer), type of customers (urban or rural), distance from the wholesaler's location (within city limits, within a radius of 100 miles, 300 miles, etc), income range of the customers (high income, medium income, or low income) or requirements to fulfil in terms of products and services offered. After he has identified the target market, the wholesaler can design appropriate measures to reach it.

3.4.2 Marketing Mix Decisions

Yet another key area that requires strategic decision-making by the wholesaler is that of the marketing mix. Wholesalers must decide on the products to offer, their pricing and positioning, the promotional activities required, and the means to reach the target market.

- **Products to offer:** A wholesaler must decide on the assortment of products to offer to his customers. Inventory management is a crucial aspect in wholesaling. Rather than carry a bulk inventory of products, wholesalers should carefully analyse the profitability associated with each product and carry only those that are profitable. Wholesalers should thus maintain a profitable assortment of products.
- **Product pricing:** The pricing activity involves calculating a break-even price. This requires computing the variable and fixed costs the wholesaler incurs on purchasing merchandise from the manufacturer and storing it. The selling price can be calculated by dividing the sum of the variable and fixed costs by the number of units to be sold. Wholesalers add a standard markup to the cost of goods to cover the expenses incurred on transporting, packaging, assorting, etc. Adding amarkup to the cost of goods helps the

wholesaler earn a profit of 2-3%, depending on the market conditions. Sometimes, wholesalers have to be ready to compromise on their profit margins in order to target new markets and customers.

- **Product positioning:** Wholesalers have to find ways to clearly differentiate their product from others available in the market. To do this, they have to make the customers aware of the product's important and unique features along with its benefits. They must also be able to devise means to make the products available to customers in ways that are superior to that of the competitors, if not at a lower cost.
- **Promotion:** Promotional activities aim at increasing the brand awareness of the customers and persuading them to buy the products. Promotional activities also help a customer become brand loyal in the case of high quality products. Until recently, wholesalers did not focus much on promotional activities and targeted the market through a direct sales force. However, this trend has been slowly changing, with wholesalers seeking promotional support from manufacturers.
- **Place:** The products have to be made available at places that are convenient to customers. Wholesalers have to take into consideration the transportation costs involved as well as the customer reach as criteria for taking the place decision. The use of information technology and the latest technologies have made the operations of wholesalers easier and more cost-effective.

Check your progress 3

1. ______must decides on the products to offer, their pricing and positioning, the promotional activities required, and the means to reach the target market.

   a. Wholesalers

   b. retailer

2. A ____________must decide on the assortment of products to offer to his customers.

   a. wholesaler

   b. retailer

3.5 Trends Shaping Wholesale Distribution

The wholesale business has been moving upward for the past 20 years. The growth of wholesaling has been driven by changes in business investment, especially in the case of producer durable goods &equipment, and changes in household consumption, which influence the orders generated in the distribution channels.

Manufacturers’ attitude towards wholesaling has also contributed to the growth of the wholesale business. Earlier, manufacturers preferred to invest in research and production rather than on distribution channels because that produced a higher rate of return. Though a few manufacturers tried to venture into distribution by eliminating the middlemen, the advantages offered by wholesalers in the form of closeness to the markets, better inventory management, focus on marketing activities, etc., outweighed the costs involved. Increasing costs associated with direct sales call (about $100 per call), also made manufacturers hire industrial distributors to target key market segments.

There has also been a significant change in the mode of operation of the wholesalers. They have evolved from serving as mere warehousing points to exploring the profitability of potential markets. There has also been a shift in their focus from traditional markets to new markets. For example, many electrical and electronic distributors in the U.S. are now targeting new industrial and commercial markets in order to supplement their sales efforts in the established electrical-contractor market.

The basic trends that are responsible for bringing about a significant change in the business of wholesaling are discussed below.

3.5.1 Functional Overlap

The manufacturing and distribution activities in an economy can be fundamentally categorized into four levels - manufacturing, wholesaling, retailing, and consumption. However, the dynamic nature of markets has caused an overlap of functions between the various levels as a result of which there is no longer a sharp demarcation between them in the present-day market scenario. Wholesale-retail franchising, joint ventures, and conglomeration have given rise to horizontal and vertical market integration, which has further reduced the distinction among the intermediaries in the marketing channel. For example, Midas International, which started as an automotive warehouse distributor, buys and manufactures items for its franchisee network, comprises over 500 Midas Muffler and brake shops.

3.5.2 Increased Services

Wholesalers have redesigned their services over time to suit customer requirements. A number of wholesale druggists in the U.S. now handle the customer records of retail druggists. This serves to bind the retailers to one wholesaler. In the grocery business, for instance, wholesalers have shifted their focus from providing basic services like extension of credit to offering more sophisticated services such as merchandising support, inventory management counselling, conducting profit analysis for the retailers, etc. The aggressiveness of wholesalers in offering increased services is aimed at gaining a competitive advantage.

3.5.3 Pricing and Credit

The pricing of a product or a service is a critical element as the price influences the customer's decision to buy. The wholesalers in keeping with this concept constantly work to arrive at a price that maximizes the value offered by the products. They are constantly on the lookout for better pricing mechanisms, such as system contracting that offers better service to customers at a lower cost. Many wholesalers use the element of service to attract a large number of direct buyers.

Another key factor in attracting customers is the credit terms that the wholesaler offers. Developments in the field of finance have helped wholesalers to use a wide variety of financial tools to meet the customers' financial requirements. For example, a wholesaler in Canada modified his credit policy to incorporate the concept of accounts receivable management and control by exception and importance rather than giving equal emphasis to all issues. Accounts receivable management involves the profitability assessments of trade-related risks. With the implementation of the new credit policy, the wholesaler decreased the term of credit from 60 days to 40 days. Doing so released a significant amount of capital, which he used to invest in inventor) and to find new markets.

The quest of wholesalers for new pricing mechanisms and credit alternatives has brought about a significant change in wholesaling over the years.

Check your progress 4

1. Earlier, __________preferred to invest in research and production rather than on distribution channels because that produced a higher rate of return.

   a. manufacturers

   b. retailers

2. The ___________of a product or a service is a critical element as the price influences the customer's decision to buy.

   a. pricing

   b. costing

3. Many _______use the element of service to attract a large number of direct buyers.

   a. wholesalers

   b. retailers

3.6 Impact of Information Technology on Wholesaling

The wholesaling industry has been adversely affected by direct selling, the underperformance of the manufacturing sector, high expectations from the buoyant retail sector, customer's demand for added value, etc. Wholesalers have also been facing hurdles due to information delay, communication hassles in data exchange, lack of accurate information, identification of exceptional conditions, process optimization, etc.

In addition to overcoming these problems, wholesalers have also been trying to lower costs and provide better services to tackle the competition in the dynamic market place. To respond quickly to unforeseen conditions in the market, they need a variety of information. Advanced and effective implementation of IT has become necessary for wholesalers to meet the demands from the manufacturing and the retail sectors and to add value to their supply chain and warehouse management activities. Wholesalers are leveraging on the use of IT to solve their business problems. Realizing this, many software vendors have come up with solutions to meet wholesalers' demands. For example, IBM offers an Industry Solutions Program (ISP) to address the needs of the wholesale industry7. Wholesalers are beginning to integrate IT with the distribution function for effective performance of the distributive channel.

The use of IT and the latest technologies has made wholesalers' operations a lot easier and more cost effective. The rapid growth in information technology has led to new ways of managing distribution channels. IT initiatives and innovative channel partnerships have evolved to include electronic data interchange, efficient customer response, continuous product replenishment, etc. Bar coding, scanning, and other digital technologies have helped wholesalers improve me efficiency and effectiveness of business processes. For example, McKesson, a large drug wholesaler known for its extensive use of IT, implemented Economist, an electronic order entry system, to help its retailers in their distribution of drugs.

Information technology has changed the way wholesalers have been conducting their business. IT has also contributed significantly to the assortment planning, new product development, inventory replenishment, order processing, and store selling tasks of wholesalers.

Check your progress 5

1. The use of IT and the latest technologies has made wholesalers' operations a lot __________and more cost effective.

   a. easier

   b. lengthy

3.7 Challenges in Wholesaling

The common goal of wholesalers as well as manufacturers is to maximize the return on investment, to reduce the costs involved in distribution and to grow as an organization through innovation and best practices. Wholesalers have to meet several challenges in trying to achieve these goals. Some of the common challenges that wholesalers encounter in their operations pertain to the areas of inventory management, sales management, promotion management, and financial planning and management.

