Sales and Distribution Management

Block

2

PLANNING THE SALES EFFORT

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BLOCK 2: PLANNING THE SALES EFFORT

Once a strategic marketing plan is in place, a firm moves to the next stage of sales planning. This step encompasses sales forecasting, identifying and demarcating sales territories, fixing sales quotas and also analyzing sales costs for achievement of marketing goals. The second block of the course on Sales & Distribution Management deals with planning the sales effort. The block contains six units. The first unit talks about the basic concepts of sales planning. The second unit examines sales territories in detail. The third unit deals with sales budgets. The fourth unit elaborates on how to estimate market potential and forecast sales. The fifth unit discusses about sales quotas, while the sixth unit explains on how to conduct sales and cost analysis.

The fifth unit, Sales Planning, discusses the importance of planning in sales management. It focuses on the role of a sales manager as a planner and administrator. This unit explains the sales planning process and also provides an idea about the causes of unsuccessful sales planning. The unit ends with a discussion on the importance of accuracy in sales planning.

The sixth unit deals with sales territories. It discusses the nature and purpose of sales territories. It also focuses on the process and methods of designing sales territories. The unit examines the use of computers and technology in territory design. The unit ends with a case study/project on territory design.

The seventh unit, Sales Budgets, discusses sales budgets in detail. It discusses the purpose of sales budgets and the benefits of budgeting. It also focuses on the principles of budgeting, different types of budgets and the methods used for budgeting in sales management. The unit also explains the steps to develop a sales budget, and the precautions to be taken in preparing sales budgets.

The eighth unit, Estimating Market Potential and Forecasting Sales, deals with estimating market potential and forecasting sales. The unit focuses on the need and importance of estimating market potential. It also explains the various methods used for forecasting sales. It discusses the factors to be considered while selecting a forecasting method. The unit also details the criteria for effective forecasting and the difficulties associated with it.

The ninth unit, Sales Quotas, discusses the various aspects pertaining to sales quotas. It details and describes the purpose, importance, and characteristics of sales quotas. It also discusses the various types of sales quotas, various methods for setting quotas, and their limitations.

The tenth unit, Sales and Cost Analysis, analyzes the various aspects associated with the sales and cost control functions of sales management. The unit also examines the nature and methods of sales control. It also discusses the principles, elements, and steps in sales analysis and marketing cost analysis. It also explains sales audit and marketing cost audit. The unit ends with a discussion on profitability analysis, and the various principles of analysis.

Unit 5

Sales Planning

Structure

"Every sale has five basic obstacles: no need, no money, no hurry, no desire, no trust.."

- Zig Ziglar (a renowned American sales professional and motivational speaker)

5.1 Introduction

Here, Ziglar gives five basic obstacles that happen in every sale so as to plan accordingly by salespeople to deal. Thus, sales planning helps not only in understanding the obstacles from salespeople but also from the prospects. This unit deals with the sales planning.

In the first block to the course of Sales & Distribution Management, we have discussed the elementary concepts of sales management, the sales organization, the sales function and policies, and the concept of personal selling. This unit will deal with sales planning.

Present day organizations operate in an environment of uncertainty. They have to be able to anticipate the future and prepare themselves well in advance. Planning is the process that guides the organization to decide the activities to be performed, when to perform them, how to perform them, where they should be performed and who are the people who will perform them.

Sales planning helps establish sales goals and take decisions on types of strategies and action plans required to achieve these goals. The sales plan is an annual document that must be periodically updated according to external environmental changes. A business may have one or more than one sales plans. The sales plan, in tune with the company plan, shapes the role and activities of the sales force.

Planning is an internal activity in the sales organization. Most steps in sales planning are done through internal analysis using information from internal records, market intelligence systems and internal organizational sources. Sales planning is guided by the top management but should always take into consideration real-time inputs given by sales personnel who have first-hand knowledge of prevailing market conditions.

This unit will discuss the importance of sales planning, the role of a sales manager as a planner and administrator, the various steps involved in the sales planning process, the causes of failure of sales plans and the importance of accuracy in sales planning.

5.2 Objectives

After going through this unit, you should be able to:

- Illustrate the importance of sales planning.
- Analyze the role of sales manager in sales planning.
- Explain the sales planning process.
- Discuss the causes of unsuccessful sales planning.
- Judge the accuracy of a particular sales planning.

5.3 The Importance of Sales Planning

Sales planning is the first step in the sales management process. It guides the organization in achieving its objectives in a systematic manner leading to profitability and success. Planning is a pre-requisite not only for achieving business success but also for surviving in the present complex and ever-changing global environment. The importance of planning can be understood in terms of its influence on different managerial functions. It is discussed in the following section.

5.3.1 Better Implementation of Corporate Plans

Planning ensures better coordination and implementation of corporate plans as it influences other management functions like organizational design, selection, training, monitoring and compensation of sales personnel. For example, if the corporate strategy is to build customer relationships in new markets, the sales force compensation plan must emphasize the fixed component of salary. This ensures that sales personnel have a sense of financial security and will allot more time to improving customer relationships. If the corporate strategy is rather to penetrate existing markets, stress should be laid on the variable pay component of the sales force compensation plan.

Example: Mercedes-Benz Sales Plan of "Retail of the Future"

Mercedes-Benz India, in 2021, announced a new direct-to-consumer strategy. Mercedes-Benz India planned to move away from the traditional retail route revolutionizing the retail industry.

Customers directly buy the cars from Mercedes-Benz India and not the dealerships. Mercedes-Benz, India set a standardised all-India price and managed the whole national inventory and stocks. Additionally, the customer's sales contract was no longer with the dealer, but directly with the company. The dealerships shifted the focus to being customer experience centres, managed the delivery of vehicles and that of, after-sales services.

Source: Kapoor, R. (June, 2, 2021). Mercedes-Benz India Announces India's First Direct Sales Strategy: How It Affects Customers. Retrieved from https://www.financialexpress.com/auto/car-news/mercedes-benz-india-announces-indias-first-direct-sales-strategy-how-it-affects-customers-direct-to-consumer-model-new-strategy-dealership-future-digital-sales-aftersales-workshop/2263596/. Accessed on 13-6-2022

5.3.2 Provide a Sense of Direction

Proper sales planning helps anticipate future events, but it should not be confused with forecasting and budgeting. Forecasts and budgets give a future projection based on the organization's existing strengths and weaknesses, but does not consider possible changes in these factors, because of changes in the organization in the future. This narrow view can create problems because both the environment and the company undergo dynamic changes over time. Sales planning overcomes this deficiency and formulates a framework for managers to identify problems and evolve solutions accurately. Proper planning helps organizations cope with the changing environment without facing extreme pressure. Otherwise, inability to anticipate changes may make sales organization lose direction.

5.3.3 Focus on Realistic Objectives

Good sales planning helps the management avoid setting unrealistic objectives that lead to unnecessary expenditure on recruitment of excess sales personnel and promotional activities. It also helps minimize responses that are not logical, especially when decisions in response to unexpected conditions have to be taken by sales personnel. For example, excessive or diverse expectations in a sales plan confuse sales personnel and lead to waste of time and resources in pursuit of goals that are not in alignment with organizational objectives.

5.3.4 Improve Coordination

A well-designed sales plan leads to better communication and coordination among sales personnel and the management, reducing conflicts. Effective coordination ensures the subordination of personal goals to organizational goals and to a greater understanding of set objectives by sales personnel. Good inter-functional coordination also helps create a highly motivated sales force as it enables them to understand their priorities and accept the need for continuous changes in routine activities.

5.3.5 Facilitate Control

Proper sales planning ensures that the organization has greater control over sales volumes and is better geared to face unexpected demands in the future. Planning provides the basis for control. The control function ensures that activities conforming to developed plans are being carried out. Planning leads to the development of an early warning system that allows sales managers to detect possible deviations from the plan. It also provides quantitative data that helps managers compare and evaluate the performance of sales personnel.

5.3.6 Ensure Healthy Inter-personal Relationships

Planning helps in maintaining healthy relationships among sales personnel. This can be achieved by involving them in the planning process. Such participation creates awareness of objectives and proposed strategies. It also leads to transparency in the process of setting quotas, sales force evaluation and compensation systems for them.

5.3.7 Reduce Uncertainty and Risk

An important element in sales planning is to conduct a situational and environmental analysis. This creates alertness among sales personnel about probable situations, enabling formulation of proactive contingency plans. The sales plans will then be flexible enough to be modified according to prevailing conditions, reducing the risk of inability to cope with change.

5.4 Sales Manager as Planner and Administrator

The role of a sales manager has undergone a sea-change over the years. Globalization, changes in sales force composition and technology development have forced present- day managers to equip themselves with a different set of skills. From a job that required aggressive selling skills and the ability to impart these skills to sales personnel, the sales manager’s role has been transformed to becoming more of a planner and administrator, with emphasis on conceptual and human skills. Irrespective of this change, very often managers tend to be more directly involved in the routine selling activities of the sales force than in managing the sales force. This is because most organizations promote a star salesperson to a sales manager’s position and these managers are confident of selling products but not of managing people.

Many organizations try to instill the managerial instinct into sales managers by training them and sending them to management development programmes. The other choice is to directly hire graduates from top management institutes.

The significant difference between selling and managing is -- selling involves getting sales results through prospects and customers, while managing means using the power of authority and responsibility vested with managers to get sales results through sales personnel. Managing includes activities like planning, directing and controlling the sales force. Let us discuss below the activities that organizations actually expect from sales managers. We will primarily concentrate on the planning and administrative functions of the sales manager.

5.4.1 Sales Manager as Planner

The effectiveness of the selling effort is dependent on the sales manager's ability to get desired results from the sales force. The manager's ability to ensure this significantly impacts sales, profits and the pay-off from the overall marketing programme. As a planner, the sales manager has to plan for all activities that ultimately result in sales through the sales force. These include: forecasting, developing objectives and sales programmes, designing the sales organization, formulating policies and budgets, developing evaluation standards and formulating sales force compensation plans.

Sales forecasting

Forecasting involves developing projections for the future. It is usually in the form of expected sales volumes at the end of a specific period, say a year. Sales managers can make precise estimates and projections by collecting information on the effect of changes in strategy, market plans, product innovations and sales forecasts. The manager must redefine operational planning forecasts for field sales into shorter time spans like a monthly or quarterly schedule. An effective forecast helps sales managers make effective decisions for managing the sales force.

Developing objectives

A sales manager's primary objective is to increase sales volumes through sales personnel. This is done by setting sales objectives, developing and implementing sales programmes and policies, that are reflected in the sales quotas given to the sales force. Objectives help sales managers to direct the activities of sales personnel. Deciding on the number of sales calls, sales personnel must make in a three-month period are examples of objectives. Managers must quantify objectives to facilitate easy evaluation and control of the sales force. They must keep in mind strategic or operational plans, which focus mainly on expected course of events in the near future.

Developing the sales organization

This is an important planning activity for a sales manager because the successful implementation of sales plans is closely linked to an effective sales organization design. The sales manager has to plan the type of organizational structure, the hierarchy and positions and develop the reporting relationships, duties and responsibilities of the sales force. The manager must devise the sales organization design keeping in view the corporate and marketing plans.

Formulating policies and procedures

The sales manager has to prepare policies and procedures that guide decision-making and directing sales force actions. Policies are predetermined approaches to tackle routine or recurring situations. Sales managers prepare different policies for the sales force. For example, the sales manager may develop a customer policy that requires sales personnel to spend more time on relationship building and customer service, to increase customer satisfaction. The manager may develop another policy restricting the extent to which sales personnel can utilize the assistance of staff personnel in fulfilling overall sales objectives.

Procedures are elaborate descriptions of specific steps required to carry out a task or action. For example, the sales person has to follow a series of clear-cut steps while refunding the money for a defective product returned by a customer, and complete the transaction without delay.

Preparing the budget

Budget preparation involves planned allocation of resources and efforts for various activities related to the organization's objectives. The sales budget is usually a mechanism for control of expenditure and is an instrument for regulating sales force activities. It also provides financial standards for evaluating actual results against budgeted figures. Sales managers have to decide on the cost budget for their sales office and convince top management to approve it. The manager must consider that sales personnel must not feel that the plan has been forced on them. This can be avoided by ensuring that sales personnel are involved in the planning process from the beginning.

The sales managers of today need skills completely different from those used by organizations a few decades back.

5.4.2 Sales Manager as Administrator

As an administrator, the sales manager has to supervise, delegate, coordinate, motivate and counsel the sales force. The sales manager must undertake staffing and training activities and act as a facilitator between the sales force and other employees in the organization like accounts and personnel.

Supervision

The sales manager has the difficult task of supervising the sales force. This is tough on a daily basis because sales personnel operate in the field, away from the office. Supervision includes giving daily instructions to the sales force, guidance to tackle routine problems and coaching to carry out the sales plans effectively, without deviations. For example, supervision may involve solving a problem a salesperson has encountered. At the same time, with the advent of sales force automation and new concepts in sales management like 'team selling', the manager's role has become more of a collaborator and consensus builder than a supervisor.

Delegation

Delegation includes assigning routine tasks to sales personnel. It also comprises assigning authority and responsibility to different members of the sales force. The manager must sit down and review the subordinate's job in terms of its impact on the organization's profits. Based on this, a collective decision on activities to be undertaken in the coming months can be taken along with the identification of possible roadblocks.

Coordination

The sales manager has to segregate sales force activities based on the level of importance. All activities must be carried out with minimum conflict. Coordinating a set of objectives is complicated in practice for a sales manager because they might be quite diverse. They may range from rearranging sales territories, recruiting sales personnel, opening new markets, to market research and so on. Putting in efforts simultaneously for everything is very difficult. If the sales manager focuses on each individual objective, it will disturb the planned accomplishment of all other objectives, because some objectives have to be accomplished simultaneously. Focus on a single objective also reduces the priority given to other objectives.

Balancing different sales objectives is tricky because of shifting priorities, changing costs and the dynamic external environment. For example, a manager's plan to restructure the sales force may have to be advanced by two years owing to unexpected competitive pressures. Such sudden changes can influence the priority given to implementing another objective. This can affect the selling activities of sales personnel. The manager must keep in mind that sales personnel tend to pursue only those objectives in which the manager shows particular interest. They reduce the time that should be devoted to other objectives.

A sales manager selects priorities based on the impact the fulfillment of a sales objective has on the marketing and corporate plan. Utility of time and resources is also considered. For example, in the event of a bandh or strike, it is impractical to make sales calls. Holding a sales meeting is a good alternative.

Motivation

Sales force motivation is a widely discussed concept in sales management. Sales managers have the huge task of maintaining motivation and morale of sales personnel. This is easier said than done because managers can rarely spend time on a one-to-one basis with field sales personnel. The sales force has to face the rejections and dejections of their customers and channel members. This makes it tough for sales personnel to keep up their morale. Similarly, evaluation is hard as the scope of personal supervision is restricted. But, proper evaluation is a must because discrepancies will further reduce sales personnel morale and have a direct and immediate impact on the organization's bottom-line. The sales manager can use rewards in the form of incentives and commissions or sales contests, because the compensation plan is closely tied to sales force motivation.