3.7.1 Inventory Management

This is a major problem mat wholesaler's face as they deal primarily with inventory storage and maintenance. Inventory management and control is a key challenge to anybody maintaining it. Most wholesalers face a dilemma in terms of the range and quantity of inventory to maintain. This is because both an excess and a shortfall of inventory have costs associated with it. With numerous new products flooding the markets, thanks to the increased investment by producers in research and development (R&D), the woes of the wholesaler have only multiplied. And what have aggravated matters are the innumerable modifications necessary in the size and packaging of existing products. The wholesaler has to identify, label, handle, stack, control, pick, pack, ship, and invoice each item in his stock. One way to overcome inventory problems to some extent is to limit the length of the product line to about 80-95%.

3.7.2 Sales Management

Though the wholesale trade sector has grown, there has not been a significant change in the wholesalers' focus on sales management. The number of wholesalers who use a professional and systematic approach to sales and promotion is very few. Most wholesalers use personal selling to reach their customers though a few of them use innovative sales methods. For example, wholesale druggists in the U.S use the telephone as a medium to reach high potential customers from whom they get about 80% of the orders. A few wholesalers in the field of electronics, healthcare, etc. use automatic reordering systems for repeat orders and save on the additional order getting costs and sales personnel time. Salesmen can use the time saved through such techniques to serve customers better and to devise innovative techniques of selling. Also, wholesalers who use selling techniques such as the cash-and-carry concept and catalog selling have been able to cut down on their sales force requirement. Wholesalers have thus focused on their selling efforts and used local sales branches to increase product availability, thus separating the selling function from product handling.

3.7.3 Promotion Management

Many manufacturers offer promotional support to wholesalers in the form of trade shows, catalog preparation, direct-mail promotion, advertising, and dealer shows, but the wholesalers, by and large, do not accept such support. They only agree to promotional programs that are customized to suit their operations, that help increase their profitability, and that are designed taking into consideration their handling costs and budgets. The bottom line is, of course, that they have been designed by manufacturers with whom they share a good rapport.

Some wholesalers are not content to merely resell merchandise produced by the manufacturers. They also want to be identified as a source of high quality product lines and look to creating an identity for themselves by offering only high quality products and undertaking a variety of promotional schemes. Big corporate wholesalers have demonstrated how the use of a sophisticated promotional campaign has helped increase their profitability. Many small-scale wholesalers too, who did not have a professional and systematic approach towards promotional activities earlier, are now working towards a better promotional orientation to improve their profitability.

3.7.4 Financial Planning and Management

The traditional wholesaler laid the stress on sales and did not focus much on cost justification. Fortunately, this has changed and wholesalers now also consider the profitability of transactions. Complex tax-reporting requirements, increase in competition, and the use of information technology and control systems have made wholesalers turn their attention to financial management. Wholesalers now attend seminars and training programs on financial planning to increase their awareness on finance-related aspects. Manufacturers like General Electric and

Union Carbide, realizing that it is advantageous for them if distributors become more aware of financial management, conduct training programs on finance-related areas for them.

Check your progress 6

1. The common goal of wholesalers as well as manufacturers is to maximize the return on ______.

   a. investment

   b. asset

2. Most wholesalers face a dilemma in terms of the range and quantity of ___________to maintain.

   a. inventory

   b. assets

3. Most wholesalers use ___________to reach their customers though a few of them use innovative sales methods.

   a. personal selling

   b. sales

4. The traditional wholesaler laid the stress on sales and did not focus much on ______justification.

   a. cost

   b. sales

3.8 Wholesaling in India

With India having become a commercial hub, the standard of living has considerably raised in the recent past. This has led to increased consumer spending on modern gadgets and materials. The modern lifestyle of people has thus; greatly benefited the wholesale and retail trade markets because people are more willing to buy and experiment with new products.

The wholesale business in India has been on the rise from 1990 following the opening up of the Indian economy, which allowed many multinational companies to set up their subsidiaries in the country. Unlike in the U.S. or Canada, wholesalers in India do not require a legal permit to start a wholesale business.

Most wholesale traders are members of associations that protect, preserve, and promote the interests of the members and interact and mediate with Government authorities. Agricultural Produce Market Committees (APMCs) are such quasi-governmental agencies that regulate the marketing of products at the wholesale level. The APMCs are set up for producers to market their products and generally deal in fruits and vegetables. APMCs are present in most of the cities. In New Mumbai, for example, mere is an APMC complex where several wholesale businesses are conducted.

Another major factor that has affected the wholesale industry in India and elsewhere is technological advancement. Advances in technology have made the world more compact and encouraged international trade. Traders now procure goods from other countries if the cost of manufacturing them locally exceeds the cost of importing mem. For example, Indian traders source most electronics goods like integrated circuits, cords, microphones, and headphones from China.

The development of wholesale markets has contributed to the growth of the economy and also increased the employment rate in India.

Thus the opening up of the Indian economy has paved the way for a better lifestyle, which has in turn, led to a boom in the retail sector and contributed to the growth of the wholesale sector.

Check your progress 7

1. The business in India has been on the rise from 1990 following the opening up of the Indian economy.

   a. wholesale

   b. retail

3.9 Future of Wholesaling

As in any other sector of business, the wholesaling industry too is likely to undergo a lot of changes in the future. Dynamic forces of change in the business environment like the availability of self-service options to customers, direct selling by companies, and the improved bargaining power of customers have compelled distributors to adapt to these changes in order to survive.

The wholesaling industry is itself in a state of transition, as competitive forces have made change essential for survival. In order to ensure their survival and success in business, it is essential for wholesalers to redesign and restructure their businesses while at the same time cutting costs. The wholesalers who survive will be the ones who formulate and adopt differentiation strategies that will give them a competitive advantage in the market and those who ensure availability of products at all times and offer their services at the best prices.

Another factor that will shape the wholesaling industry is consolidation, which will significantly reduce the number of establishments operating in the industry. The big companies that emerge as a result of mergers, acquisitions, and geographic expansion will dominate the industry.

The use of modern technology and innovative practices will help wholesalers to carry out their operations more efficiently and profitably.

Restructuring of the wholesale industry has reduced the marked functional distinctions that existed in the earlier structure. The present day intermediaries in the distribution channel perform cross-functional activities. Many large retailers use warehouses and hyper marts to undertake wholesale functions. Many wholesalers too have started taking over retail functions. For example, Super Value, a leading food wholesaler in the U.S., now operates its own retail outlets to reach the customers directly and serve them better.

Wholesalers will provide a wide variety of services to retailers in the form of retail pricing, cooperative advertising, marketing and management information reports, accounting services, etc.

The limited scope for growth in domestic markets and facilitating agencies such as the North American Free Trade Agreement (NAFTA) will help wholesalers to trade across geographical boundaries.

Other key forces that will drive the future of wholesaling include e-commerce, strategic alliances, supply chain integration, and globalization. The Internet has revolutionized wholesale distribution and e-commerce is bound to have a tremendous impact on shaping the global wholesale sector. E-commerce will make distributors focus more on delivery of information and services rather than on storage and transportation, as was traditionally done.

Strategic alliances will also have a profound impact on wholesale distribution. Distributors will be able to ward off threats from competitors by means of strategic alliances. The alliances will also lead to a lot of innovative practices and help distributors pull products across the marketing channels.

Supply chain integration allows suppliers and distributors to reduce the costs associated with distribution. The maximum spending of suppliers and distributors is on inventory holding costs. Though the costs associated with the traditional, manual form of distribution are likely to decline, the costs incurred in present day wholesaling are likely to increase because of infrastructural investments.

Globalization has reduced the time and place barrier among countries and allowed them to sell their merchandise in offshore markets and compete with players in the foreign market.

The importance of wholesaler-distributors in international trade life growing and will continue to grow substantially in the coming years. Export activity and the non-domestic operations of wholesaler-distributors will also grow. Wholesaler-distributors may also expand their operations to support their suppliers who have started operations abroad.

Countries that have a good distribution infrastructure have good scope for international growth. Wholesaler-distributors can make the best use of their superior operating procedures and policies, capital availability, and information technology to become globally competitive.