Ethical approach

Managers in organizations today are expected to adopt ethical practices in their daily activities. With the manager keen to improve company revenues, he or she might take a short-term approach while hiring, setting quotas, promoting and evaluating the sales force. This can be disastrous for the organization in the long-term. For example, the manager might not suggest the name of a high-performing executive when a vacancy for a higher position occurs in order to maintain the sales volumes in his/her territory. In one case, the Prudential Insurance Company of America had to pay $425 million to its customers because its managers did not stop their sales personnel from selling costly new policies to existing customers to maintain profitability levels.

Routing and scheduling, staffing and training are other administrative functions of a sales manager. Managers should help sales personnel plan and assign sales territories and direct them to cover their territory through a routing and scheduling plan. This helps reduce territory coverage, time and costs. Staffing and training are other administrative activities for sales managers. For example, the manager may give a sales presentation to a prospective client along with the salesperson. This is a type of "on the field training" for the sales person.

The manager is no longer the stereotyped super-sales man. Present-day managers have to lead a diverse sales force, who are highly educated and prefer greater challenges and higher rewards. To be a successful manager, one must not only master basic sales management functions but also be proficient in marketing and management skills. This has led sales manager to be more planners and administrators than supervisors or controllers. However, a sales manager must still spend sufficient time in the field with the sales force as it enables effective management of the sales force.

Example: Plans of the New Sales Manager at Clarks Safari

Shahiq Musarrat, an accomplished professional in the hospitality and tourism sector, was appointed as the corporate sales manager at Clarks Safari which was a pioneer in the luxury hotel segment in India. Musarrat, as the new sales manager, was responsible for managing the corporate sales, overseeing the marketing efforts and increasing the revenue of the Clarks Safari properties spread across India.

As a corporate sales manager, Musarrat set priority to maintain brand standards and look for new sources of revenue generation. He also aimed to implement new sales techniques that would benefit the brand and will lead to better results. He also planned to schedule regular training of sales staff, guiding them on new sales techniques, motivating them, and educating them.

Source: (BW Online Bureau. (June 7, 2022). Clarks Safari Appoints Ch Shahiq Musarrat as Corporate Sales Manager. Retrieved from https://bwhotelier.businessworld.in/article/Clarks-Safari-appoints-Ch-Shahiq-Musarrat-as-Corporate-Sales-Manager/07-06-2022-431728/). Accessed on 13-6-2022

Check Your Progress - 1

1. Select the activity that does not come under the administrative activities of a sales manager.
   a. Developing the sales organization
   b. Supervision
   c. Delegation
   d. Coordination
   e. Communicating with sales personnel
2. Which of the following statements is false?
   a. Managing is defined as using power of authority and responsibility of a manager to get sales results through sales personnel.
   b. Selling involves getting sales results through prospects and customers.
   c. Budget preparation involves planned allocation of resources and efforts for various activities related to the organization's objectives.
   d. Delegation includes giving daily instructions to the sales force.
   e. Delegation involves giving authority and responsibility to do a specific task.
3. If the corporate strategy is to build customer relationships in new markets, the sales force compensation plan must emphasize on
   a. Variable component of their salary
   b. Fixed component of their salary
   c. Fringe benefits
   d. Pension and gratuity plans
   e. Incentives for achievement of targets
4. A well-designed sales plan leads to
   a. Better communication and coordination among sales personnel and management.
   b. Increasing conflict among sales personnel and management.
   c. Demotivation of the sales force.
   d. Emphasize on personal goals than organizational goals.
   e. Achievement of targets at the cost of losing long-term relationship with customers.
5. Which of the following regarding sales planning is false?
   a. Proper sales planning helps anticipate future events.
   b. Proper sales planning ensures that the organization has less control over sales volumes.

c. Planning helps in maintaining healthy relationships among sales personnel.

d. Planning helps reduce risk and uncertainty.

e. Sales planning helps salesmen understand what is expected of them.

6. Which of the following does not come under the planning activity of a sales manager?

   a. Forecasting

   b. Developing objectives

   c. Preparing the budget

   d. Delegation

   e. Motivating salesmen

7. Delegation refers to

   a. Giving daily instructions to the sales force.

   b. Assigning routine tasks to sales personnel.

   c. Segregation of sales force activities based on the level of importance.

   d. Maintaining motivation and morale of sales personnel.

   e. Ensuring that workforce gets extra compensation for additional work done.

Activity 5.1

Zoom Telecommunications Company (Zoom) recently expanded its operations to the Asia-Pacific region. In 2019, Zoom appointed Sameer Raje as Country General Manager for India. Discuss Sameer's role as both a planner and administrator.

Answer:

5.5 The Sales Planning Process

Although sales planning is generally a part of the overall marketing planning strategy, it has its own independent planning process. It can be undertaken either as a top-down approach, where the objectives, strategies and tactics are decided by the top management and the sales force only implements them, or a bottom-up approach where inputs are taken from the sales force to prepare the sales plan.

A company should carry out research before formulating a sales plan. To start with, it should collect past sales data from sales records and organize it into various categories like product, territory and customer groups. The sales manager should then study economic conditions that may influence the company and the industry. Once the manager has adequate data relating to past sales and the economic situation, he or she should take operational decisions on the development of the sales plan. Such decisions include when the sales plan would be developed, place of the meeting and members who would participate.

The sales planning process consists of the following basic steps.

- Setting objectives
- Determining operations to meet objectives
- Organizing action
- Implementation
- Measuring results against standards
- Re-evaluating and control

A sales plan influences organizational design, selection, training, monitoring, evaluation and compensation of sales personnel. Hence, the sales manager must ensure that the sales plan is developed properly. Let us discuss each step of the sales planning process.

5.5.1 Setting Objectives

The first step of the planning process is to decide and formulate sales objectives for the sales force. The sales manager requires accurate information to set objectives. A situational analysis followed by an environmental audit provides the information necessary to determine sales objectives.

Internal situational analysis

An internal situational analysis with the addition of a SWOT analysis gives a clear picture of the organization’s present condition - its internal strengths and weaknesses and external opportunities and threats. An objective approach is needed while undertaking situation analysis. The sales manager should discuss and debate questions like – Who will sell the company’s products? What are the various selling methods to be adopted? What are the types of sales tools to be used? (this includes presentations, mailers and brochures). At this stage, an analysis on the alignment of existing sales methods and tools with the organization’s image and an analysis of current customer levels must be done. Such analysis will lead to knowledge of factors that can be controlled internally and the sales force’s strengths and weaknesses. For example, the experience of the sales force might be the strength of the organization. Its weakness might be that the sales force is aging and cannot adapt to the vigour of present-day competitive selling. Generally, the internal strengths and weaknesses can be obtained from the company's sales records, market share, nature of products sold, target markets and so on. A structured approach (like looking into product life cycle positions) is necessary for an effective situational analysis. Finally, the results of the analysis must be clearly communicated to other sales organization members.

External environment audit

After internal situational analysis, external environmental audit must be undertaken. The factors analysed during external audit are largely external and uncontrollable. They can have a significant impact on the organization's functioning. They include: competition, market, political, economic and social conditions. Generally, a PEST (Political, Economic, Social and Technological) analysis is conducted to identify the direction, intensity, extent and time of impact of relevant external variables that can significantly affect an organization.

Sales objectives are clearly defined only after conducting internal and external audits. The sales manager must remember that specific sales force objectives must be derived from broader marketing and corporate objectives are mentioned in the marketing or corporate plan. Sales objectives must align with corporate vision. Depending on the spread of sales operations, a sales manager has to set sales objectives at various levels. The objectives might start at a macro level (country or geographic region) and trickle down to a micro level (a key account). For example, sales objectives can be set for countries, markets, territories, key accounts and so on. Objectives provide the direction for the activities to be undertaken by the organization. They help channelize resources towards essential activities and prevent dissipation of effort. The objectives also help in performance evaluation and controls as results can be compared with objectives.

Objectives may be long-term or short-term. The former contributes to the organization's mission and should not be in conflict with it. The latter contributes to the attainment of objectives set in the marketing plan. The selection of marketing plan objectives should be based on priorities related to long-term objectives. Generally, the objectives will be more specific in the first year of a sales plan than in its fifth year, i.e. the accuracy reduces over longer periods. This can be avoided by preparing the first-year objective so that it provides the foundation for the objectives in succeeding years. This is possible only when short-term plans are part of long-term plans.

Next, objectives must be output oriented and measurable and not just activity-oriented. For example, an objective of increasing sales is of no consequence as it is vague. The goal must be quantified. Increasing sales by 10 % is an output-oriented sales objective. Other measurable objectives could be as follows – ‘x’ number of days of training per year for sales personnel or ‘y’ number of average monthly sales calls per representative. Sometimes, objectives cannot be quantified. For example, objectives like increasing sales force morale and improving company image are difficult to quantify. However, they can be measured through indirect quantification. Absenteeism is closely related to low morale among sales personnel. Thus, reducing absenteeism by 50% gives an indirect quantified objective of improving sales force morale. Sales planning through objectives have been implemented by many large organizations.

5.5.2 Determining Operations to Meet Objectives

After objectives are decided, sales strategies to achieve objectives have to be formulated. Sales strategies are operations, which organize and direct sales activities that help achieve objectives. A strategy must be prepared to accomplish each objective formulated. Strategies must be defined in terms of logic, feasibility and practicality. All the strategies are defined and combined to form a master plan, which makes for easy review by sales manager as well as by top management. The sales manager must develop sales strategies in relation with overall corporate or marketing strategy. The importance of linking both these strategies can be better understood by comparing possible variations in a sales strategy with respect to corporate strategy. An organization typically adopts a ‘build’, ‘hold’, ‘harvest’ or ‘divest’ corporate strategy.

If the organizational strategy is a ‘build’ marketing strategy, which focuses on increasing sales volumes, the sales manager must then design a sales strategy that focuses sales force activities on current and new accounts to increase sales of various products. The sales force has to adopt a relationship marketing approach and collect market information as a source of competitive intelligence.

If the organization is going for a ‘hold’ marketing strategy, which focuses on maintaining current sales volumes, then the sales force strategy must focus on consolidating relationships with current accounts to improve the organization’s position among existing customers.

If a ‘harvest’ marketing strategy which focuses on reducing overall operations costs, is being selected, then the sales force must be directed towards their most profitable customers. This approach will help sales personnel to improve the sales to expenses ratio. A major account strategy or a customer-based sales force is preferable in such circumstances.

If the organization is going for a ‘divest’ marketing strategy, which focuses on minimizing operations costs totally and clearing inventory and overheads at the earliest, then the sales force strategy should be based on selling products without specific focus on profits. The major objective of the sales team here is to clear piled-up inventory at the earliest.

The sales manager must break down the above set of objectives and the corresponding strategies into individual sales objectives for the entire sales force. This can be accomplished by communicating objectives and coaching sales personnel to implement planned sales strategies. For example, if the objective is to gain new accounts, the strategy should support this by ensuring that more recruitments are made to cover new territories and that the existing sales force is given training.

Some organizations assign a group of quantifiable objectives to each individual sales person, based on the sales activities they are supposed to perform. The sales person must develop specific strategies for each objective and implement them in selling activities. The problem with this approach is that sales personnel prepare their strategies for reaching set objectives by assuming the customer's reaction patterns in advance. In practice, it is very difficult to predict customer reactions. Organizations encouraging this kind of planning create conditions where it is the sales force that supports the organization by preparing strategies and not the organization that supports the field force.

Different competitive strategies require varied sales management strategies. The same strategies will not prove effective in all situations. The sales manager must ensure that the adopted strategies aid and support the organizations' competitive strategy.

5.5.3 Organizing for Action

Once sales objectives are identified with the help of sales strategies, the sales manager must devise ways to organize the objectives into tactics. Development of tactics involves identifying steps and taking decisions on operational aspects. It includes answering questions like:

- Which customers to target?
- Which products to highlight among the entire product range?
- What are the apparent market trends?
- What is the sales department's present condition?
- Is the present compensation plan suitable?
- What is the compensation average in the industry?
- What are the different ways to introduce a new product into the market?

The sales manager should communicate the importance of planning to all sales personnel, gain the support of top management, arrange for training programmes or workshops for all personnel and finally garner sufficient resources to implement the action programmes. Decisions on quota setting and budget compilation aspects are also taken in this stage of the planning process.

Tactics are used as short-term action plans depending on the current need of the organization. Increasing profits through a skimming strategy or focusing on sales promotion while introducing a new product are examples of short-term tactics.

5.5.4 Implementing

The role of sales manager in implementation is two-fold – first, it includes developing strategies and delegating responsibilities to sales personnel and second, it involves coaching each individual to develop similar plans for his or her territory.

Developing strategies

In this step, the sales manager has to decide on responsibilities to be assigned and the ways to support each salesperson. They must complement the sales plan and the corporate objectives. Dividing tasks to be accomplished in a time sequence format ensures timely implementation of plans. Also, a periodic review schedule for each sales person has to be established to ensure that sales plans are implemented accordingly.

Coaching

The sales manager must break down objectives and corresponding strategies into individual sales objectives for the entire sales force. This can be done by communicating objectives and coaching sales personnel to implement planned sales strategies. Sales meetings and presentations are used to communicate the plan, because if sales personnel are not clear about responsibilities and expectations, the sales plan cannot be successfully implemented.

Before implementation, it is necessary to check the feasibility and affordability of objectives and strategies. It is also essential that sales managers remain alert to unexpected changes in the external environment during the implementation stage. It must be remembered that it is people who make systems work. Implementation should take into account the culture, tradition and values of the organization along with the attitudes, personality, values and beliefs of sales personnel.

5.5.5 Measuring Results against Standards

The basic process of control involves three steps: (1) Establishing standards (2) Measuring performance against these standards and (3) Re-evaluating and correcting variations from standards. For the sake of convenience, we have discussed steps 1 & 2 in this section. Step 3 is discussed in the subsequent section.

Sales managers need performance standards to measure results obtained from implementing the sales plan. Different performance measures could be related to set performance standards to assess the effectiveness of the sales plan. Sales volumes, selling costs, market share, profit margins and rate of sales force attrition are some frequently used performance measures. Usually, industry averages, past sales force performance or present managerial expectations are used as standards to evaluate results. Objectives set by sales managers are considered the best performance standards as they are based on corporate objectives, current forecasts and budgetary support.

The relation between performance measures and performance standards can be clearly understood from Table 5.1.

Table 5.1: Relation between Performance Measures and Performance Standards

Performance Measures	Criteria for Comparing Sales Plan Performance		Current Plan Objectives
	Industry Averages	Past Performance	
Sales volume	Trade publications	Internal records	Sales forecast
Selling costs	Trade publications	Internal records	Cost budget
Market share	Annual company reports	Marketing department	Forecasts
Profit margins	Trade publications	Sales force expenses, product returns, number of service calls	Sales force expenses

Source: ICFAI Research Center

Performance measures formulated earlier can be measured using forecasting methods like sales and market analysis, return on investment, contribution to profits, return on assets managed by the sales force, sales to cost ratio and market share analysis.

5.5.6 Re-evaluating and Control

The process of re-evaluation can begin midway during implementation of the sales plan or at the end of the process. All programmes have to be monitored constantly and consistently over varying periods of time for effective control and to ensure that overall organizational objectives are met at the end of the year. For example, if the company objective is to increase sales by ₹ 10 million, then one must monitor and ensure that at least ₹ 2.5 million in sales volumes is achieved every quarter.

Adjustment in sales objectives or strategies or tactical changes are undertaken in this stage of the planning process. A thorough reanalysis of planning assumptions and the practicality of the planning approach is also done at this stage. Sales control will be more effective with the aid of a sales audit.

Example: Target Corporation Announces Updated 2022 Plan Focused on Inventory Optimization

Minneapolis-based Target Corporation was an American big box department store chain that served guests at nearly 2,000 stores. Target Corporation in June 2022, announced a set of actions to right-size its inventory for the rest of the year. This would check and balance to focus on serving guests in a rapidly changing environment.

Target Corporation re-evaluated and planned several actions in the second quarter, to include additional markdowns, remove excess inventory and cancel redundant orders. Addition holding capacity near U.S. ports to flexibility and speed in the portions of the supply chain was also looked after.

Source: (June 7, 2022). Target Corporation Announces Updated 2022 Plan Focused on Inventory Optimization. Retrieved from https://corporate.target.com/press/releases/2022/06/Target-Corporation-Announces-Updated-2022-Plan-Foc). Accessed on 13-6-2022

Check Your Progress - 2

8. Which of the following is usually used as a performance standard and not as a performance measure?
   a. Sales volumes
   b. Industry averages
   c. Market share
   d. Profit margins
   e. Sales revenue
9. Which of the following is part of sales planning process?
   a. Measuring results against standards
   b. Preparing the sales budget
   c. Delegation
   d. Motivation
   e. Communication
10. Which of the following is usually used as a performance measure?
    a. Selling costs
    b. Industry average
    c. Past performance
    d. Coaching
    e. Training

11. If an organization is going for a ‘hold’ marketing strategy, then it will
    a. Focus on increasing sales volumes.
    b. Focus on reducing overall operations costs.
    c. Focus on minimizing operations costs totally.
    d. Maintaining current sales volumes.
    e. Clearing inventory and overheads at the earliest.

Activity 5.2

Hershey Company (Hershey) is a manufacturer of chocolates and candies. The sales force at Hershey showed little interest in participating in the sales planning process. After the sales plan and its objectives were communicated, the sales personnel found that most of the objectives did not match their personal objectives and goals, and this decreased their performance levels. The top management realized that if it wanted to avoid such a situation in future, it had to promote the importance of sales force participation in sales planning. It has organized a seminar toward this end. Mention the issues that can be discussed at the seminar.

Answer:

5.6 Summary

- Sales planning is very important to an organization because it helps in better implementation of plans, provides a sense of direction, improves coordination and control and reduces uncertainty and risk.
- The sales manager’s role has gradually shifted over the years to that of a planner and administrator. As a planner, the sales manager has to forecast, develop objectives, design the sales organization, formulate policies, procedures and standards and prepare sales budgets. As an administrator, the sales manager has to supervise, coordinate, delegate and motivate the sales force. Managers must also ensure that ethical standards are followed by the sales force during selling.
- The planning process involves – setting objectives, determining operations to meet these objectives, organizing action, implementing the sales plan, measuring results against standards, re-evaluating, and control of the sales force performance.

5.7 Glossary

Forecasting: The process of making statements about events whose actual outcomes (typically) have not yet been observed.

Inter-personal Relationships: An association between two or more people.

Profit margin: The amount of profit left over after expenses have been accounted for, expressed as a percentage of revenue.

Sales contests: Sales programs that offer incentives to sales persons for successfully achieving their short-term work goals.

Supermarkets: Stores that sell primarily food items with selections wide enough to meet most customers' grocery shopping needs.

5.8 Self-Assessment Exercises

1. Sales planning helps in achieving corporate objectives in a systematic manner, leading to profitability and success. In this context, explain the importance of sales planning with an example.
2. The role of a sales manager has undergone a sea change over the years. Analyze the role of a sales manager as a planner as well as an administrator.
3. Sales planning is very important to an organization because it helps in better implementation of plans, provides a sense of direction, improves coordination and control and reduces uncertainty and risk. Explain the sales planning process in a company.
4. Sales plans become unsuccessful due to various reasons. What are the reasons which lead to the failure of a sales planning?
5. Accuracy in sales planning is of highest importance to any organization. Identify the factors that impact the accuracy of the sales plan and discuss each of them in detail.

5.9 Suggested Readings/Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.
4. Krishna Havaldar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.

6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.

7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

5.10 Answers to Check Your Progress Questions

1. (a) Developing the sales organization

The administrative activities of a sales manager include: supervision, delegation, coordination and motivation. Developing the sales organization does not come under the administrative activities of a sales manager.

2. (d) Delegation includes giving daily instructions to the sales force.

Delegation includes assigning routine tasks to sales personnel. It also comprises assigning authority and responsibility to different members of the sales force. It does not mean to give daily instruction to the sales force.

3. (b) Fixed component of sales personnel salary

If the corporate strategy is to build customer relationships in new markets, the sales force compensation plan must emphasize the fixed component of salary. This ensures that sales personnel have a sense of financial security and will allot more time to improving customer relationships.

4. (a) Better communication and coordination among sales personnel and management

A well-designed sales plan leads to better communication and coordination among sales personnel and the management, reducing conflicts. Effective coordination ensures the subordination of personal goals to organizational goals and to a greater understanding of set objectives by sales personnel. Good inter-functional coordination also helps create a highly motivated sales force as it enables them to understand their priorities and accept the need for continuous changes in routine activities.

5. (b) Proper sales planning ensures that the organization has less control over sales volumes

Proper sales planning ensures that the organization has greater control over sales volumes and is better geared to face unexpected demands in the future.

6. (d) Delegation

Delegation is an administrative activity of a sales manager. Forecasting, developing objectives and preparing the budget all are planning activities of sales manager.

7. (b) Assigning routine tasks to sales personnel

Assigning routine tasks to sales personnel including assigning authority and responsibility to different members of the sales force is called delegation. Giving daily instructions to the sales force is part of supervision activity of sales manager. Segregating sales force activities based on the level of importance is part of sales managers' coordination activity. Maintaining motivation and morale of sales personnel is called motivation.

8. (b) Industry averages

Sales volume, market share, profit margins and selling costs are used as a performance measure. Industry averages and past performance are used as a performance standard.

9. (a) Measuring results against standards

Measuring results against standards is part of sales planning process. While preparing the sales budget is part of sales managers' planning activity, delegation, communication and motivation are part of sales managers' administrative activity.

10. (a) Selling costs

Performance measure includes sales volume, selling cost, market share and profit margins. Industry average and past performance are used as a performance standard. Coaching is part of implementation of sales planning process.

11. (d) Maintaining current sales volumes

If the organization is going for a 'hold' marketing strategy which focuses on maintaining current sales volumes, then the sales force strategy must focus on consolidating relationships with current accounts to improve the organization's position among existing customers.

Unit 6

Sales Territories

Structure

" If you choose to assign your sales territories without a plan, you're no different from a person who sets out on a journey without a destination in mind."

- Richard April (Senior Vice President of Marketing at Repsly)

6.1 Introduction

Here, Richard April emphasizes the significance and role (as a pathway and a destination) of territory management in sales. The previous unit discussed sales planning, a process that helps an organization establish goals and take decisions on the suitable strategies that it needs to implement to achieve the goals. In this unit, we will discuss 'sales territory', which is generally referred to as a geographic area assigned to salespersons. A sales territory is a grouping of customers and prospects assigned to an individual salesperson.

Many sales executives cite sales territories as geographic areas. For example, the Southern India territory or the Western India territory. In comparison, in some companies, geographical considerations are ignored and sales personnel are assigned entire classes of customers, irrespective of their locations. In such companies the technical or specialty selling style may be predominant, Whether designated geographically or not, a sales territory is grouping of customers and prospects that can be called upon conveniently and economically by an individual salesperson.

A sales territory comprises a number of present and potential customers, located within a given geographical area and assigned to a salesperson, branch or an intermediary like to a wholesaler or a distribution hub. In this definition, the key word is Customer rather than a geographical area.

To understand the concept of sales territory, we must recognize that the market is made up of people and not places, people with money and willingness to spend it. Thus, a market is measured by the purchasing power of the customers and not by square mile area.

6.2 Objectives

After going through this unit, you will be able to:

- Discuss the meaning of sales territory.
- Describe the nature and benefits of sales territories.
- Explain how the sales territories are designed.
- Discuss the use of computers in territory design.
- Determine how workload is measured.
- Discuss how the territory size decreases or increases according to workload.
- Describe as to how the sales personnel’s time and efforts are directed and managed.

6.3 Nature and Benefits of Sales Territories

Establishing sales territory is important to facilitate better market coverage. It also enables effective planning and control of sales operations. A company or a firm can derive several benefits and gain profits from a carefully designed territorial structure.

The territorial structure can be a formal territorial structure which can be geographic structure like cities, metropolitan areas, districts, states, or countries, as in the case of FMCG companies or in pharmaceutical companies. It can be informal as in the case of a small company with a few people selling only in the local market. In this case, management can plan and control sales operations without the aid of territories and can still enjoy many benefits of a formal structure.

Formal territorial structure may also be justified when personal contacts play a large role in targeting the customers. This is one reason automobile dealers and commodity and security brokers do not restrict their sales to defined geographical territory. However, whether it is a formal territorial design or informal territorial design, a company can derive the following benefits by carefully designed territorial structure.

6.3.1 Ensures Proper Market Coverage

The sales territories are designed to help the members of the sales force to be at the right place at the right time for maximum productivity. Firms assign each salesperson, a unique geographic or segment-wise territory. The proper designing of the sales territories assures effective and efficient coverage of all the existing and potential customers. When the sales territory is too large, new potential customers are overlooked as the sales person does not have enough time to call on these new potential customers. Thus, creating a territory which can be controlled and managed properly will ensure proper market coverage by effectively serving the present customers and building base for future by identifying potential customers. A well-designed sales territory also helps build and maintain customer servicing for sustained sales. A properly designed territory helps the representatives to devote more time with the customers to understand their needs. Medical Representatives (MRs) of pharma companies are assigned territories on the basis of company's coverage plan. They follow a standard coverage plan and design their itineraries accordingly, with focus on doctors who write maximum prescriptions. The information is available by pharmacists and chemists' surveys.

Example: Chemcut Corporation Expands Sales Territory

Chemcut Corporation, the US based manufacturer of Wet Process Equipment, founded in 1956, offered a complete line of spray etchers, developers, strippers, waste treatment systems, and auxiliary equipment. More than 15,000 Chemcut units were currently in operation around the world.

Chemcut Corporation expanded Tritek Circuit Products' territory to include the Central US States. The new territory included the States of Arkansas, Kansas, Louisiana, Missouri, Oklahoma, Texas, Minnesota, Iowa, North Dakota, South Dakota, Nebraska, Wisconsin, Upper Peninsula of Michigan, and the Canadian Providence of Manitoba. Tritek represented Chemcut for over 25 years in the States of Arizona, Colorado, Nevada, New Mexico, portions of California, and the Western provinces of Mexico. The customers were the true beneficiaries of this service area expansion

Source: Chemcut Corporation. (June 6, 2022). Chemcut Corporation Expands Tritek Circuit Products Sales Territory to Include Central US. Retrieved from http://pcb.iconnect007.com/index.php/article/132231/chemcut-corporation-expands-tritek-circuit-products-sales-territory-to-include-central-us/132234/?skin=pcb. Accessed on 14-06-2022

6.3.2 Planning and Control

Organizing and effectively allocating sales territories to sales personnel enable an organization to bring other aspects of planning - such as sales forecasting and sales budgeting. Establishment of sales territories facilitates matching selling efforts and sales opportunities. Sales personnel are assigned the responsibility of serving particular group or segments of customers and provide contact points with the markets. Territorial assignments give direction to the planning and control of sales operations.

Planning tools such as sales forecasting and sales budgeting can be done effectively when there are carefully designed territories. The territories vary from each other in many ways like the number of potential customers, the purchasing habits of the customers, the type of trade practices, the type and potential of middlemen and most importantly the culture of that particular territory. These factors can be taken into consideration while doing sales forecasting and sales budgeting. By designing sales territories, management takes an important step towards accumulating knowledge on the company's strengths and weaknesses in serving different segments or markets. Sales planning that is realistic is done on a territory-by-territory basis.

Characteristics and prospects of the customers vary from one sales territory to another, and from one district to the other. The territory is a more homogeneous unit when compared to the market. Break-up of the market into smaller units enables effective control of sales operations and aligns selling efforts with sales opportunities.

6.3.3 Reduces Travel Time & Control Selling Expenses

With no geographical territories, the sales persons will interweave or cross each other as they travel from one customer to other and as a result, they will spend more time in travelling and less time in selling. Often, the salesperson takes a different route each time he/she travels the territory, to achieve the desired call frequencies and to incorporate new customers and prospects into the itinerary. Furthermore, because of the changes that occur in account and customer classifications, prospects, new product launch, competitive activity, and road conditions, it is impractical to set up fixed route and call schedules particularly in the absence of a well-designed territory. A carefully designed territory routing and scheduling can be well planned to reduce the time wasted and sales expenses by sales personnel.

Good territorial design combined with careful salesperson's assignment results in decreased selling expenses and increase in sales volumes. Sales personnel spend fewer nights away from home which reduces or eliminates expenses on lodging and food, cutting travel time and transportation expenses. These savings, along with higher sales volumes from increased productive selling time, reduce the ratio of selling expenses to sales. Even if selling expenses remain unchanged, the increase in sales produced through proper market coverage, reduces the overall selling expense percentage.

If the territorial planning is unsound or is not combined with appropriate assignments of sales personnel, selling expense ratios increases. If the planner, for instance, ignores normal travel routes and geographical barriers, sales personnel spend more time in travelling when they could be calling on customers.

This results in lower sales volumes and higher selling expenses. Sometimes selling expenses may have to go down to obtain a lower selling expense ratio. To secure larger sales volumes, sales personnel may have to incur additional expenses. Securing larger orders may require more frequent sales calls which results in increase in selling expenses. Well-designed sales territories and appropriate assignments of sales personnel increase the total time available for contact with customers and prospects, thus preparing the ground for improved sales volumes. Sales management's objective in controlling selling expenses is not to minimize them but to obtain the best relation between selling expenses and the sales volumes. Short-term reductions in the selling expense ratio are not always desirable. The long-term result is important as an increase in selling expenses may not be followed immediately by higher sales volumes in the future. The intelligent setting up or revising of sales territories is one step that management takes to see that selling resources are utilised to the best advantage.