Check your progress 8

1. Many ________retailers use warehouses and hyper marts to undertake wholesale functions.

   a. large

   b. small

3.10 Retailing and its Importance

Retailing is the last step in the distribution process. Retailers are the most common means by which products are delivered to customers. Retail distribution is an important economic activity in developed nations. This can be understood from two main aspects. First, it is a means of providing goods and services to consumers and second, it is beneficial to other channel members in the distribution channel. Thus, the importance of retailing can be studied in terms of its value to consumers and to other channel members.

3.10.1 Importance to Consumers

Technological developments in industry and agriculture have increased production levels and reduced their costs. Distribution in general and retailing in particular, has enabled manufacturers to transfer the cost advantages of technology-based production to consumers, who are extremely fragmented. In underdeveloped countries, where the standard of living is low, retailers are the sole link between manufacturers and consumers. Retailers act as buying agents for consumers. They add value to the distribution process by ensuring that the consumer gets the right product, at the right time and at the right place. As a buying agent, the retailer performs many useful activities for the consumer. These include - inventory management, providing value-added services and product variety, breaking bulk and disseminating information.

- **Inventory management:** Retailers act as a means to transfer goods and services from manufacturers to consumers. They bear the costs of storing products, so that customers do not have to stock essential products and incur resulting costs. Retailers do the stocking in their stores and the consumer can shop at convenience.
- **Value-added services:** Apart from providing consumers this convenience, retailers provide value-added services that benefit them. Examples are free home delivery and facilitating transactions by allowing consumers to pay for products and services through credit cards and by instalments. Retailers also provide loans to enable consumers to overcome temporary financial crunches.

- **Product variety:** Retailers have the advantage of selecting the best products from a range of manufacturers. This enables them to display a wide assortment to suit the needs and tastes of different customers. At the same time, it gives customers an extensive choice in product selection.
- **Breaking bulk:** Another important function of retailers is that they make purchase easier by selling products in small quantities. Retailers purchase goods from manufacturers in bulk and convert them into smaller units to suit consumers. In less developed countries with lower disposable incomes, consumer's buy products in very small quantities. The retailers help by breaking bulk into smaller units. This also facilitates easier transportation of goods to the consumer.
- **Disseminating information:** Retailers disseminate information about different products in the market. Advertising through the media is not enough for customers to get sufficient information about products. Retail stores, through in-store displays and sales personnel, disseminate information about new products launched in the market.

3.10.2 Importance to Other Channel Members

Variations in consumer needs and demands mean that manufacturers have to produce an endless assortment of different products. So that this endless cycle can be kept going, it is necessary that there is a continuous flow of products from manufacturer to consumer. Retailers not only make products available to consumers, who are geographically dispersed, but also act as a source of information to manufacturer's about consumer requirements. Manufacturers seek retailer's help to gather information about consumer tastes and preferences. They also obtain information on product quality and usage. Manufacturers use this information to modify existing products and launch new products. This information is valuable because retailers enjoy the advantage of having direct contact with consumers. Further, retailers assist manufacturers to streamline and specialize production so that different products can be made available according to changing customer tastes. This helps manufacturers gain higher profits.

Retailers too share the risks associated with product distribution with other channel members. It includes physical risk to product (due to damage during transportation or storage) and technological risk due to product obsolescence.

3.10.3 Source of Employment

Retailing is a labour-intensive activity and employs a large number of people. It accounts for 15-20 per cent of the total workforce in developed nations. Retailing is also a major employment sector for women. In the European Union, approximately 55% of employees in the retail sector are women.

The retail sector has significantly impacted employment in India as well; organized retail business in India is worth about $3 billion and is accepted to be a first growing business segment. With increasing economic growth and improved standard of living, consumption levels are set to reach never-before levels. These will be a boon for the retail sector

Check your progress 9

1. __________is the last step in the distribution process.

   a. Retailing

   b. wholesaling

2. ____________developments in industry and agriculture have increased production levels and reduced their costs.

   a. Technological

   b. Internet

3. ____________act as a means to transfer goods and services from manufacturers to consumers.

   a. Retailers

   b. wholesalers

3.11 Evolution of Retailing

Retailing started out as the last point in the distribution process. It acted as the sole means of providing essential commodities to geographically dispersed consumers. Over the years, from a modest beginning, retailing evolved into a specialized form of selling products. Presently, there are numerous retailing forms that are difficult to list, let alone comprehend. Malcolm P. McNair, in his pioneering works, “The Wheel of Retailing’, has described the evolution of retailers.

3.11.1 Wheel of Retailing

According to this concept, the retailer’s life span is in the form of a cycle. In the first stage, retail innovators (those who initially adopt a retail format) enter and establish themselves as low-status, low-price operators with low profit margin requirements and a low cost structure. Over time, these retailers grow and establish large facilities with increased investments leading to higher operating costs. They focus on offering improved customer service in the form of credit, delivery, shopping ambience and so on. When retail innovators reach the maturity stage, these high cost, high price operators succumb to new retail innovators who enter and start operating at lower costs and prices. This completes the wheel.

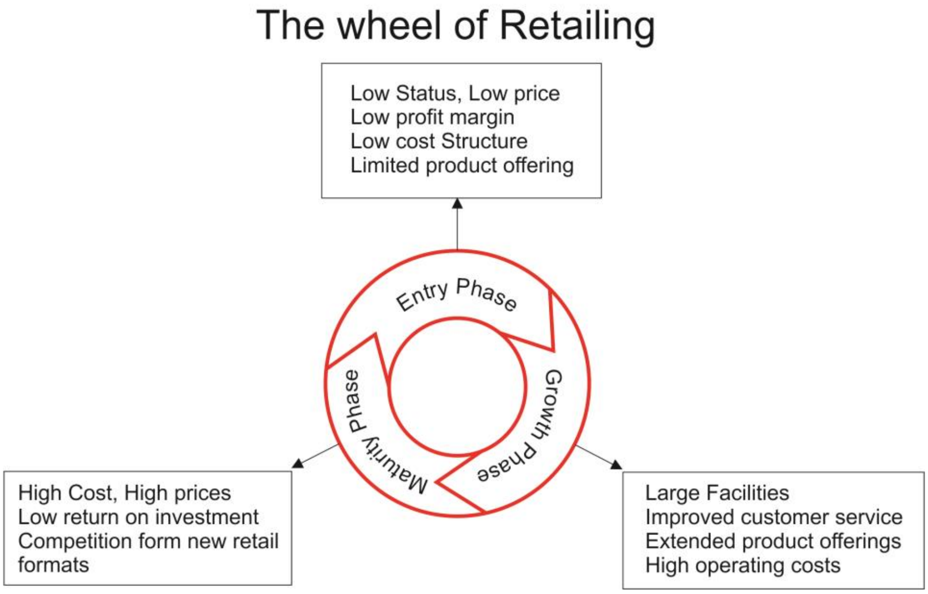

Fig 3.4 The Wheel of Retailing

Of the many factors that have influenced the evolution of retailing, some have played a crucial role. These include the Industrial revolution, competition and trade-up, regression, assimilation and innovation.

3.11.2 Industrial Revolution

The different forms of retailing that we see nowadays the department store, variety store, supermarkets, mail-order firm, discount store and others developed over a relatively short period of about 100 years. The Industrial revolution that took place between the latter half of the 18th and the first half of the 19th century was a prime mover in the evolution of modern retailing forms. Earlier, the retailing sector had inherited the traditional guild-structure of the 18th century. The guild-structure consisted of manufacturers, merchants and traders arranged in hierarchical groups with a manufacturer(s) selling to a group of traders who then individually sold to groups of merchants. The members of this retail sector were mainly non-experts and people on the lookout for a living or quick profits. The Industrial revolution led to manufacturers scaling up production and the retail sector in its present form could not cater to increasing production and changes in the people's living standards. This led to the emergence of new and improved forms of retailing.

3.11.3 Competition and Trade-Up

As retailing modernized, its older forms became extinct, though there was resistance to this. This resistance in fact featured every time there was a change from the old to the new. Competition and the propensity to trade-up are also reasons for the evolution in the retail sector. Older retailers, when threatened by newer forms, began shifting to the newer principles and systems. Similarly, the new retailers tried for an advantage over their peer's by adopting some proven methods used by the older retailers. Slowly, such combinations gave rise to newer forms of retailing.

Check your progress 10

1. the ___________life span is in the form of a cycle.

   a. retailer's

   b. wholeseller

2. As _______________modernized, its older forms became extinct, though there was resistance to this.

   a. retailing

   b. wholeselling

3.12 Classification of Retailers

Retailing involves selling goods and services to consumers for their personal or household use. Retailers sell different kinds of products and services. There are retailers who exclusively deal in a particular type of product, for example, food products, hardware or apparel. An awareness of the different types of retailers in terms of size, product diversity and price enables better understanding of retailers and the environment in which they operate.

Retailers can be classified in different ways. We will focus our discussion on retail classification based on type of ownership, type of store strategy, non-store based retailers, non-traditional retailers and retailers classified on goods or services.

3.12.1 Classification based on Type of Ownership

Based on the type of ownership, retail organizations can be classified into organizations that are:

- Independently owned
- Chain-owned
- Franchise-operated
- Organizations that operate on a leased department format
- Consumer cooperatives

Most retailers are small operators and are usually independently owned. Each ownership type caters to specific market segments. In the following section, we will discuss various forms of retail organizations based on ownership type. Vertical marketing systems will not be discussed as it has already been dealt with in Channel Integration.

Independent retailers

Independent retailers are the most common form of retailers. They usually operate with a single store and are generally started by entrepreneurs. The advantage of this form is flexibility in operations due to minimal layers of management, low investments, customized product and service offerings, ability to maintain tight control over strategy, personalized service, convenient location and timings, home delivery and financial credit facility. Disadvantages are lack of bargaining power due to small size of operations, absence of economies of scale and limitations in resources, information and planning, as they are dependent solely on the owner.

Chain stores

A retail chain has many outlets under a common ownership, usually with centralized merchandizing and decision-making functions. A retail chain's size is not based on the geographic area of its operations. Hence, a retail chain operating in only a few cities with many units can be considered a large chain. Based on the type of operation, retail chains are differentiated into local, sectional and national chains. The first is a retail chain that operates all its units in and around a particular city. The second is one that operates in a given geographical region. For example, Trinethra Supermarket's operations are limited to Andhra Pradesh. A national retail chain operates in more than one geographical region. For example, Lifestyle and Shopper's Stop, which have outlets in major cities across the country.

A retail chain has several advantages over an independent retailer. These include better bargaining power, ability to advertise and promote products, to undertake long-range planning and the same functional efficiencies as a wholesaler. The disadvantages are lack of flexibility due to large scale of operations and high investments, strategies and operations due to multiple layers of management.

Franchise

The International Franchise Association (IFA) defines franchising as "A continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing, training, merchandising and business, in return for a consideration from the franchisee." Franchising is an arrangement between a franchisor (one who gives the rights) and the franchisee (one who receives the rights for a fee). Retailers may adopt a fully franchised system or a mixed system. A fully franchised system is one where all outlets are franchised and a mixed system is one where the retailer operates a combination of company-owned and franchised outlets.

Types after Franchising Arrangements

There are two types of franchising arrangements: product/trademark franchising and business-format franchising. In the former, thefranchisee enters into a contract with a franchisor (suppliers/manufacturers) to sell products under the established name of the supplier. The franchisee operates independently and serves as an authorized distributor for the manufacturer's products. The franchisee is free to decide on store hours, selection of location and store displays and arrangements. Authorized car dealers of General Motors or bottlers for Coca-Cola are examples of product/trademark franchising.

Business-format franchising involves a closer relationship between the franchisor and the franchisee. Besides the right to sell products under the supplier's trade name, the franchisee has access to the franchisor's business system or method of business operations. This includes access to successful accounting systems or management training programmes of the franchisor. McDonald's is the best example of business-format franchising.

Three types of structural arrangements are possible in retail franchising. They are 1) Manufacturer-retailer arrangement, 2) Wholesaler-retailer arrangement and 3) Service-sponsor retailer. In the first, the manufacturer gives an independent franchisee the right to sell products or service. It is the most common form of franchising arrangement seen in India. An example is Bata. The wholesaler-retailer arrangement may be either voluntary or cooperative. In the former, the wholesaler gives licenses to retailers. In the latter, retailers form a group and share the ownership of the cooperative among themselves. They also share operational functions along with the wholesaler. Maruti's True Value is an example of a dealer-owned cooperative. In the third category, the service-sponsor retailer arrangement, the service firm gives retailers the right to offer specific service packages to customers. This is commonly seen in the travel industry. For example, SIT A World Travels.

Advantages and disadvantages of retail franchising:

- It allows franchisers to overcome resource constraints. For example, Kentucky Fried Chicken could not have started its first 2,700 outlets but for the $450 million it obtained by adopting retail franchising.
- It reduces monitoring costs. As the franchisees are entrepreneurs who have invested in the business, they have the required zeal and motivation to

succeed. Therefore, the need to monitor is greatly reduced.

- Franchising facilitates risk management. While starting a business, its potential and probability of success is difficult to estimate. If a franchisee fails, the company does not lose much. If the franchisee succeeds, the company has the option of bringing it under the company's fold when the agreement ends.
- The disadvantage is that too many licenses may lead to over saturation in a particular region. Also, if the royalty payment arrangement is based on gross sales and not on operating profits accrued, the arrangement may become a burden on the franchisee, as the same royalty has to be paid even when profit margins reduce.

Leased Department Store

Leased departments or 'shops-within-shops' involves renting space within a department, discount or specialty store to an outside party. Leased departments are used by department stores to expand operations into products and services involving highly specialized knowledge and skills. The leased department offers products that do not fall under regular product lines. They operate in categories like beauty salons, shoes, jewellery, cosmetics, photographic studio and repairs for shoes and watches. However, with increasing competition and interest shown by service firms, traditional service categories have given way to modern services like opticians, travel agents, banks, real estate and financial services. 'Shareshops' are common in the American retail sector. Sears Roebuck has popularized share purchases over the counter in its stores with the message "buy your stocks, where you buy your socks". The rapid growth and success of discount stores is primarily due to the leased department store.

Advantages and Disadvantages

The primary advantage of a leased department store is its ability to diversify the product lines of retail stores into segments that require special training and experience. It also reduces store costs because the leased department pays for its inventory, personnel, fixtures and displays besides paying a commission. Leased departments can be used to reposition a retail store and revive a store that is not performing to expectations. Tesco, the UK based supermarket chain, took the help of leased departments to sell a variety of products and reposition itself. The rents paid by the leased department can be utilized to shore-up bottom lines. Excess space in loss-making stores can be utilized.

Leased departments can also get advantages from such arrangements. It can serve as a test marketing tool to gauge consumer expectations. Later, they can set up their own retail stores to sell their products. The retailer’s image and publicity helps the leased department to sell its products without incurring heavy initial investments.

The possible limitations of such arrangements include restrictions that may be imposed on the leased department regarding style of operations, store hours and range of products. Bad in-store location and very high rents are other negatives.

One of the most successful users of this arrangement is Debenhams, a department store chain in the UK, which gets one-third of its sales from leased departments. Meldisco, a division of the Melville Corporation, is another leading operator of leased departments in the US. It supplies and sells footwear in all Kmart stores.

Consumer cooperative

Another type of retail organization based on ownership is the consumer cooperative. Consumer cooperatives are retail firms owned by consumers. Here, a group of consumers invest in, purchase shares, elect office bearers, manage operations and share profits. This type accounts for less than one per cent of total sales in the retail sector. The premise behind operating such cooperatives is the belief that better service can be provided than by adopting a for-profit approach. Also, operation costs will be much less than other standard ownership formats discussed.

3.12.2 Store-Based Retailers

Retail organizations can also be classified according to the type of strategy and products handled. Store formats can be primarily divided into food-based retailers and general merchandise retailers. With the advent of retail formats like hypermarkets, the traditional distinction between the food and merchandise store formats has disappeared. Hypermarkets cater to both categories. The various types of store formats that come under these categories are:

Food retailers

Food retailers sell different categories of foodstuffs. Fifty per cent of their total sales come from food products. The different types of food-based retailers are convenience stores, supermarkets, food-based superstores, combination stores, limited-line stores and warehouse stores.

Convenience store

A convenience store is a conveniently located food retailer kept open for long hours. It carries a limited assortment of products and occupies floor space of around 3000-8000 square feet. The products in these stores have an average or above average price, higher than supermarkets. These stores offer the shopping convenience of not having to search through a maze of shelves or waiting in long queues. Convenience stores sell snack foods, soft drinks, car wash, lottery tickets, courier service, gasoline, ATM services and so on. 7-Eleven in the US and TM Group Inc. in the UK are well-known convenience stores.