6.3.4 Assists in Evaluating Sales Personnel

In the absence of a definite geographical sales territory, it is difficult to evaluate the performances of sales personnel. Well-designed sales territories assist the management in evaluating sales personnel. Sales problems vary geographically, and the impact of competition differs widely. Analysis reveals the company's strengths and weaknesses in different areas when the total market is divided into territories. Based on this, appropriate adjustments can be made in selling strategies. Management has the essential information to set quotas and evaluate each salesperson's performance by analyzing the market territory-by-territory and pin-pointing sales and cost responsibility to individual sales personnel. Comparisons of performances with varied sales opportunities present in each territory provide sound bases for appraisal of the sales personnel.

For example, two sales persons maybe equal in both ability and motivation, yet one may earn more commission than the other, if assigned to a territory with significantly higher potential leading to inequitable rewards.

6.3.5 Contribute to Sales Forces Morale

Well-designed territories are convenient for sales personnel. They represent reasonable-sized workloads, and sales personnel efforts produce results. Sales personnel are responsible for achieving given levels of performance within their own territories. So, they know what management expects of them. Results from each sales territory are correlated with the efforts of individual sales personnel. Good territory design along with intelligent salesperson assignment helps each person to be more productive and results in high earnings, improved self-confidence, and job satisfaction. It leads to high morale as there are few conflicting claims of sales personnel to the same accounts or customer. When territories are well assigned, sales personnel spend minimum time for travelling. This also enables work life balance.

6.3.6 Aid in Coordination of Personal Selling and Advertising Efforts

Management may set up sales territories or revise the existing territorial arrangements to improve the coordination of personal selling and advertising efforts. In most of the situations, personal selling or advertising alone cannot accomplish the entire selling task efficiently or economically. Management takes advantage of a synergistic effect (the "2 + 2 = 5" effect) by blending personal selling and advertising and obtains performance greater than the sum of its parts. Sales personnel play key roles in obtaining synergistic opportunities. Prior to launching an advertising campaign for a new consumer product, sales personnel call upon dealers to outline the objectives of marketing plan. Further, it is ensured that promotional material, and adequate supplies of the product are on hand in the retail outlets. Effective territorial assignments ensures that every dealer is covered by some salesperson. Proper routing ensures that sales personnel contact all dealers at appropriate times during the advertising campaign. A proper territorial design helps to forecast promotional and advertising budgets and ensures that the advertisement campaigns are focused in select areas to yield results.

6.4 Designing Territories

The design of territories should not be solely along geographical lines. Let us consider the following situations.

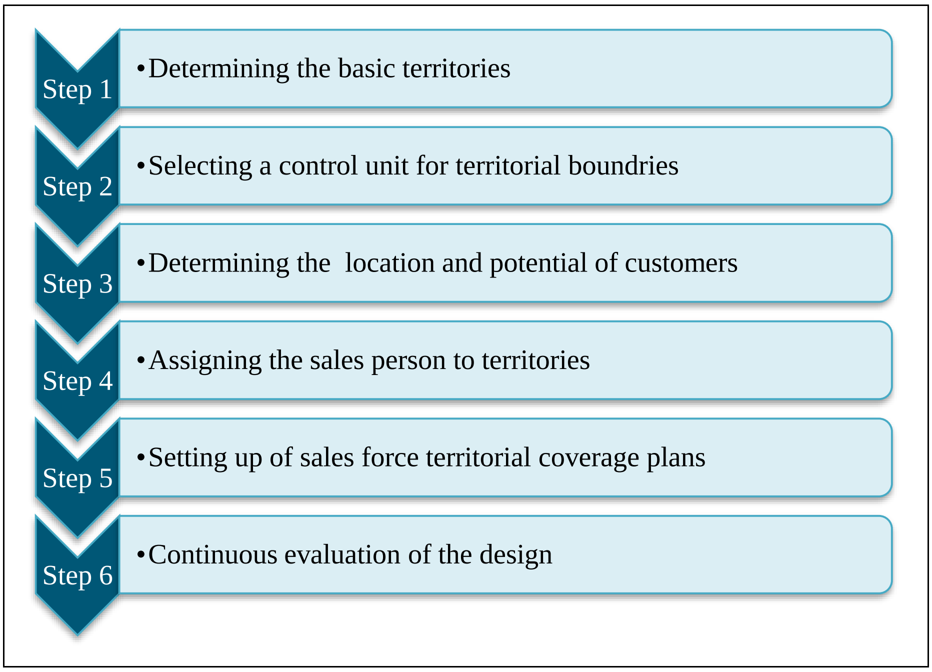
- When sales personnel sell mainly to personal acquaintances, as in case of products such as property insurance, investment securities, and automobiles, little logic exists for dividing the market geographically.
- Similarly, while selling real estate, where the market is localized and customers usually seek out the firm rather than the salesperson, geographically defined territories are meaningless. In these cases, sales personnel are mostly inside order takers. Customers seek out the supplier. Similarly, even in life insurance selling where sales personnel are outside order getters and seek out prospects, the personal and localized nature of the market makes geographical assignments of territories inappropriate.
- There are other situations in which sales territories are not designated geographically. Some companies have highly specialized sales personnel with the responsibility of serving customers who need his or her special skills. For instance, a maker of complicated machinery may have only five salespersons, each specializing either in some parts of the product line or in particular product applications. In other companies, it is common to have more than one salesperson who is assigned to work in the same city or in metropolitan areas. Itis difficult to divide the areas among them, not only because of the scattered locations of accounts but also because "leads" furnished by established customers often require calls in different parts of the city.

- Small companies and companies introducing new products require the use of different marketing channels. They do not use geographically defined territories. If they do, they use rough divisions. For instance, entire states or census regions. In these situations, there is no reason to assign territories, as existing sales coverage capabilities are inadequate relative to sales potentials.
- However, in most marketing situations, it is advantageous to "assign" sales personnel to territories.

Determining territorial assignments requires consideration of customers' service requirements and the costs of providing service. Geography affects both a company's ability to meet customers' service requirements as well as the costs of meeting them. Even when territorial boundaries are geographical, each sales person's assignment is a grouping of customers and prospects, and only for reasons of convenience and economy a geographical cluster is formed. The emphasis is always on the customers, not on their locations.

Changing market conditions puts continuous pressure on firms to adjust or redesign their territories. Different procedures may be used to design the territories. However, a company's territorial structure is influenced by potential business in the market and the workload requirements from its sales force. The step-by-step plan for establishing or redesigning territories is given in Figure 6.1. Exhibit 6.1 discusses the key points that need to be considered (while designing sales territories) to improve efficiency and optimize sales.

Figure 6.1: Process of Designing Territories



Source: Krishna Havaldar and Vasant Cavale, "Sales and Distribution Management: Text and Cases," Third edition, Tata McGraw Hill. 2017

Exhibit 6.1: Designing Sales Territories to Improve Efficiency and Optimize Results

A sales territory should ideally help the sales team focus on those areas where sales can be maximized. By strategically choosing and designing sales territories, sales teams can focus on key geographic areas and thereby also minimize wastage of time and resources on areas that hold little promise. Given below are the ways and methods adopted by business leaders to plan, design and develop sales territories.

- Develop a territory valuation model: To understand the disbursement and number of prospects in a territory, the sales manager can develop a territory valuation model. A valuation model will also provide insights on the actual potential and the percentage of territory penetration.
- Flexibility: Territory design and allocation should change as a firm grows and expands. Based on the needs of the business, the nature of the industry and the marketing strategy, the territory designing and allocation strategy should also be modified.
  - Leverage on the core strengths of the sales team: Identify the strengths and weaknesses of the sales team. Design the territories in such a way that the core strengths of the sales team is best utilized. Also balance territories based on earning potential and assign territories accordingly. Balance workload and capabilities of salesmen to optimize results.
  - Study historical trends: Make your territory design decisions more informed and logical by basing it on the insights gained from the study and analysis of historical information and trends.
  - Align talent with opportunity: Identify strong sales talent and align it with big accounts or accounts which are important from a long-term perspective optimum results.
  - Leverage on relationships: Closing a sale is often based on relationship and hence results can be optimized by re-focusing on territories with a relationship mindset.
  - Collaborative selling: Implement collaborative selling techniques in certain territories which show greater promise.
  - Pareto rule: Keep in mind the Pareto rule that certain important territories may show greater promise and bring in the bulk of sales.

The above considerations and widely adopted practices of designing territories caution us against getting into a trap of looking at territories as mere geographic regions. To optimize sales and customer service, it is important to look at a variety of factors and considerations while designing territories.

Source: Expert Panel, Forbes Business Development Council, "13 strategic ways to organize and optimize sales territories", 20/04/2020. Accessed on 14.04.2022

6.4.1 Determining the Basic Territories

The first step in designing a territory is to establish a fundamental territory based on the statistical measures. This can be accomplished by using either the build-up or breakdown methods.

Build-up method:

In this method, the territories are formed by combining small geographies based on the number of calls a salesperson is expected to make. This method equalizes the workload of salespeople. A suggested procedure is outlined here.

1. **Determine the optimal call frequency:**

   The Management must establish optimal call frequency for each customer i.e. how many times in a year a customer should be visited by the salesperson. The call frequency is influenced by factors such as the type of product, potential of the customer, the volume of purchase by the customer, the purchase frequency, the customers buying habits, the level of competition and the cost of calling the customer. Thus, the call frequency is primarily decided by the profitability of the account. The optimal call frequency can be determined by using various statistical and analytical methods, but mostly it depends upon the sales manager's judgment. A typical company divides its customers as high potential, medium potential, and low potential and classifies them as A Class, B class, & C class as shown in Table 6.1.

   Table 6.1: Classification of Different Customer Classes

Customer Class	Call Frequency	No. of Customers	No. of Calls Per Year
A Class	4 calls per month	20	960
B Class	2 per month	50	1200
C class	2every 2 months	30	360
Total		**100**	**2520**

   Source: ICFAI Research Center

2. **Determine the total number of calls needed in each control unit:**

   This can be achieved by multiplying the number of customers in each category with the desired call frequency. Thus, we can determine the total number of calls required in that control units as can be seen in the above example.

3. **Determine workload capacity**:

   A sales person's workload capacity is the average number of calls a salesperson can make in a day and number of days in a year the salesperson will make calls. The number of calls a salesperson can make in a day depends upon several factors like, the time required to make a call, the availability of customers and their permissions, appointment schedules of the customers, the distance between customers, the travel time required and the size of the territory.

4. **Territory Size and Work Load Factors:**

Depending upon the workload, the territory size either decreases or increases. Companies determine the selling effort required i.e. the number of calls to be made to each account. This information helps to decide how many sales personnel are needed. We also need this information to be able to decide how to group accounts into territories that individual sales people can cover. There are two models to decide on the number of sales personnel needed.

- **Single factor model:**

  Decide which factor will drive your decision. This is usually sales potential. Then classify all accounts based on that one factor.

  - Account with potential ≥ ₹ 1 lakh is "A" account
  - Account with potential ≥ ₹ 50,000 but < ₹ 1 lakh is "B" account
  - Account with potential < ₹ 50,000 is "C" account

  Then make a judgment about how many sales calls each category should receive.

  - "A" account—one call per week, or 52 per year
  - "B" account—one call per month, or 12 per year
  - "C" account—one call per quarter, or 4 per year

- **Portfolio model:**

  The portfolio model does the same thing that the single factor model does; only we use more than one criterion for classifying accounts. Here, we use competitive position and account opportunity.

  Draw tentative territorial boundaries: The final step is to accumulate enough contentious territorial control units until the yearly number of calls needed in those control units equals the number of calls a salesperson can make. The territorial size or boundaries are also influenced by factors like nature of product, stage of the product on the PLC, competition etc.

  The Table 6.2 below shows how the territory size will be affected by workload.

Table 6.2: Territory Size and Workload Factors

Nature of Job	Size of the Territory
Lots of presale and post-sale activity	Decreases
Nature of product	Size of the Territory
A frequently purchased product	Increases
A limited repeat-sale	Decreases
Market development stage	Size of the Territory

Contd….

New market-fewer accounts	Increases
Established market-more accounts	Decreases
Market coverage	Size of the Territory
Selective coverage	Increases
Extensive coverage	Decreases
Competition:	Size of the Territory
Intensive	Decreases
Limited	Increases

Source: Spiro Rosann, Stanton, William, Rich Gregory, "Management of Sales Force", McGraw Hill, 12th Edition, 2007

Breakdown Method: The breakdown method is often used by the firms that want exclusive distribution that sell industrial or specialty product.

The following steps are followed for this method.

1. **Determine sales potential:** The first step is to determine what sales volume the company can expect in the entire market. This is done by using one of the forecasting methods, like survey methods, mathematical methods or operational methods.
2. **Determine sales potential in each control unit:** To obtain the sales potential in each control unit, a market index is multiplied by total sales potential to allocate it among the various control units.
3. **Determine sale volume expected from each salesperson:** In this step, management must estimate how much each sales personnel must sell as per the territory potential to have a profitable business. A study of past sales trend and cost analysis are often used to determine this information.
4. **Draw tentative territorial boundaries:** The final stage in the statistical phase of the breakdown method is to divide the entire market so that each sales personnel has the same potential. Therefore, management needs to assign enough control units to each salesperson who has the same sales potential. The sales potential of the territory should be equal to or greater than the sales volume expected from each salesperson. The borders of each sales territory should coincide with the borders of the control units.

Activity 6.1

Design a basic territory by using Break-Down method for a new FMCG company.

Answer:

Check Your Progress - 1

1. A sales territory is -
   a. Grouping of customers and prospects assigned to an individual salesperson
   b. A specific geographical area
   c. A specific customer segment
   d. A specific area where customers are located
   e. A specific area where sellers do their selling activity
2. For a frequently purchased product, the size of the sales territory will-
   a. Increase
   b. Decrease
   c. Does not change
   d. Has no effect on size
   e. Depends on purchase behavior of customers
3. Which of the following is not a benefit derived as a result of design of sales territories?
   a. To be at the right place at the right time
   b. Ensures proper market coverage
   c. Reduces travel time
   d. Enable better inter--personal relationship between salespersons
   e. Control selling expenses
4. Which of the following is not a factor that impacts the adjusting or redesigning of sales territories of the salespersons?
   a. Changing market conditions
   b. Increase in competition
   c. Change in product portfolio
   d. Marginal increase of decrease in the price of the product
   e. Changing geographic grouping of customers
5. Comparisons of performances with varied sales opportunities present in each territory, provide sound bases for evaluation. Which of the following options highlights the point?
   a. Evaluating and judging the performance of salespersons for performance appraisal.
   b. Recruiting of salespersons
   c. Staffing
   d. Determining training needs of salespersons
   e. Judging customer profitability

6.4.2 Select a Control Unit for Territorial Boundaries

Selection of a basic geographical control unit is the starting point in territorial planning. Most commonly used control units are districts, cities, standard metropolitan areas, trading areas and states.