Conventional supermarkets

Conventional supermarkets are self-service departmental stores that sell a limited variety of food and non-food items. They are also called ‘mom-and-pop stores’ in the US. They have limited advertising and promotion and products are sold at prices lower than grocery stores in the neighbourhood. Dollar Tree, Family Dollar and ‘99 Cents Only’ are some examples in the US.

Food-based superstores

These stores are larger than conventional supermarkets but smaller in size and product range than combination stores. They cover floor space of around 25,000 to 50,000 square feet and carry a reasonable stock of non-food items like kitchen appliances, prescription drugs, flowers, video tape rentals and so on.

A variation of a food-based superstore is the ‘conforming’ superstore, which, on an average, stocks over 16,000 products across all major categories in the food and grocery sectors and are mostly self-service. Over 50 per cent of products stocked by these superstores are their own brands. Tesco Pic gets over 75 per cent of its profits from such ‘conforming’ superstores.

Combination stores

A combination store is a mix of a conventional supermarket and a general merchandise store. They are typically large and cover floor space of around

30,000 to 100,000 square feet. These stores have the advantage of economies of scale and operational efficiencies. This enables them to reduce costs and improve profitability. Wal-Mart, Kmart and Meijer are among the successfully operating combination stores in the US.

A special version of the combination store is the super center. It is the American version of the European hypermarket. Super centers have not succeeded in the US as in Europe.

Limited-line stores

They are also called limited assortment box stores and offer a selective list of items. These stores should not be confused with 'big box' retailers like Wal-Mart, Cost Co and Home Depot. Limited-line stores are discount stores and offer less services, shorter store hours and selective national brands. A majority of products offered are private brands and perishable goods do not figure on the shelves. This type of retail store originated in Europe in the early 1970s and expanded across that continent, forcing retail giants like J. Sainsbury and Tesco to develop similar economy stores.

Warehouse stores

Warehouse stores are discount food retailers and offer a range of products in a simple and flexible environment. Unlike limited-line stores, these usually cater to national brands. This retail format is favoured by one-stop food shoppers and customers seeking low prices, without concern for service or shopping environment. In terms of size, warehouse stores can be classified into three categories: 1) 15,000 to 25,000 square feet, 2) 25,000 to 35,000 square feet and 3) 50,000 to 65,000 square feet. These stores are also called super warehouses. Home Depot, the American retailer used the warehouse format to expand.

Despite the number of retail store formats, available, no single format has been able to really corner a large share of the market. Retailers like Wal-Mart have adopted all the above-mentioned forms of food retail formats to dominate the retail sector in the US.

General merchandise retailers

Another major category of retail store is the general merchandise retailer. Merchandise retailers have experienced steady growth of 7 per cent over the years in the US market. They include: specialty stores, department stores, full-line discount stores, variety stores, off-price chains, membership clubs, thrift stores, hypermarkets and the “flea” market. The department store is the most successful among mass merchandisers. Argos and Woolworth are two of the biggest general merchandisers in the UK. A brief discussion on each type of general merchandise retailer follows.

Specialty stores

These stores stock a narrow range of product categories but have an in-depth assortment of products in each category. They cover an area less than 8,000 square feet usually and offer high levels of service. Specialty stores can tailor their strategies to focus on specific customer segments because they carry a limited line of products. They usually operate in apparel, furniture, books and sporting goods. Customers prefer these stores because of the sales personnel’s expertise on the products offered by the store, the smaller store size, absence of crowding and guaranteed availability of the desired product. Specialty stores cater to the affluent as well as the price-conscious. They have maximum sales among all retail formats followed by discount stores. Toys ‘R’ Us is a specialty store retailer catering exclusively to the toy segment. It accounts for almost 40 per cent of all toys and games sold in the US.

A ‘category killer’ store is a variant of the specialty Store. It is a very large specialty store that offers a wide range of product lines in selective categories. Because of sheer size and low costs, consumers like to purchase products in a particular category from these stores. Other stores that stock the same products cannot compete in terms of price as well as variety and therefore the name, “category killers”. Home Depot (home improvement) and Sports Authority (sports goods) are considered “category killers”.

Department stores

Department stores carry the maximum product range among all general merchandise retailers. The store is organized into separate departments and each promotes a particular category of products. The departments have their own selling counters, selling area and sales personnel. Products sold in department stores are generally priced above average due to the cost of maintaining an up-market environment, advertising and in-store promotions.

Department stores can be categorized into the traditional department store and full-line discount store. The former have a separate identity unlike shopping centres and malls, which have a standard format. They have the flexibility to introduce new strategies and concepts to improve customer service and needs. Both Wal-Mart and Kmart is predominantly department store and have captured much of the retail sector in the US.

Full-line discount stores

This offers a wide range of merchandise products such as apparel, consumer electronics, apparel and home, health and beauty products. It is also called a general merchandise discounter. Full-line discount stores have been very successful because of their focus on a variety of products at competitive prices. They do not generally stock premium brands. Discount stores develop special strategies to woo consumers and generate sales in each product category. For example, Kmart has a Pantry program in the food category. It is an in-store grocery concept that offers a complete grocery selection to customers. Giant retailers like Wal-Mart have diversified store operations and opened up discount store chains to cater to larger sections of consumers. Other prominent full-line discount stores in the US are Ames, Bradlees, Caldor, Hills, ShopKo, Target (Dayton Hudson) and Value City.

Some characteristics of full-line discount stores are centralized checkout, a catalogue order service, and self-service with little emphasis on customer service, a large percentage of sales from hardware products like lawn and gardening equipment, house ware, automotive products and consumer electronics. These stores carry private brands for non-durable goods and national company brands for durable goods.

Variety stores

These stores started with the objective of selling a variety of products at low prices to consumers and were called the poor man’s department store, “five-cent” stores, or the “dime” store. Variety stores initially operated over an area of 10,000 to 25,000 square feet and grew to cover areas up to 1,00,000 square feet over the years. They evolved into “junior” department stores and later into discount stores. Some well-known variety store chains include F.W. Woolworth Corporation, McCory’s dimestore and Variety wholesalers in the US, Marks & Spencer in the UK, Monoprix in France and Kaufhalle in Germany. Following the advent of department stores, specialty stores and “category killers”, the variety store concept has virtually died out in many parts of the world.

Off-price chains

This type sells products like apparel, shoes, cosmetics and houseware at every- day-low- prices (EDLP) in a self-service environment. They purchase goods only when there are special offers or good terms and conditions from manufacturers or wholesalers. Hence, there is no guarantee that the same products will be in stock again. Prices are nearly 30 to 40 per cent less than traditional department stores. The success of these stores lies in their ability to establish long-term relationships with suppliers under favorable purchase conditions. Companies make use of these stores to offload excess stock at the end of the season or when a product has failed in the market. Purchases are on a cash-and-carry basis and not on credit. These stores often buy seconds, cancelled orders and end-of-season stock of department and specialty stores. Some leading variety store chains in the US are TJX, SteinMart, Ross stores and the Burlington coat factory.

Membership clubs

They are also called 'warehouse clubs', 'wholesale cash-and-carry warehouses', 'whole sale clubs' and' membership discount stores'. Consumers who shop here have to be members of the clubs and pay a monthly or annual membership fee. There are two kinds of memberships, 'wholesale' and 'group'. Wholesale memberships are for small business owners who purchase more than half the merchandise. Group members are generally government or military employees, or members of credit unions and financial institutions. These buyers make up a majority of the members but buy less than the wholesale members.

Membership clubs have blurred the distinction between wholesaling and retailing operations. They mainly sell general merchandise, clothing and food products. They have large storage facilities that double up as the shopping area, hence the name warehouse clubs. They avoid financial hassles by selling most products before having to pay suppliers.

Large warehouse clubs sometimes have an inventory turnover 15 to 18 times a year, which is more than three times that of discount stores. They stock nearly 4,000 to 5,000 items of well-known brands. Food, house ware and appliances account for more than 40 per cent of total sales. Promotional spending is minimal at about one and half per cent of sales. Warehouse clubs operate on a gross margin of 10 to 11 per cent and sell merchandise at prices 20 to 40 per cent below discount stores or supermarkets. Sam's Wholesale Club is the biggest US-based operator in this category. Other major players are Costco wholesale club, Price club and Pace membership warehouse.