Sales territories are consolidations of basic geographical control units. Given below are the two reasons for selecting a small control unit.

- One, to realize the important benefit of using territories, the precise geographical identification of sales potential. Areas with high sales potentials are obscured by inclusion with those having low sales potentials and areas with low sales potentials are hidden by inclusion with areas having high sales potentials if control unit is too large.
- Two, these units remain relatively stable and unchanging. This makes it possible to redraw territorial boundaries easily by redistributing control units among territories. If, for example, a company wants to add to Rajesh's territory and reduce Ravi's adjoining territory, it is easier to transfer district-sized control units rather than state-sized control units.

Districts: In India, the district is the most widely used geographical control unit. The district is small enough to prevent the obscuring of areas with high and low sales potentials, and statistical information of districts in the country is readily available. District is the smallest unit for which governmental sources report statistical data. Many FMCG (Fast Moving Consumer Goods) and pharmaceutical companies design their sales territories using districts as the control unit.

Cities: When a company's sales potential is located in urbanized areas, the city is used as the control unit, although in some cases, both the city and the surrounding areas or suburbs are used as control units. For many products, suburbs adjacent to cities possess sales potentials as great as those in the cities themselves, and, in addition, they can often be covered by the same sales personnel at a little additional cost. For example, large cities like Ahmedabad, Hyderabad, and Bangalore have many adjoining towns which have same or equal potential as that of the city.

Metropolitan statistical areas: Companies whose markets have expanded beyond city limits and into suburbs and satellite cities find the Metropolitan Statistical Area (MSA) a good choice for basic geographical control unit. An MSA is a geographic area with a large population nucleus together with adjacent communities that have a high degree of economic and social integration with that nucleus.

For example, Metro cities like Mumbai, Chennai, Kolkata, Delhi & National Capital Regions (NCR), have many adjoining suburbs which have same or equal potential as that of the city.

Trading areas: A logical choice for a geographical control unit is the trading area, as it is based upon the natural flow of trade. A trading area consists of the geographical region surrounding a city that serves as the dominant retail or wholesale center or both for the region. The trading area concept recognizes that consumers, retailers and wholesalers pay little attention to district or city boundaries when deciding where to buy. For instance, consumers regard convenience and the merchandise selection available as the key factors in deciding where to shop. Shopping across district boundaries is common, especially where population concentrations are close to state lines and where suburban areas have spread into towns surrounding cities. Many consumer products, including most specialties and shopping goods, are available almost entirely in large regional shopping malls. So, residents of small towns and rural areas travel to these malls.

The problems in using trading areas as control units are:

- How to define a trading area?
- How to estimate the sales potential?

Retail and wholesale consumers buy routine supplies in the nearest small towns, but they go to regional shopping malls or larger cities to shop for basic requirements and even farther to buy expensive furniture or jewelry. Each such location is the focal point for a trading area, at least for products purchased. Trading areas for products purchased frequently and routinely are much smaller in size, and consequently more numerous, than are those for luxury products. Precise delineation of trading areas requires primary research and quantification of customers' buying habits and preferences.

States: States, as basic geographical control units, provide a rough basis for sub-dividing the national market. There are two situations where fixing of territorial boundary lines along the borders of states is justifiable.

- A company, with a small sales force, covering the market extensively rather than intensively. There are only a few customers and prospects, all across the nation.
- A company which is seeking national distribution, assigns its sales personnel to territories consisting of one or more states as a temporary expedient. As soon as feasible, a change is made to a smaller control unit.

The main difficulty in using states as basic control units is that they are political subdivisions rather than economic subdivisions.

6.4.3 Determining the Location and Potential of Customers

The next step is to determine the sales potential present in each control unit. The territorial planner needs some way to measure sales potentials, which represent the maximum possible sales opportunities, open to a specific company selling a good or service during a stated future period to particular market segments.

The territorial planner must identify precisely the buyers of the product. A vague identification such as, "Our product is bought by women," is not sufficient. It can be "Our product is bought almost entirely by middle aged, lower-income women living in cities," is a more precise description of the buyers comprising the market. Formal market identification studies may be necessary. Sometimes, sales personnel supply information, but it is not always usable. For example, a sales force calling only wholesalers has little or no contact with retailers or consumers as in the case of sales of white goods. When sales personnel sell to final buyers, they may provide only partial identification of possible buyers and neglect certain classes of prospects.

Formal marketing research studies obtain precise identification of all classes of final buyers when there is no direct contact with them. After identifying the potential buyers, the planner next determines the sales potential in each control unit. He/she ascertains potential buyers in each control unit and also the unit's total market potential. Then the planner estimates that portion of the unit's market potential that the company has an opportunity to obtain (that is, the sales potential) Market potentials are, generally, converted into sales potentials by analyzing historical market shares within each control unit, adjusting for changes in company's and competitors' selling strategies and practices, and arriving at estimates. After making these estimates, the territorial planner ascertains those control units with sufficient sales potential to justify sales coverage.

6.4.4 Assigning Salesperson to Territories

Up to this inter-territorial planning, an implicit assumption has been that all sales personnel are "average," they are interchangeable and each capable of producing similar results at similar costs regardless of territorial assignments. Clearly, this is an unrealistic assumption, adopted only for territorial planning purposes, and is discarded when sales personnel are assigned to territories.

Sales personnel vary in ability, initiative and effectiveness as well as in physical condition and energy. What constitutes a reasonable and desirable workload for one individual may not be appropriate for another person. Furthermore, salesperson's effectiveness varies with the territory assigned. One person may be outstanding in one territory but a failure in the second, even though territorial sales potentials and coverage difficulty factors are almost identical. Performance, moreover, is conditioned by customer characteristics, customs and traditions, ethnic influences etc. Interactions with customers and prospects vary in their outcomes from one territory to another depending on many factors which are beyond a salesperson's control.

While assigning territories to sales personnel, management seeks the most profitable alignment - selling efforts with sales opportunities. The territories, containing varying sales potentials, represent different amounts of sales opportunities. The sales personnel with different abilities and potential effectiveness, represent the range of available selling talent. Management should assign each salesperson a particular territory where his or her relative contribution to profits is the highest. The general principle of assigning territories to sales personnel is not universally applicable because the discretion that management has, in making these decisions, differs from company to company and also depends on the experience and competence of the management.

At one extreme, some companies show reluctance to transfer sales personnel to different territories. Managements have a fear of not only resistance from the sales force but also the consequences of breaking established salesperson-customer relationships. These companies adhere to a “no transfer” or “infrequent transfer” policy and build restrictions on shifting sales personnel to territorial designs. The planner expands or contracts territorial boundaries, adding to or subtracting from individual territorial sales potentials, until territories contain sales potentials appropriate to the abilities of assigned sales personnel. These companies design sales territories to fit the abilities of sales personnel to the territory. For example, in a territory where large number of customers are engineers or of technical background, a sales person with technical background will be highly effective. Hence, this type of salesperson cannot be shifted or transferred.

At the other extreme, management in a few companies is free to assign any territory to a salesperson, design territories and closely align salespeople’s ability levels with those of territorial sales opportunity levels. Management shifts sales personnel to predetermined territories where their relative profit contributions are maximized. For example, many firms intentionally assign a small territory to a new trainee representative and as he progresses with experience and is better equipped with skills, he is shifted to a bigger or more potential territory. Similarly, some companies may assign new sales rep to an interior or district territory, and then shift to a city.

In most companies, the situation is somewhere between the two extremes. For various reasons, some sales personnel are not transferable, while others are. This means that the management designs some sales territories to fit the ability levels of non-transferable sales personnel and assigns other sales personnel with ability levels appropriate to sales territories re-designed.

6.4.5 Setting up of Sales Force Territorial Coverage Plans

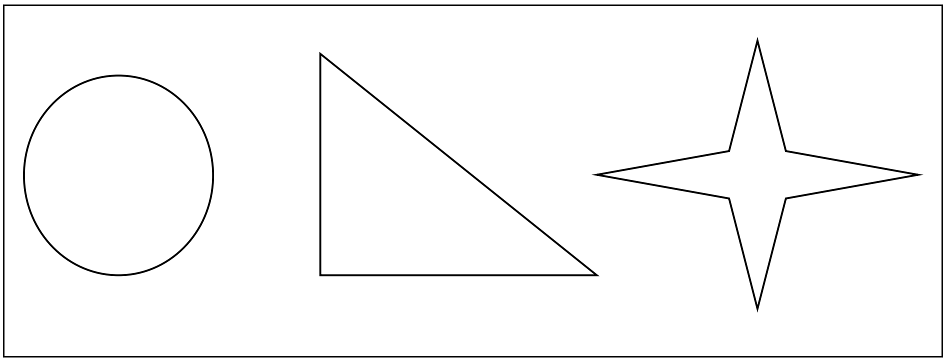
The planner next combines units into tentative sales territories. This is only a tentative arrangement. Subsequent adjustments must be made difficult for relative coverage. At this stage, the planner assumes that no significant differences in the physical or other characteristics of individual control units exist. The purpose is to obtain a “first approximation” of sales territories, by combining contiguous control units into tentative territories, with the same sales potential. At this point, however, the planner decides the number of territories with the assumption that all sales personnel are of average ability and also estimates the percentage of total sales potential that the average salesperson should realize. The planner estimates the sales productivity per sales personnel unit and divides it into total estimated sales potential, thus arriving at the number of sales personnel units and territories required.

Assume that the management estimates that an average salesperson should realize ₹ 2,500,000 of a total sales potential of ₹ 25 million-ten territories and ten units (₹ 25,000,000/₹ 2,500,000) of sales personnel are required. When these estimates and the calculation were made, contiguous control units are combined into tentative territories of almost equal sales potential. To simplify this step, sales potential for control units are expressed as percentages of total sales potential. In the example, control units are grouped into 10tentative territories, each containing about 10 percent of the sales potential.

Territory shape: Selling expenses and ease of sales coverage- both are affected by the shape of the territory. Shape of a territory allows the salesperson to minimize his/her time on the road. It also contributes to sales force morale. Three shapes, which are in wide use, are wedge, circle and the clover leaf (see Figure 6.2). Wedge is suitable for territories having both urban and non-urban areas. They can be of many sizes (up to just under 360 degrees). Travel time amongst adjoining wedges can be equalized by balancing urban and non-urban calls. The circle, as another territory shape, is appropriate when accounts and prospects are evenly distributed throughout the area.

The salesperson in the circular-shaped territory is based at some point near the center, making for greater uniformity in frequency of calls on customers and prospects. This also enables salesperson to be nearer to more customers than is possible with a wedge-shaped territory. The clover leaf is useful when the account is located randomly through a territory. Careful planning of call schedules results in each cloverleaf being a week's work, making it possible for the salesperson to be at home on weekends. Home base for the salesperson assigned to the territory is near the center. This shape of territory (refer Figure 6.2) is commonly used by industrial marketers.

Figure 6.2: Shapes of Sales Territories in Wide Use



Source: Krishna Havaldar and Vasant Cavale, "Sales and Distribution Management: Text and Cases," Third edition, Tata McGraw Hill. 2017

6.4.6 Continuous Evaluation of the Design

As companies and market changes, territorial structure may become outdated and needs revision. This may be due to changes in product portfolio of the company, new product development, changes in technology, shifting of customer's base, and increase in number of a particular customer segment or change in customers buying habits. The territories are too large or too small making them economically unviable. Many a time sales territories are re-designed or realigned for the above reasons.

Sales executive or sales manager must review their territories at least once a year during budgeting and sales quota fixation. Territorial re-designing becomes necessary when there is an increased incidence of cross-selling and infiltration of goods between two adjacent territories or a dominant wholesaler supplying goods to other territories offering larger discounts and better credit cycle. Territorial re-designing sometimes is necessitated as the products of the company become too service-oriented and the time of the salesperson is utilized more in servicing the customer rather than in selling and developing new customers. In such case, companies must recruit more sales personnel and assign them different tasks of servicing and selling. Companies, therefore, must continuously evaluate the territories for better productivity and salesperson's effectiveness.

Example: Zingbus Expands its Service Territory

Intercity travel company, Zingbus, announced in June, 2022, the redesign of its service territory with expansion into the southern region of India, starting with Karnataka and Telangana.

With *the new territory design*, Zingbus planned to connect 400 cities, bridging the gap between the South, West and North regions. To start with, Bengaluru and Hyderabad served as the major hubs. Starting with 10 cities, the company planned to scale up to 35 for this region and connect Zingbus's existing network of Maharashtra, Goa and Chattisgarh. The company planned to launch 30 routes with over 200 buses while also broadening the operator network to over 25 within six months. In a statement, Prashant Kumar, CEO & Co-Founder, Zingbus said that the company was about to enter the second largest market for intercity travel domain across India.

Source: (June 14, 2022). Zingbus Announces Expansion Of Its Services to South India. Retrieved from https://economictimes.indiatimes.com/small-biz/entrepreneurship/zingbus-announces-expansion-of-its-services-to-south-india/articleshow/92204349.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst. Accessed on 14-06-2022

6.5 Using Computers in Territory Design

With the advent of the technology, sales managers are increasingly using computers and mobiles with mapping software to design and realign their sales territories. These software are much faster than the conventional methods like breakdown or buildup methods. The computer technology, known as Geographical Information System (GIS), provides an in-depth understanding of sales territories by combining multiple layers of information about the territory, and then presenting the same in an easy to comprehend graphics or maps.

A complete GIS consists of the following:

1. **Software**: GIS requires software that can store, analyze, and graphically display information about the sales territory.
2. **Hardware**: A standard desktop computer, a mobile device running on standard operating system.
3. **Data:** The data include image data, such as aerial photography or satellite images, as well as information about customers, call frequency, sales potential etc.
4. **Trained People**: Trained persons or persons with practical experience with GIS. GIS has become such a critical part of strategic planning that some companies have created a new position of Geographic Information Officer.

6.5.1 Use of GPS Devices for Territory Design and Coverage

To help salespersons navigate their territories, some sales organizations are equipping the sales reps with Global Positioning System (GPS) devices. These are products that communicate with the satellite to pinpoint and give direction to specific geographical location. GPS provides numerous benefits for the salespeople who travel, especially with those large and unfamiliar territories. The technology helps the sales reps to locate the customers by entering their addresses on the device, the device then guides the salesperson by using GPS to the customer’s location. The GPS system also suggests the shortest and the fastest route to get to a particular location. In addition, sales managers can use the GPS devices to track their salespeople movements and to determine whether or not the sales reps are covering the territories as per the coverage plans. GPS system has become very common with the advent of smartphones and almost every individual involved in the sales function is using the same. However, using it to company’s advantage is the matter of experience. Exhibit 6.2 cites the case of a product ‘Slintel’, to illustrate how technology could be effectively used to identify potential buyers and improve sales in the target market.