Thrift stores

They are also called second-hand stores or second-order retail outlets. They sell second-hand products at a bargain and are generally located in low-income neighbourhoods. They include both non-profit and for-profit organizations. Some well-known thrift stores are Goodwill Industries and the Salvation Army (non-profit) and Savers (for-profit). Thrift stores do not emphasize store environment and product displays and are usually situated in basements and downtown locations.

Flea markets

Flea markets are an informal form of retailing and are common in countries like India, though the name originates from the US. They are also called 'Sunday' markets, where vendors gather in makeshift shops to sell a range of products. These markets have something for everyone and cater to diverse consumer tastes. Flea markets are prevalent in developed nations like the US too. Vendors in these markets set up shop on a daily, weekly or seasonal basis. The Rose Bowl flea market in California is the largest of its type in the US. The flea market is considered a part of the underground economy, as taxes, accounts and product quality are not monitored. This gives rise to the possibility of unethical practices, especially in segments like baby food and pharmaceutical products.

3.12.3 Non-Store Based Retailing

Non-store retailing is when strategies that are not linked to the retail store are used to sell products. The traditional concept of location loses its importance in non-store based retailing formats. The last couple of decades have seen the emergence of this form due to the consumers desire to try out alternative channels of retailing. Commonly used non-store forms of retailing include direct marketing, direct selling and automatic vending machines.

Direct marketing

Direct marketing has emerged as a powerful non-store communication and distribution medium for selling a host of products to consumers. It is a form of retailing where product selling is targeted at specific customers. Catalog retailing and direct mail are common forms of direct marketing. Over the years, several new forms of selling like telemarketing, direct radio and TV and Internet shopping have gained widespread acceptance.

Depending on the products they sell, direct marketers can be classified into general direct marketers and specialty direct marketers. The former sell a wide range of products, not restricted to any particular category. Products offered include apparel, toys, gifts, kitchen appliances and house ware. In contrast, specialty direct marketers sell a limited range of products, restricted to certain product lines. In this aspect, they are similar to specialty retailers.

Catalog retailing

Catalog retailing comprises only 3 per cent of the total organized retail business in the world. It is still in a nascent stage in India. Otto Burlington (part of the German consortium of Otto Versand) was the first to venture into catalog retailing in India in 1993. It brings out the well-known catalog'Otto Burlington'. J. C. Penney (a US-based retailer) has a 1,000 pagecatalog, covering more than 50,000 products, which is mailed to customers twice a year. The company spends a lot of time in catalog preparation to meet changing customer needs and provide a range of products. Companies have started sending tailor-madecatalogs, called 'specialogs' to consumers. 'Specialogs' contain a list of products that vary for different customer segments. Despite its advantages, catalog retailing is expensive due to the enormous costs involved in paper, printing and mailing.

Direct mail

Another common form of non-store retailing is direct mailers. Many companies in India use this route to sell products. Reader's Digest was one of the earliest magazines to be promoted using direct mailers. Mail orders can be segregated into consumer mail order, business mail order and charitable direct response. The first has the largest share of sales among the three. The concept of direct mail is slowly growing in India. Companies using direct mail can ensure good sales if they plan their strategies well.

For both catalog retailing and direct mailing, a detailed list of prospective customers has to be prepared. Such a database will also help the company to keep track of customer responses and classify customer's based on purchase patterns. Databases played a crucial role in the turnaround of Spiegel, the American catalogue retailer. Databases helped the company to segment customer groups, develop specialty catalogues to target niche segments and update products in short time periods.

Another form of direct marketing is through television and cable TV. Many companies have used this form of retailing successfully. Home shopping TV consists of ‘infomercials’ mats introduce and demonstrate the product through 30/60 minute programmes. The Direct Response Television Market (DRTV) in India is estimated at Rs. 50 crores. The well-established players in this segment are Asian Sky Shop (ASK) and Teleshopping Network (TSN). Though this type of retailing is widely accepted elsewhere, in India, no company has yet set up an exclusive channel for direct marketing because only a few people shop using this medium.

Direct selling

Direct selling is a method of marketing and retailing goods to the consumer. Though direct sellers too use catalogues and some form of advertising, the personal interaction of the salesperson with the customer is the catalyst for the sale. The direct selling industry worldwide has shown tremendous growth. In India, it has a steady 60 to 65 per cent growth rate in sales turnover. Over 200 direct selling companies operate in the country and 70 per cent of them are regional operators. Eureka Forbes was the pioneer of direct selling in India.

A wide range of products like cosmetics, home appliances, educational material, kitchenware, food and nutritional products are sold through direct selling. In India, 68.9 per cent of products sold through direct selling are household goods, while 12.4 per cent are personal care products.

There are three forms of direct selling - person-to-person selling, party plans and multi-level marketing. Women comprise the majority of direct sellers in all these forms.

Person-to-person selling

Here, the salesperson calls upon the prospect at his or her home and discusses the product first-hand.

Party plans

Here, the salesperson arranged to give a product demonstration to a group of consumers. The demo might be in the private residence of consumers or in a public place like a hotel.

Multi-level marketing

This form of direct selling uses one-to-one selling as well as party plans. Multi-level marketing (MLM) has gained tremendous popularity in India due to the flexibility of working hours and ease of operations. In addition, sales personnel are paid a commission or bonus for every new member they recruit to sell the company's products. Companies like Amway, Medicare and Herbalife use multi-level plans.

The advantage of direct selling over direct marketing is the ability to allow consumers to have a touch and feel of the product. The US is the biggest market for direct selling operations and the South-East Asian region the fastest growing.

Automatic vending machines

A vending machine uses computer technology that allows dispensing of products when a coin or card is inserted. A rudimentary form of these machines is seen at railway and bus stations ~ coin-operated weighing machines. Vending machines are also used to dispense products like beverages, cigarettes, food items, newspapers and candy. The vending machine eliminates the need for personnel, gives flexibility of time (it can be used at all times) and convenience of location (at railway stations, airports, hotels, offices and street comers). The major disadvantage is the high costs involved in stocking and servicing the machines.

3.12.4 Non-Traditional Retailing

Non-traditional retailing involves use of computers and information technology to sell goods to consumers. It does not come under traditional or non-store forms of retailing. Some types of non-traditional retailing are use of the Internet, video kiosks and video catalogs.

The Internet

This form of retailing has the advantage of transmitting voice, text, video and pictures, not possible simultaneously in other forms of retailing. The Internet also allows retailers to interact with customers without incurring high costs. Tele-marketing, door-to-door selling and party plan direct selling are the other forms of selling, which enable customer interaction at low cost. The success of non-traditional retailing depends on the extent and type of product information provided to customers. Retailers with a strong image but a regional presence can use this form of retail selling to increase sales and expand operations.

- The customer can compare the various products available before making the purchase decision. This is not possible with other non-traditional forms of retailing. Product information can also be easily shared using e-mail and newsgroups.
- Digital products like software and video records can be easily sold over the Internet. Electronic catalogs offer the advantage of a detailed list of product range and extensive information.
- Internet shopping saves time and is convenient to customers as it can be done at any time of the day. The customer can check the products available and make the purchase decision without any time constraint as is present in telemarketing.
- This type of selling is non-intrusive as customer's browse the Net according to their own free will. It differs from door-to-door selling and telemarketing in this.
- The marketer can track the number of times a customer has visited the website by calculating the number of clicks on the site.

The most common forms of retailing using the Internet are online shopping and e-tailing.

Online shopping

Online shopping or interactive home shopping is a spin-off from the Internet. The consumer uses an interactive electronic system like a computer or a television to make product enquiries and the retailer sends information and graphics directly through the Internet to the customer. Exchange of information is online and once the order is placed and paid for electronically, the goods are delivered to the buyer. This form of business transaction is popularly known as e-commerce. India is far behind nations like the US and Japan in e-commerce. This is because of factors such as low Internet and credit card penetration, hesitation by customers to make online purchases and payments, cultural issues etc. Music audios and videos, greeting cards, books and gifts comprise the largest segment of online shopping in India.

E-tailing

Business-to-Consumer or B2C commerce is another application of the Internet. It is popularly called e-tailing in the retail sector. Many companies have adopted this technology to provide shopping ease for consumers and to reduce operational costs. Retailers use thee-tailing route to enhance the customer's online shopping experience and give them an alternate way to purchase products offered. E-tailers have increased customer visits to their websites by developing better search and navigational engines and tightening security to protect financial transactions and personal information of customers.