Exhibit 6.2: Using Technology to Identify Potential Buyers in the Target Market

Slintel, a California and Bangalore based SaaS (Software as a Service) startup, was founded by Deepak Anchala and Rahul Bhattacharya in 2016. As one of the fastest growing SaaS platforms, it is reckoned as a leader in capturing technographic-powered buyer information.

Contd…..

There are many technological tools and products that help companies identify potential buyers in sales territories. One such product is Sintel. It is a sales intelligence product that helps firms in identifying potential and active (high-intent) buyers in the target market or a sales territory.

The software studies and analyzes buyer journeys, buying patterns, technology adoption patterns. Customers may leave footprints while browsing in search engines or interacting in other forums. By integrating and analyzing such customer information, Slintel can provide a plethora of technographic information to help salesmen perform well in their sales territories.

- When it comes to B2B customers, it is important to understand how they function and what are the key issues that the product needs to address. Since salesmen understand the customer and the key issues they face, they are better poised to reach out and engage them and close the sale in the process.
- Knowing the customer well also provides an opportunity to the sales team to make personalized offerings.
- The sales manager and his team is in a better position to segregate and group customers based on needs. The marketing team can thus create a good rapport with the customer even before an individual salesperson meets and interacts with the customer.
- Slintel Technographics provides a lot of customer information. The sales team thus need not invest time and incur cost in gathering this information.
- Sales team can also access customer information such as lead insights and contract renewal dates, etc.

Marketers use software, hardware tools and GPS to design territories. Technology products such as Slintel help sales team optimize their sales performance in their respective territories.

Sources: Fred Wilson, "26 best sales tools to boost revenue and efficiency in 2022", https://www.ntaskmanager.com/blog/best-sales-tools/, 17/05/2020 Accessed on 14.04.2022
Sameer Ranjan, "[Funding Alert] SaaS Startup Slintel raises $1.5 million from Stellaris and Accel", Your Story, 12/12/2019 Accessed on 14.04.2022

Example: Xactly AlignStar Automate and Optimize Territory Design and Planning

Xactly AlignStar was an intelligent cloud-based sales territory mapping solution that allowed sales teams to discover new opportunities and increase productivity. It would automate and optimize territory design and planning. Xactly AlignStar visualized sales opportunities by creating and editing territories and made use of data analytics by applying advanced market analytics to individual territories.

Contd….

It made use of thematic maps and spatial analysis to help teams understand in identifying new areas of opportunities. The built-in analytics and optimizer engine automatically created balanced territories.

Source: (September 11,2020). Retrieved from https://www.softwareadvice.com/crm/xactly-alignstar-profile/. Accessed on 14-06-2022

6.6 Territorial Coverage - Managing Sales Reps Time and Efforts

After designing territories and assigning sales people to their respective districts; management should plan how each representative will cover his or her territory. Managing territorial coverage is an exercise in managing the sales representative's time. Time management is becoming extremely important as companies continue newer and newer ways to control their field selling costs to improve profitability of the organization.

The management of territorial coverage has two main tasks - routing sales persons and scheduling their time.

Routing and Scheduling Sales Personnel: Routing and scheduling plans aim at maintaining the lines of communication, optimizing sales coverage and minimizing wasted time. Management should be well informed of salespersons' whereabouts in the field or be aware of where they should be, so that it will be easy to contact them to provide needed information or last-minute instructions. Sales coverage is improved by routing and scheduling plans. The mechanics of setting up a routing plan are simple. Detailed information is required on the numbers and locations of customers, the means and methods of transportation connecting customer concentrations and the desired call frequency rates while working out the plan. Detailed maps are needed showing not only towns, cities and transportation routes but also trading area boundaries, mountain ranges, rivers, lakes, bridges etc.

Airport locations need spotting if sales personnel are to travel by air. The routes laid out should allow the salesperson to return home at least on weekends. If the route planner considers the desired call frequency rate for each customer, the call schedule is a by-product of setting up the route. In most cases, making up the call schedule is more than planning the route. Customers and prospects are segregated based on the desired "call frequency" rate. The planner identifies the locations of members of each customer and prospect group using detailed maps and reconciles the route with these locations. Hence, the salesperson travels the territory by taking different routes each time, to achieve the desired call frequencies and to incorporate new customers and prospects into the itinerary. Further, because of the changes that occur in account classifications, prospects, competitive activity, and in road conditions, it is impractical to set up fixed route and call schedules for long periods.

Routing and scheduling plans reduce time wasted by sales personnel. Effective routing and scheduling build up the size of the average order. In scheduling sales personnel, some firms not only designate the customers to call upon each day but also prescribe the time of the day to make the call. Detailed scheduling is coupled with a system for taking advance appointments. Companies, not using scheduling plans, suggest advance appointments. For effective scheduling, the scheduler needs on time current information, probable waiting time at each stop, travel time between calls, and the probable time with each customer. This information is difficult to collect as it goes on changing from time to time. Detailed scheduling is possible only when customers give their full cooperation. Most firms allow their sales personnel "time cushions" to allow for the many variations met on each selling trip. Companies benefit from systematic routing and scheduling, but sometimes detail scheduling may not be feasible for companies.

Petroleum marketing companies and pharma companies are efficient in routing and scheduling their sales force effectively. (Refer Tables 6.2 and 6.3.)

Table 6.2: Sample Routing and Scheduling Table – Standard Coverage Plan or Permanent Itineraries (Week-wise)

Day	Name of the Area/ City/ Town	No. of Days Working	Number of Customers in the working Area/ City/ Town	Distance from the Base Town (KMS)	Mode of Travel	Fare ₹ (one way)
1	Nagpur	10	80	Local	Scooter	₹ 5/km
2	Saoner	1	10	40	Bus	40.00
3	Katol	1	10	60	Train	150.00
4	Gondia	1	10	135	Train	240.00
5	Ramtek	1	10	50	Bus	45.00
6	Narkhed	1	10	90	Train	190.00

Source: ICFAI Research Center

Table 6.3: Scheduling of Sales Person on a Van/Taxi Tour and the Expenses

Day	Date	Place	Dept. time	Place	Arr. time	Distance (KMS)	Exp. Item	Prop. Expenses
1	26-03-2014	Nagpur	11.30 AM	Jam	1.00 PM	70		300
		Jam	2.00 PM	Adilabad	4.00 PM	135	Tea/ Snacks	100
		Adilabad	4.30 AM	Dharma-puri	7	120	Halt – Dinner-600,Lodging-1000, misc- 500	2100
2	27-03-2014	Dharmapuri				Breakfast	100	
		Dharmapuri	10	Asifabad Via Mancherial	12.3	90	Tea/Snacks	100
		Asifabad	12.45	Chandrapur	2	70	Lunch	500
		Chandrapur	3.00 PM	Warora	4.3	40	Tea/ Snacks, Dinner	1000
		Warora	6.00 PM	Nagpur	8.00 PM	110	Petrol-40 liters	₹ 4100
		Total				635	3200 (App.)	. 8300

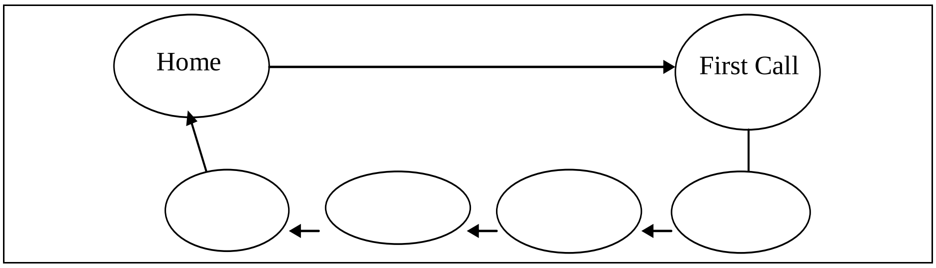
Source: ICFAI Research Center

Detailed scheduling plans are appropriate in trades typified by frequent calls, short travel time between calls, highly standardized products and great homogeneity among customers. Territory size and geographic layout determine the type of the route. Sales personnel should plan a travel route in such a way that they can start from their home in the morning and return in the evening. Critical factor here is the time and not distance. In some cases, using major non-stop highways may increase miles but total travel time may decrease. The actual routes the sales personnel follow each day within each section can help maximize their use of daily prime selling hours. They should usually travel in the morning and in the late afternoon. The most commonly used routing patterns are given below:

Straight-line pattern:

If most of the customers are strung out more or less in a straight-line, then the salesperson should start from their home base, drive to the far end of the territory before making the first call. They should then work their way back, so they end up near home at the end of the day (Figure 6.3).

Figure 6.3: Straight-Line Pattern

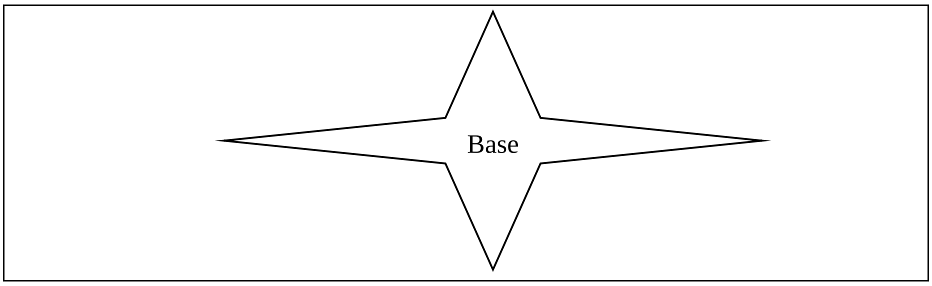


Source: Chapter 15, "Sales Territory Management, Personal Selling and Sales Management", R.Krishnamoorthy, First Edition- 2015, Himalaya Publishing House.

Cloverleaf pattern:

In clover leaf pattern, the sales personnel are placed in the middle. They start in the morning and try to cover maximum number of accounts in a day as depicted in the figure. For example, a salesperson has the base in the middle of the territory, so he covers a full portion of the territory in a particular area or direction and again returns to the base. Similarly, on a different day, he covers another area or direction and returns to the base. (Figure 6.4)

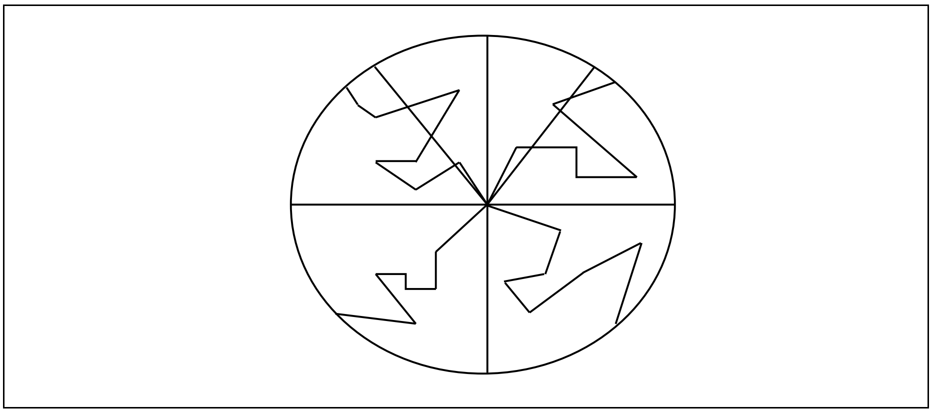
Figure 6.4: Cloverleaf Pattern



Source: Chapter 15, "Sales Territory Management, Personal Selling and Sales Management", R.Krishnamoorthy, First Edition- 2015, Himalaya Publishing House.

Hopscotch Pattern: This is a hub and spoke like pattern of routing (Refer Figure 6.5). A salesperson begins his sales call at the outer end of the spoke. He then works back towards the hub, thus creating a hopscotch pattern.

Figure 6.5: Hopscotch Pattern

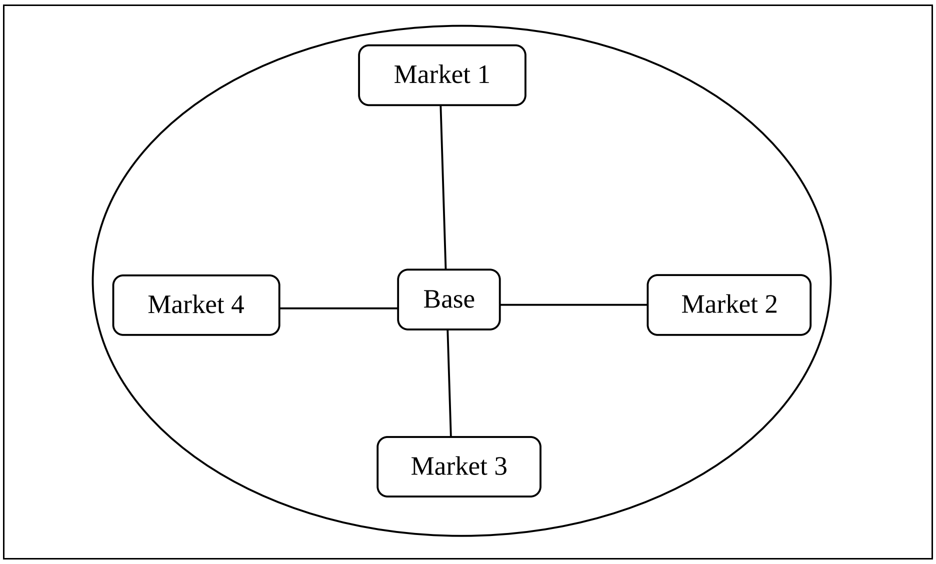


Source: Chapter 15, "Sales Territory Management, Personal Selling and Sales Management", R.Krishnamoorthy, First Edition- 2015, Himalaya Publishing House.

Major City Pattern

In major city pattern, the sales personnel should cover one area at a time since it represents the different industrial areas. For example, many sales territories, especially, in big cities are sub divided into different markets like industrial markets, commercial markets, consumer markets or trade markets. Generally, they are located in specific areas. These markets can be covered by the salesperson on different days separately. This type of routing or coverage will help to cover a particular type of customers or markets. (Figure 6.6)

Figure 6.6: Major City Pattern



Source: Chapter 15, "Sales Territory Management, Personal Selling and Sales Management", R.Krishnamoorthy, First Edition- 2015, Himalaya Publishing House.

Example: New Balance Managing Sales Reps. Time and Efforts

New Balance, a USA based footwear and apparel company, used dedicated territory mapping technology. Its previous territory assignments were unbalanced and didn't make sense geographically. Sales territories evolved as per the business and staff changes, rather than strategic priorities. Consequently, one representative might be assigned to a territory far away from their home, while another representative might be carrying a larger workload.

With territory planning, New Balance was able to identify the optimal territory mapping plan and realign staffing and territory assignments. It delved into critical business drivers, such as growth projections, customer engagement, and market dynamics to frame them. It aligned account attributes with business priorities to balance territories and improve equitability. It managed models, territories, and assignment rules for representatives, all within its CRM.

Source: (August 18, 2020). Sales Territory Mapping: How to Design and Optimize Your Plan. Retrieved from https://www.salesforce.com/resources/articles/sales-territory-mapping/. Accessed on 15-06-2022

Activity 6.2

One of your salespersons has come to you for help. He/she is having trouble calling on his/her accounts. He says he feels his territory is too large and spread out. He is spending all his time travelling instead of making sales calls. What steps would you take to help him develop a more effective sales route?

Answer:

Check Your Progress - 2

6. Which one of the following is not a basic geographical territory unit?
   a. City
   b. District
   c. State
   d. Trading area
   e. Community

7. Which of the following is not a basic territory shape in vogue?
   a. Circle
   b. Wedge
   c. Rectangle
   d. Cloverleaf
   e. District
8. Which of the following is not an element of territory coverage of salesperson?
   a. Customer
   b. Dealer
   c. Retailer
   d. Government institutions
   e. Supplier
9. Which of the following are not the elements of a complete GIS?
   a. Software
   b. Hardware
   c. Data
   d. Trained people
   e. Dealers
10. Which of the following is not an important objective of routing and scheduling plans for salesperson?
    a. Optimize sales coverage and minimize wasted time
    b. Information about routes, roads and travel time
    c. Information about the schedules of the customers
    d. Information regarding time taken by each customer
    e. Performance Appraisal and evaluation of salespersons

6.7 Summary

- Setting up sales territories facilitates the planning and control of sales operations.
- Well-designed territories assist in improving market coverage and customer service, reduce selling expense ratios, secure coordination of personal selling and advertising efforts, and improve the evaluation of personnel performance.
- Good territorial design is based upon thorough knowledge of sales potentials and differences in coverage difficulty.
- In assigning sales personnel to territories, management seeks the best alignment of selling efforts with sales opportunities. Systematic plans for routing and scheduling sales personnel help in accomplishing this.

- Since sales personnel vary in individual effectiveness with the territories to which they are assigned, management develops ability indexes for each possible assignment pattern.
- With the advent of technology, the use of modern software like GIS and GPS have become handy for the sales organizations to plan design and monitor sales activities of the salespersons.

6.8 Glossary

A sales territory: It is a grouping of customers and prospect assigned to an individual salesperson.

Build-up method: In this method, the territories are formed by combining small geographical centres/ units/ areas based on the number of calls a salesperson is expected to make. This method equalizes the workload of salespeople.

Call frequency: Optimal call frequency for each customer means how many times in a year a customer should be visited by the salesperson.

GIS: Geographical Information System

GPS: Global Positioning System

Market coverage: The sales territories are designed to help the members of the sales force to be at the right place at the right time for maximum productivity and cover all the potential and prospective customers.

Routing and Scheduling Sales Personnel: Routing and scheduling plans aim to maintain the lines of communication, to optimize sales coverage and minimize wasted time.

Sales potential: The sales volume the company can expect in the entire market.

Workload capacity: A salesperson's workload capacity is the average number of calls a salesperson can make in a day and number of days in a year the salesperson will make calls.

6.9 Self-Assessment Exercise

1. What are the reasons to establish sales territories? What do you mean by sales force territory?
2. How are sales personnel assigned to territories? How do you determine sales potential for sales territories?
3. What are the different shapes of sales territories? What are the different types of routing patterns?
4. What are some of the early signals indicating that a company's territorial structure needs re-designing?
5. A well-designed sales territory is a platform for better productivity and better sales to expense ratio. Explain with examples.

6.10 Suggested Readings / Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.
4. Krishna Havaldar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

6.11 Answers to Check Your Progress Questions

1. (a) Grouping of customers and prospect assigned to an individual sales person

Grouping of customers and prospect assigned to an individual sales person is basically a sales territory, although a sales territory also has a defined geographical area as well as a specific customer segment.

2. (b) Decrease

For a frequently purchased product, the size of the sales territory will decrease as there are a large number of customers in a small geographic area, and the competition is also intense.

3. (d) Enable better interpersonal relationship between salespersons.

The sales territories are designed to help the members of the sales force to be at the right place at the right time, to ensure proper market coverage and also for reducing travel time and for controlling selling expenses. Sales territories are only designed to promote better relationship with customers, and not between salespersons.

4. (d) Marginal increase or decrease in the price of the product.

Companies redesign sales territories of the salespersons done due to any of the following changes:

- Changing market conditions
- Increase in competition
- Change in product portfolio
- Performance appraisal

Marginal change in price is not a cause for the re-designing of sales territories.

5. (a) Evaluating and judging the performance of salespersons for performance appraisal

As the territories differ in sales potential as well as the types of customers, this provides a sound basis for judging the performance of a sales person as well as for his performance appraisal.

6. (e) Community

Community is not a geographic area as community is a part of population, and is a constituent of geographic area.

7. (c) Rectangle

A rectangle territory is generally not designed, as a circle, wedge, cloverleaf are more common shapes of a territory.

8. (e) Supplier

Customer, Dealer, Retailer, Government institutions are all the parts of territory coverage of a salesperson. Supplier is part of inbound logistics that involves purchase of raw materials and other suppliers.

9. (e) Dealer

The elements of GIS are- Software, Hardware, Data and Trained People.

10. (e) Performance Appraisal and evaluation of salespersons.

The main purpose of routing and scheduling plans for a salesperson is-

- Optimize sales coverage and minimize wasted time.
- Information about routes, roads and travel time.
- Information about the schedules of the customers.
- Information regarding time taken by each customer.
- Routing and Scheduling do not help performance appraisal and evaluation in any way.

Unit 7

Sales Budgets

Structure

"A sales budget acts as a yardstick for evaluating the company's performance. It serves as a reminder for meeting the plans and targets."

- Sanjay Borad (Founder & CEO of eFinanceManagement)

7.1 Introduction

Sales budget is very significant for evaluating company's performance. It helps the company to be on track to achieve desired sales. In the previous unit, we discussed the importance of sales territories in sales management. The present unit is about sales budgets.

The budgeting process is used as a tool for improving employee performance and organizational capabilities in functional areas. The budgeting process helps represent the organization's objectives and strategies in numerical terms. It is important for managers to recognize that budgets are the most important planning aspect of the organization. A well-prepared budget facilitates smooth functioning. Developing the sales budget is an important activity for a sales manager. The sales department plays a significant role in planning and developing sales budgets.

This unit will discuss the different dimensions of sales budgets including their purpose, benefits and types. It will also have a discussion on the development of a sales budget and the precautions that should be taken while preparing budgets.

7.2 Objectives

After going through this unit, you should be able to:

- Identify the purpose of sales budgets and illustrate the benefits of budgeting.
- Discuss different types of budgets and assess the method of a sales budget.
- Explain the need for successful budgeting.
- Analyze the steps involved in preparing sales budget and determine the precautionary steps that needs to be taken while preparing it.

7.3 Purpose of Sales Budgets

A sales budget serves two purposes – it is a mechanism of control and an instrument of planning. For any budgeting process to be successful, an organization has to know where it is going. Budgets clearly define the resources required for performing activities that help an organization achieve its goals and act as an effective tool for controlling a firm's performance.

Budgets should be developed by those responsible for achieving the stated objectives and should be communicated to top management for approval. Budgeting helps managements identify the financial difficulties they might face in the budgeted period and prompt them to prepare strategies to deal with them.

Generally, an organization's budgeting process depends on the revenues it has been getting. For instance, the budgeting procedure for an organization generating less revenue will be very different from that of an organization whose revenues are very high. In the case of the latter (an organization whose revenues are very high), the budgeting process may involve more people from various departments and the planning process itself would be more elaborate.

7.3.1 Mechanism of Control

Controlling and planning are inter-linked. One is useless without the other. Budgeting in itself is a control process. Controlling is a process of making a disciplined effort to follow an established plan of action and identify any deviations that occur. Deviations cause friction between the employee responsible for the deviations and the manager. The emphasis to control deviations forms the central point of control and an explanation about the reasons for deviations is warranted. Most often, this results in arguments, leading to frustration and the entire budgeting process is questioned.

It is, therefore, important for the management to impart sufficient training to employees about the best utilization of budgeted resources. This will ensure that deviations are avoided.

Example: Warner Bros Exercises Mechanism of Control Reaffirming its Goal in Advertising Sales Team

Warner Bros and Discovery Incorporation in 2022 was looking to cut up to 30% or nearly 1,000 jobs in its global advertising sales team as per its sales budget. The company started offering members of its U.S. advertising sales team an opportunity to voluntarily leave the company, adding that the global advertising sales team had about 3,000 members.

The company's finance chief Gunnar Wiedenfels in April, 2022 reaffirmed its goal under sales budget of achieving $3 billion in cost savings after a $43 billion merger between Discovery Incorporation and AT&T's Warner Media.

Source: Reuters. (June 15, 2022). Warner Bros Discovery to lay off approx 1,000 ad sales jobs. Retrieved from https://www.businesstoday.in/latest/corporate/story/warner-bros-discovery-to-lay-off-approx-1000-ad-sales-jobs-337652-2022-06-15. Accessed on 15-06-2022

7.3.2 Instrument of Planning

Planning is the process of determining a future course of action for helping employees to tread a particular path. Forecasting sales, scheduling the production process and most importantly, budgeting the expenditure for the organization, are part of planning. Budgeting will be an effective planning tool if it is done for the entire organization, rather than for individual departments or functions. Budgeting will be successful only when every employee of the organization starting from the top executive to the shop floor worker follows it diligently. Budgeting as a planning tool will help the organization anticipate all its future financial needs and allocate sufficient financial resources for these needs so that the firm attains maximum profitability.

For budgets to act as an effective planning tool, they must be developed very carefully by following certain steps -- assessing the previous year's financial performance, connecting the current year's expenditure and programs with long-term strategies, developing short-term activities to achieve long-term objectives, and finally, communicating plans clearly to all those concerned. Budgeting becomes an effective planning tool when the sales manager lists the goals and objectives that the sales department has to achieve in the coming year. The next step is to identify the best ways to achieve these goals and assess the expenditure that will be so incurred. Most organizations follow zero- based budgeting, where they calculate the expenditure of each activity starting from zero. Another method is to evaluate the previous year’s spending patterns, and based on that, the current year's budget is developed by making alterations to suit the current year's activities. The sales manager can have an idea about the budget needed, if he or she has prior knowledge of the expenditure the staff may incur.

7.4 Benefits of Budgeting

The budgeting process has several benefits. It helps improve planning, better communication and coordination, evaluate the performance of all involved, and avoid uncontrolled expenditure.

7.4.1 Improved Planning

Budgeting enhances the quality of planning as it describes the actions to be taken in quantitative terms. For example, the firm's sales forecast usually provides a specific potential revenue figure, while the operating budget specifies the likely expenditure of the sales department for earning revenues. The top management can use these figures while preparing corporate plans. Although it is true that the budgeting process can only guide the firm to follow a path that will lead to profits, it definitely helps improve planning.

7.4.2 Better Communication and Coordination

Budgeting improves the efficiency of communication and coordination among an organization's different departments. As a budget gives the future course of action in quantitative terms for functions like sales, production, personnel, etc. it forms the basis for coordination within the organization. For instance, if the budget allocates more resources for improving sales, production and other departments have to gear up to meet the expected demand for products and services. This will result in constant interaction between departments and in turn lead to better coordination.

7.4.3 Control and Performance Evaluation

As budgeting establishes the objectives and responsibilities of all departments and employees, it facilitates performance evaluation and control. Any deviation from the plan can be easily identified by conducting periodic reviews. This will help the management to take necessary steps to rectify the situation. For example, an expense budget gives the amount that can be spent by the sales department. If any slippage in identified, the manager should find the cause and take measures to control it. The slippage may occur either due to indiscriminate spending by sales personnel or because the allotted resources are insufficient to achieve sales targets. Thus, budgets can be used to control expenses and monitor performance of various departments.

7.4.4 Psychological Benefits

Budgets instill a sense of profit consciousness in employees. Budgetary controls remain in the minds of sales personnel and encourage them to achieve sales targets with the least possible expenses. If the budget does not act as a tool for controlling expenditure, it becomes very difficult for the firm to achieve profitable sales. The budgeting process thus helps the firm's management to curb uncontrolled expenditure.

Example: Volkswagen Improves its Plan to Double its Marketing Spends on Digital

In 2021, German automaker Volkswagen planned to double its marketing spends on digital medium. The company planned to allocate 30-40% of its spends on digital as compared to 15-20% in 2020. Abbey Thomas, head of marketing, Volkswagen Passenger Cars India said, the kind of inquiries that they get from digital activations was much higher than earlier times. About 70-80% of the inquiries come to them from digital mediums, while digital accounts for 25-30% of the sales. This would help budget better the print and out-of-home medium that would account for 30-35% of the overall advertisement spend.

Source: (December 3, 2020). Volkswagen shifts focus to digital; to double its marketing spend in CY2021. Retrieved from https://www.financialexpress.com/brandwagon/volkswagen-shifts-focus-to-digital-to-double-its-marketing-spend-in-cy2021/2142033/. Accessed on 15-06-2022

7.5 Principles of Budgeting

A firm can derive several benefits of budgeting if it follows five basic principles. They are:

- All employees must be involved in the process.
- It should be practical and gain acceptance in the organization.
- Outputs must be linked with inputs.
- It should be flexible to adapt to environmental factors.
- The management should continuously learn.

The first and the foremost principle is that all employees must be involved in the process of budgeting. Every employee of a firm must be clearly told about the tasks he or she has to perform. Communication is the key and any gap in this process will jeopardize the entire budgeting process. People at all levels of the organization should be involved and each department given the responsibility of achieving results. Mass involvement means that everyone will naturally feel responsible towards the set budget and contribute to the firm's profitability.

The second principle of budgeting is that it should be practical enough to gain wide acceptance in the organization. Superior officers can improve the performance of subordinates by setting budgets, which are practical. For instance, a salesperson may accept his or her individual budget to be fixed at ₹ 1 million per annum in the confidence that ₹ 2 million worth sales can be achieved. If the budget is increased to ₹ 1.5 million, the salesperson might put in extra effort to improve his performance. But, if the budget is raised still higher to ₹ 2 million, the salesperson might feel dejected as he or she is aware of the extent to which he or she can improve his or her performance and may begin to feel it as an impractical and impossible target to achieve. A manager can achieve a significant performance output from subordinates with the help of budgeting.

The third principle of budgeting is that outputs must be linked with inputs. Outputs that have been achieved, like the number of units produced in a production firm, or the number of customers who have opened an account in a bank, are important factors. Inputs that are required to achieve those outputs are usually the costs involved, apart from other aspects like infrastructure. With the aid of budgeting, the management can avoid costs that do not contribute to production or whatever the activity concerned may be.

The fourth principle of budgeting is that it should be flexible enough to be able to adapt to environmental factors, which will affect the firm anytime during the budget period.

Finally, the fifth principle is that the management should continuously learn from the process and from any mistakes committed. This will ensure that the process of budgeting is constantly improved and utilized in the best possible manner for achieving goals.