Apparel retailers like Sears Roebuck Co. have used e-tailing successfully. Sears Roebuck Co.s "my virtual model" allows customers to view a 3-D form of the human body based on the body measurements provided. The model helps customers in clothes selection. Yet another company using e-tailing is Macy's. It has developed 'clickable swatches', which allow a product to change colour according to the swatch selected. The company has also developed better navigational features for their website www.Macy's.com to enable customers get the desired results with fewer clicks.

Video kiosks

Video kiosks comprise stands mounted with a television monitor or a computer terminal, which use touch screen technology to display products and related information to customers. Video kiosks have a location advantage and have been widely used by retail giants like Wal-Mart and Kmart for the past decade. Home Depot, the second largest retailer in the US, uses video kiosks in its self checkout lanes, where customers can bill their products and make payments without help. Video kiosks enable retailers to add value and enhance customer relationships while simultaneously providing an interactive forum to display products. A Dell computer has established its kiosks in malls to sell its computer brands. Kiosks in malls are large enclosures that have plasma screens showcasing six to seven Dell products. The kiosks allow customers to place orders on the spot. In India, video kiosks are used for advertising products at supermarkets and shopping centers.

Video catalogs

Video catalogs area version of catalog retailing. A video catalog consists of a retail catalog in the form of a compact disk that contains product listings in an electronic format. Thecatalog can be viewed on a computer and based on products available, the customer can order from home. Video catalogs enable retailers to provide product information through multimedia technologies, text and sound clips. It is better than the Internet as; such large amounts of data take a long time to download from the Internet. The use of video catalogs is widely prevalent in the US, but in India; it is in a nascent stage and is confined to the software and music industry. The main reason for this is that the consumer needs a computer with a CD drive facility to view the catalog.

3.12.5 Service vs. Goods Retail Strategy Mix

This classification of retailers is based on the type of offer made to customers. It might be a product or a service. Retailers may be involved only in product retailing or in service retailing or a combination of both. Both product retailers and service retailers can adopt store-based, non-store based or non-traditional retailing formats. In service retailing, the buyer does not purchase any tangible product from the seller, while in product retailing; there is sale of a physical product through transfer of ownership between the buyer and the seller.

Service retailers typically include beauty salons, travel agencies, auto repairs, video rentals etc. They can be classified into three categories: rented goods service retailers, where consumers use a product for a certain period, (example, car and video rental agencies); owned-goods services retailing, where products owned by customers are repaired or serviced (example, automotive repair); and non-goods services, where customers experience a service (example, beauty salons). Service retailing is a big business, even in India. Insurance, travel, and cellular services are examples where service retailing is picking up in this country.

Check your progress 11

1. Involves selling goods and services to consumers for their personal or household use.

   a. Retailing

   b. whole selling

2. Most ___________are small operators and are usually independently owned.

   a. retailers

   b. wholesalers

3. _______retailers are the most common form of retailers.

   a. Independent

   b. dependent

3.13 Strategic Issues in Retailing

Over the last few years, there have been marked changes in the retailing industry. Many of these changes result from a dynamic market environment and lead to the emergence of different retailing developments. The trends in retailing include competitive trends, consumer trends, trends in technology and innovation, micro-marketing, new retail formats, global retail operations, quick response and cost reduction and ethnic retailing.

Competition

Over the years, the emergence of a number of stores has led to their fighting for the same turf. Competition between chain superstores and independently owned outlets have shot up. Superstores, with their better bargaining power, economies of scale and modern operations, woo the consumer by offering low prices and a better shopping experience. Competition has also led to the close down and liquidation of numerous stores. In 1995 the closure of around 200 stores in the US by Kmart and the bankruptcy reorganization of Caldor (a Connecticut-based discount store is testimony to the intense competition. Retailers are ready to grab any opportunity in the market and any change introduced by one retailer is quickly replicated by others. For example, when Wal-Mart made it necessary for its suppliers to adopt the EDI (Electronic Data Interchange) system, other major players followed suit.

Consumers

Consumers have become more and more demanding and have ever-changing needs and desires. Retailers have to be constantly alert to cater to this. Consumers are now better aware of their needs and have become 'smart' shoppers. They are also more educated and plan their shopping trips, demand better service, give priority to shopping convenience and seek a wide range of products to choose from. Increasing market awareness has led to consumers giving priority to obtaining the best bargains. This has led to a decrease in customer loyalty to retail stores. Customers are ready to travel longer distances to shop at a store that offers all benefits. Another noticeable trend is the increase of women in the workforce. This has led to reduction in the time spent on shopping and an increase in preference for convenience foods.

Technology

Retailers depend on technology to achieve efficiency and speed in store operations and to fulfil customer needs. Hardware, software and networking technologies have changed the face of retailing. Technology has led to the concept of e-tailing. It has also enabled retailers to enter into multi-channel retailing formats and has enhanced retailer-supplier relationships. Operational costs have come down, range of merchandise offered has increased manifold and prices have been cut. Technological innovation is also a source of competitive advantage. It has enabled retailers to study consumer behaviour and improve inventory management and stock replenishment. Technology has led to the development of new retailing systems like point-of-sale systems, check-out scanning systems, EDI, electronic funds transfer and emergence of virtual stores.

Micro-marketing

Changing consumer tastes and increase in consumer expectations has led to the emergence of micro-marketing. This involves targeted database marketing and it provides customers with products of their choice at the time and place they want. This requires retailers to get the right product at the right store at the right time. Traditional department stores have adopted micro-marketing to become more focused by eliminating certain product lines like automotive, hardware, consumer electronics etc., from their product portfolio.

Technology and competition are the main reasons for the development of micro-marketing. Many retailers have started using concepts like trade-area analysis, sensitivity pricing, demographics and other sophisticated models to align their offerings with the store location. A discussion on these concepts is beyond the scope of this chapter.

Emergence of new retail formats

New retail forms and combinations are continually emerging. The use of video kiosks in retail stores, installation of ATMs in huge departmental stores and hypermarkets and the establishment of combination stores featuring different retail formats have become the norm. Gas stations housing a coffee shop or a food store alongside have become a common sight.

Global operations

Increasing competition and reduction of opportunities in domestic markets have forced many retailers to look abroad. The global expansion of retailers has also been made possible due to customers' preferences for non-store retailing, which has partially eliminated the concept of store location. Consumers are introduced to new products through TV, telephone, Internet, catalogs, direct mail and compact disks. This has enabled retailers to expand their operations globally, overcoming the limitation associated with store location. Global operations increase profit levels of retailers and help establish credibility among consumers.

Ethnic retailing

Increasing travel and migration of work force has led to the emergence of a new retailing concept - ethnic retailing. This involves catering to the needs of ethnic groups living in the region. Restaurants have always catered to this group of people, but retailers have woken up to this need only recently. Many retailers have started stocking products tailor-made to suit the demands of a particular group of people. Packaging sizes, labelling, shelf displays etc., have been modified to suit the tastes of ethnic groups. Many retail stores nowadays cater exclusively to Asians, Latinos or Africans.

Diversification

Another trend in retailing is diversification. Retailers want to take advantage of their image and brand personality to enter other business areas. For example. Tesco (the UK-based supermarket chain) has ventured into banking, Boots (the UK-based health &beauty products retail chain) into optical tests and supplies, Marks & Spencer (the UK-based retailer of clothes, food, home products and financial services) into mail order furniture and so on. Though such expansion increases profitability, it is necessary for retailers not to lose hold over their core business area.

Most current trends in retailing have benefited the industry as a whole. They have made retailing an important industry to reckon with in comparison with other traditional industry sectors. Future trends in retailing are discussed in the next section.

Check your progress 12

1. Non-store _______is when strategies that are not linked to the retail store are used to sell products.

   a. retailing

   b. whole selling

3.14 Trends of Retailing

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Check your progress 13

1. ________between chain superstores and independently owned outlets have shot up.

   a. Competition

   b. fight

3.15 Future of Retailing

The future of retailing has been a subject of intense speculation, particularly with the advent of direct marketing and Internet shopping. The retail industry will continue to grow and expand and retail giants will continue to dominate the industry. There will be immense opportunities for retailers willing to fulfil the ever-changing needs of consumers. Internationally, the retail trade is becoming more focused and global players are gaining in importance. In many countries, strong private store brands are giving national brands stiff competition. E-commerce has led to many retailers devoting significant efforts to cutting costs from the supply chain.

3.15.1 Global Retailing

In the future, global retailing is likely to be characterized by the following:

- Stronger efforts by retailers to develop a product portfolio tailor-made to fulfil consumer needs.

- Department stores will face stiff competition from mass-merchandisers as well as specialty retailers.
- Retail formats will have a shorter life span. Newer formats will be copied quick! And will lose their novelty.
- The concept of e-tailing will dominate retail sales largely.
- Consumers will make use of Information and Internet technology to search ft. information on products and make intelligent shopping decisions.
- Technology advancements implemented in stores will lead to better operation efficiency and employee productivity.
- As retailers expand operations, they will prefer to integrate backward. This will lead too many suppliers facing competition from retailers in the future.
- Retailers will prefer to build their own store brands to attain competition differentiation.
- More and more retailers will share information with each other and enter brand-sharing or partnership agreements.
- Manufacturers and suppliers will try to gain access to consumers through direct operations. Many suppliers may venture into the retail sector to red dependence on retailers and thereby reap better profits.
- Consumers will start dictating product displays and stores will be compelled to give exceedingly good treatment to their customers
- Rising costs will make more efficient operations and smarter buying essential for retailing success.
- Retail technologies will grow in importance as competitive tools to produce accurate forecasts, improve control over inventory and facilitate electronic placing of orders from suppliers.

3.15.2 Retailing in India

India has been considered as a nation of shopkeepers having around 12 million retailers, in 2003. Most retailers are small business owners and organized players are limited in number. The potential for the retail sector in India is enormous. The Indian retail sector has a potential to support business worth one billion in the grocery segment, and 0.3 to 0.5 billion in the apparel sector. Only 2 per cent of the retail industry has adopted the modern retail format of department stores and supermarkets. This spells enormous future potential in the organized sector.

Increasing incomes, increasing number of working women, and rise in demand for 'shoppertainment' will fuel the growth of organized retailing. Changes in government policy like creation of uniform taxation policy to eliminate advantages being gained by the unorganized sector, land reforms and real estate flexibility, removal of rigid controls over FMCG chains and liberalization of tariffs will make India an important destination for global retailers. Many foreign players will be able to enter the country after restrictions on direct investment in the retail sector are removed. The latest in retail technology will be implemented in this country as well. For example, Arvind Brands, in collaboration with Wipro, has already begun to experiment with Radio Frequency Identification Tags (RFID) those enables retailers to do away with bar code scanning during payment. Currently, retail giants like Wal-Mart use this technology in their self-checkout lanes. Leading retailers like Shopper's Stop and Pantaloons plan to adopt this technology.

The high potential retail sectors in India are men's apparel, electronics, dry grocery, music, books, furnishing and sports clothing. Sectors still developing include pharmacy, fresh grocery, toys, photos, fast food and women's apparel. Retail sales are expected to grow at 8.3 per cent for the period 2003-2008, faster than consumer expenditure. Modem retailing formats like department stores and hypermarkets will grow rapidly due to the upper classes' liking for shopping convenience, single location purchase and variety. Large format stores are expected to show a healthy growth between 24%-49% during 2003-2008.

Though the country has the capacity to support large retail chains, a lot need to be done to develop logistics, infrastructure and supply chain management solutions. Due to the large investments involved, it may not be possible for retailers to develop these requirements by themselves. The government must play a major role to realize the immense potential India has in the retail sector.

Check your progress 14

1. __________have become more and more demanding and have ever-changing needs and desires.

   a. Consumers

   b. wholesalers

2. ___________depend on technology to achieve efficiency and speed in store operations and to fulfill customer needs.

   a. Retailers

   b. wholesalers

3.16 Let Us Sum Up

In this unit we have studied about the merchant Wholesalers in detail they are wholesalers who take over the title of ownership to the goods from the producer and are responsible for the stock owned. They buy and assemble goods in large lots and resell them in small quantities to retail outlets, industrial, commercial or professional users through salesmen. .

Variations in consumer needs and demands mean that manufacturers have to produce an endless assortment of different products. So that this endless cycle can be kept going, it is necessary that there is a continuous flow of products from manufacturer to consumer. Retailers not only make products available to consumers, who are geographically dispersed, but also act as a source of information to manufacturer's about consumer requirements. Manufacturers seek retailer's help to gather information about consumer tastes and preferences. They also obtain information on product quality and usage. Manufacturers use this information to modify existing products and launch new products. This information is valuable because retailers enjoy the advantage of having direct contact with consumers. Further, retailers assist manufacturers to streamline and specialize production so that different products can be made available according to changing customer tastes. This helps manufacturers gain higher profits. Retailing is a labour-intensive activity and employs a large number of people. With increasing economic growth and improved standard of living, consumption levels are set to reach never-before levels. These will be a boon for the retail sector.

So here in the block the importance of retail as well as wholesale trade has been discussed and how important they are for our economy has even been discussed here in detail. This discussion is certainly going to be of great help to the students of management stream at sometime in future.

3.17 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a)

Check your progress 2

Answers: (1-a), (2-a)

Check your progress 3

Answers: (1-a), (2-a)

Check your progress 4

Answers: (1-a), (2-a), (3-a)

Check your progress 5

Answers: (1-a)

Check your progress 6

Answers: (1-a), (2-a), (3-a), (4-a)

Check your progress 7

Answers: (1-a)

Check your progress 8

Answers: (1-a)

Check your progress 9

Answers: (1-a), (2-a), (3-a)

Check your progress 10

Answers: (1-a), (2-a)

Check your progress 11

Answers: (1-a), (2-a), (3-a)

Check your progress 12

Answers: (1-a)

Check your progress 13

Answers: (1-a)

Check your progress 14

Answers: (1-a), (2-a)

3.18 Glossary

1. **Wholesalers -** They are those sellers who do not sell good to final consumers but they sell goods to retailers.

3.19 Assignment

Explain in detail about the challenges in wholesaling.

3.20 Activities

Why do you think that retailing is important? Explain.

3.21 Case Study

Prepare a comparison chart in which compare the advantages and disadvantages of Retailing and Wholesaling Business.

3.22 Furthers Readings

1. Sales Management - by Chris Noonan.

2. Managing Sales Leads : Turning Cold Prospects into Hot Customers - by James Obermayer.

Block Summary

In this block the whole content was divided into three unit’s. The first unit covered the topic distribution management and has been discussed in very detail, whereas the second unit covered the topic channel control which has even been discussed in detail. Whereas the final unit covered the topic wholesaling and retailing which was covered in very detail? The writer in the book has tried his best to explain the topics; he has kept the language of the book very simple in order to make it more understandable. The block has tried to explain the distribution management which is considered to be one of the most important to subject in business because in absence of proper distribution channel the business wont be able to distribute its goods efficiently which will result in loss of sale or business and this in turn will reduce the profitability of the firms. The second unit covered the topic channel control which was also discussed and explained to the readers and the final unit discussed the topics wholesale and retail business, in which the importance of both types of business was discussed and how they are contributing and complimentary to each other was also explained to its readers.

So after completing this block we have got in very detail the knowledge regarding the various distribution channels which really plays a very important role in the life of a business

Block Assignment

Short Answer Questions

1. Channel Flows and Costs.
2. Channel Functions.
3. Roles of Channel Members.
4. Functions in Logistics Management.
5. Global Challenges in Logistical Management.
6. Databases for Channel Information Systems.
7. Post-contractual Conflicts.
8. Strategic Profit Model.
9. Channel Performance at a Macro Level.
10. Channel Level Conflicts.
11. Strategic Issues in Retailing.
12. Non-Store Based Retailing.
13. Source of Employment.
14. Agents and Brokers.
15. Merchant Wholesalers.
16. Full-service merchant wholesalers.

Long Answer Questions

1. Write a detailed note on marketing channels.
2. Discuss conflicts in detail and also discuss its types.
3. Explain the importance of wholesalers and retailers in detail.

Enrolment No. [ ]

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	____________
Language and Style	☐	☐	☐	☐	____________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	____________
Conceptual Clarity	☐	☐	☐	☐	____________
Check your progress Quest	☐	☐	☐	☐	____________
Feed back to CYP Question	☐	☐	☐	☐	____________

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

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