Example: Success of Asian Paints through Efficient Sales Budgeting Principles

Net Sales of Asian Paints stood at Rs. 8,527.24 crore in December 2021 which was 25.61% higher than the previous year's net sales. Asian Paints was consistently able to drive their sales force through efficient sales budgeting principles. They were efficiently providing great inputs to achieve the superior outputs. It provided performance based compensation to sales force. It made human capital investment of 20.1 crores in learning & development of employees (as of 2020-21 FY). This linkage of outputs to inputs in sales budgeting made it to achieve huge net sales consistently over the years.

Source: Asian Paints Annual Report (20-21), "Value creation model", https://www.asianpaints.com/content/annualreport/annual-report-20-21.html (accessed on 20/7/22)

7.6 Types of Budgets

A sales manager is responsible for developing budgets for the sales department. In general, sales managers prepare three types of budgets. They are sales budgets, selling-expense budgets, and sales department administrative budgets.

7.6.1 Sales Budget

A sales budget is a detailed plan showing the expected sales for a future period. It is developed based on expected revenues (as given by the sales forecast) from sales. In general, a sales budget gives the sales that would be generated from a geographical location, product or service offering, salespeople and customers.

This is the most crucial budget as it is the first part of the master budget and forms the basis for other operational budgets like finance and production budgets. Sales forecasts should be prepared for each product division rather than for customer or territory. This is because the production and finance departments should know the number of units required rather than the number of customers the salespeople would like to target.

Example: boAt - Aiming Big Sales Budgeting for 2024

boAt, a Delhi-based firm, managed to break the Chinese monopoly in India's personal audio equipment space. boAt sold headphones, earbuds, and speakers, held a 37% share of the personal audio products segment in India in 2020, according to the data from market intelligence firm Kalagato.

The company's marketing included some out-of-the-box thinking. For instance, in February 2020, boAt launched a new line of headphones and speakers at the Lakmé Fashion Week, partnered with fashion designer Masaba Gupta to release speakers with vibrant patterns. This marketing strategy resulted in big gains for the company. As of November 2020, boAt had two million customers and was selling 14,000-15,000 units daily. The company was targeting a revenue of Rs. 1,000 crore ($137 million) by fiscal 2024 (April-March), as compared to Rs. 500 crore ($69 million) it clocked in fiscal 2019.

Source: Bhattacharya, A. (June7, 2021). How A Young Indian Brand Is Beating Its Chinese Rivals At Their Own Game. Retrived from https://qz.com/india/1997153/indias-boat-beats-chinas-realme-and-oneplus-in-headphone-sales/. Accessed on -5-7-2022

7.6.2 Selling-Expense Budget

A selling-expense budget is a plan which gives expenses that would be incurred by the sales department to achieve the planned sales. These expenses could be commissions or salaries paid to salespersons. Travelling and entertainment expenditure is also part of the selling expense budget. Allocating a percentage of sales as commission or a fixed salary will form a major part in developing selling-expense budgets. The costs incurred on training salespersons when a new product line is added should also be included in the selling-expense budget. Finally, this must be closely linked with the sales budget as the selling-expense budget is determined by the number of products supposed to be sold in a given period.

7.6.3 Administrative Budget and Profit Budget

The administrative budget comprises the budget allocation for general administrative expenses such as rent, electricity, office furniture, stationery and other costs incurred by the sales department (Refer Exhibit 7.1). Generally, the sales and selling-expense budgets are prepared separately, but sometimes both are combined to develop profit budgets. In profit budgets, the gross profits are calculated by deducting the sales expenses from the revenues generated by the sales department.

Exhibit 7.1: Specimen of Selling and Administrative Expense Budget

Selling & Administrative Expense Budget of ABC Ltd. for the Year Ending 31/3/2019

	Q1	Q2	Q3	Q4	Total
Sales in units	3,000	3,500	4,000	4,500	
Budgeted sales	3,00,000	3,50,000	4,00,000	4,50,000	15,00,000
Variable Expenses					
Sales Commission	9,000	10,500	12,000	13,500	45,000
Freight- delivery expenses	3,000	3,500	4,000	4,500	15,000
	12,000	**14,000**	**16,000**	**18,000**	**60,000**
Fixed Expense					
Salary of salesmen	22,000	22,000	22,000	22,000	88,000
Advertising	12,000	12,000	12,000	12,000	48,000
Office salaries	8,000	8,000	8,000	8,000	32,000
Tax & Insurance	2,000	2,000	2,000	2,000	8,000
Depreciation	1,000	1,000	1,000	1,000	4,000
Total Fixed Expenses	**45,000**	**45,000**	**45,000**	**45,000**	**1,80,000**
Total Selling and Administrative Expenses	**57,000**	**59,000**	**61,000**	**63,000**	**2,40,000**

Source: Jerry J, Weygandt, Paul D.Kimmel, Donald D.Keiso, "Managerial Accounting: Tools for Decision Making", 8th edition, John Wiley & Sons, 2017

Check Your Progress - 1

1. Which of the following processes represents the strategies and objectives of an organization in numerical terms and helps in facilitating its smooth functioning?

   a. Forecasting

   b. Financing

   c. Budgeting

   d. Controlling

   e. Implementing

2. A sales manager prepares a budget which consists of the expenses incurred for commissions and salaries paid to salespersons, travelling and entertainment expenditure, training costs, etc. Name the type of budget.
   a. Sales budget
   b. Sales department's administrative budget
   c. Selling-expense budget
   d. Profit budget
   e. Training budget
3. Which of the following is false?
   a. Controlling and planning are inter-linked and one is useless without the other.
   b. Planning includes forecasting sales, scheduling the production process and budgeting the expenditure for the organization.
   c. Budgets should be developed by top management.
   d. An organization's budgeting process depends on the revenues it has been getting.
   e. Budget should be developed based on sales and revenue and forecasted expenditure.
4. Identify the type of budget which is developed based on expected revenues from sales.
   a. Sales budget
   b. Sales department's administrative budget
   c. Selling-expense budget
   d. Profit budget
   e. Expenditure budget

7.7 Methods of Budgeting for Sales Force

Different methods are used for developing budgets for various sales force's activities. While developing the budget for the sales force, the involvement of the sales manager is important, since he or she will personally be held responsible for expenses incurred by the department. Several methods such as the affordability method, percentage-of-sales method, competitive parity method, objective-and-task method and return-oriented method are used for budgeting sales force costs.

7.7.1 Affordability Method

The affordability method is a process where the management develops the sales budget depending on its ability to spend on sales functions. Here, a firm develops the budget based on whether it can afford to spend a certain amount for selling its goods. The funds allocation will be arbitrary as this figure may fall short or exceed the exact requirements of the sales department. In practice, most budgets prepared using this method fall short of the sales department's requirements.

7.7.2 Percentage-of-Sales Method

Percentage of sales method is also used for developing budgeting for marketing efforts. The budget is developed by multiplying sales revenues by a given percentage. The sales revenues used may be a past sales revenue figure or a forecasted figure. Sometimes, even a weighted average of the two is used. This is one of the easier ways of developing budgets. A serious shortfall is that it is based on the amount of sales revenues that have been or will be generated. It has to be remembered that sales revenues are dependent on the efforts of salespersons.

7.7.3 Competitive Parity Method

In this method, the sales manager sets the budget based on the budgeted figures of competitors or the industry average. Firms adopt this method because they feel that the collective wisdom of the industry is superior to the wisdom of the firm. The budget is based on a comparable (in size and revenues) competitor's budget so that the firm does not lose market share to the competitor.

Example: Competitive Parity Budgeting @ Pepsi did not Yield Results

Coca-Cola, for the past seven years (from 2014 to 2020), was allocating huge advertising budgets (an average US $4 billion per year) worldwide. Thereby it was able to achieve a synergy and deliver superior performance by grabbing leadership in the soft drink beverage market. PepsiCo used competitive parity method of budgeting and spent almost the same advertising budget (an average US $4 billion per year) like Coca-Cola. But Coca-Cola was the market leader in US market with 43.7% market share and Pepsi was following Coca- Cola at second position with 24.1% market share.

Source: The Investopedia Team, (Aug 10, 2021). "A Look at Coca-Cola's Advertising Expenses", https://www.investopedia.com/articles/markets/081315/look-cocacolas-advertising-expenses.asp# & https://www.statista.com/statistics/286526/coca-cola-advertising-spending-worldwide/ (accessed on 20/7/22)

7.7.4 Objective-and-Task Method

The objective and task method overcomes fundamental shortcomings in all the above methods i.e., developing budgets without considering the organization's objectives. In this method, the management develops the budget based on the objectives to be attained. The objective task method involves four steps. The first step is the identification of objectives of the sales department after arriving at a consensus among sales department employees. Next, the tasks to be performed for achieving the objectives are specified. The third step involves determining the expenditure required for these tasks. The fourth step involves adding all the above expenses to arrive at a final figure for the purpose of budgeting.

7.7.5 Return-oriented Method

These days, budgeting is being increasingly done with the help of Return-Oriented Methods. These methods like Return On Investment (ROI), Return On Assets (ROA), Return On Total Assets (ROTA), Return On Assets Managed (ROAM) are some tools that help managers to develop a sales budget. ROAM will help the sales manager to analyze the financial picture of budgeting decisions. ROI will help sales managers analyze the impact of a particular sales cost allocation on revenues and profits generated by sales.

Check Your Progress - 2

5. An organization allocated its funds arbitrarily during its budget planning. It found that the fund allocation for the sales department was inadequate and did not meet their requirements. Name the method used in preparing the budget.
   a. Objective and task method
   b. Competitive parity method
   c. Affordability method
   d. Return-oriented method
   e. Arbitrary method
6. Which of the following is true of administration budget?
   a. Allocates amounts for expenses such as rent, electricity, office furniture, etc.
   b. Developed based on past sales revenues or forecasted sales revenues.
   c. Budget is developed based on expected revenues.
   d. Budget shows the expected sales for the future.
   e. Budget developed considering the organization’s objectives.
7. In one of the methods of budgeting for sales force, ROAM is used. Expand ROAM.
   a. Risk on Assets Mortgaged
   b. Return on Assets Mortgaged
   c. Risk on Assets Managed
   d. Return on Assets Managed
   e. Revenue of Assets Managed

8. Which of the following is the first step in the objective-and-task method?
   a. Tasks to be performed for achieving the objectives are specified.
   b. The expenditure required to achieve the tasks is determined.
   c. All the expenses are added up to arrive at a final figure for the purpose of budgeting.
   d. Identify the objectives of the sales department after arriving at a consensus among sales department employees.
   e. Allocation of money for various tasks.

7.8 Requirements for Successful Budgeting

There are certain criteria that a successful budget should meet. Otherwise, it will become a burden for those involved in terms of imposed sales targets. For proper implementation, budgeting should be developed with the involvement and support of top management. It should be flexible.

7.8.1 Involvement & Support of Top Management

In the budgeting process, top management involvement is essential. This group has to clearly understand the budgeting procedure and its role as a planning and control too+`+9++`----``- l. Unless and until top managers understand fully, they cannot appreciate its importance. Apart from understanding it, a top manager also has to ensure that every employee too understands and appreciates the budgeting process. Top managers should also ensure that deviations from the planned budget are reported and the reasons for the same are identified. For, successfully budgeting the different functions and activities of the organization, the top management should support the activity and ensure all-round participation.

It is advantageous if the top management encourages responsible people in the organization to develop budgets by themselves, as they are the best persons to judge their performance levels and resources needed. However, expert advice can be sought.

The staff should not perceive the budget as a pressure device that forces them to perform. They should rather view it as an effective tool which will help them perform better. The management should also ensure that the budget is firmly implanted in the company's planning function. It must also identify performance levels required for each department and convert them into rupee terms for developing budgets.

The control aspects to be built into a budget are equally vital. The top management should initially define what the controlling is and what it means to the organization as a whole. In addition, a clearly defined organizational structure is necessary for proper implementation of the budgetary process. Finally, the top management should ensure that controllers who develop the budget have a clear understanding of the tasks that they need to perform. These controllers should be responsible for the budgets they develop.

Example: Google Budget Revised in Response to Covid

In April, 2020, Google cut down its marketing budgets by as much as half for the second half of the year. Sundar Pichai, the CEO of Alphabet said Google would be pulling back some of its investments for the rest of the year amid the Covid-19 crisis.

One message from a global director sent to employees said that there were budget cuts and hiring freezes happening across marketing and across Google. They had been asked to cut out the budget by about half to accommodate the Covid-19 crisis.

Source: Elias, J. (April 23, 2020). Google to Cut Marketing Budgets By As Much As Half, Directors Warned Of Hiring Freezes. Retrieved from https://www.cnbc.com/2020/04/23/google-to-cut-marketing-budgets-hiring-freeze-expected.html . Accessed on 16-06-2022

7.8.2 Flexibility in Budgeting

Companies these days operate in an intense competitive situation where environmental changes take place rapidly. In such a situation, companies rarely achieve the planned performance using the developed budget. Budgets should be flexible so that sales activities can be adjusted to fast changing environmental conditions. A flexible budget can minimize the negative effects of variations between the planned and actual performance. Flexibility in developing budgets is particularly important for manufacturing and distribution firms that operate in a highly volatile environment.

Activity 7.1

A bank decides to foray into the insurance sector looking at the market size and opportunity for growth. In order to be successful, it plans to develop a successful sales budget. What do you think are the requirements that bank should take into consideration while preparing its sales budget?

Answer:

7.9 Preparing a Sales Budget

To prepare an efficient sales budget, an organization has to follow certain steps. These are review and analysis of situations, identifying specific market opportunities and problems, sales forecasting, communicating sales goals and objectives, preliminary allocation of resources, preparing the budget and getting approval for the budget.

7.9.1 Review and Analysis of Situation

The first step in developing a sales budget involves collection of past data pertaining to the company's budgets for previous years and identifying any variations between planned and actual performances. Here, the sales manager's job is to search for discrepancies and analyze why they occurred. This will help in taking necessary precautions in developing the current sales budget.

7.9.2 Identifying Specific Market Opportunities and Problems

Opportunities and problems that confront the sales management can be assessed from situation analysis. A careful look at problems and opportunities will estimate the impact they may have on a company’s operations.

7.9.3 Sales Forecasting

At this stage, a sales manager can conduct sales forecasting using different procedures. Forecasting has to be done product- wise, client- wise and territory-wise. Sales forecasting can be done by obtaining information from individual salespersons and from the MIS department. Forecasting is done for both unit-wise sales and rupee- wise sales, so that any deviation can be easily identified by comparing them with the number of units and amount of sales, respectively.

Example: Samsung Exceeding Record Breaking Sales Forecasting Figures

Samsung Electronics expected year 2021 also to be stellar as they were backed by strong chip business including memory chips, microprocessors and contract chip fabrication. While preparing its sales budget, it made a record-breaking quarterly sales forecast of around 76 trillion won for the last quarter of 2021. In order to achieve this huge forecast, Samsung wanted to be more aggressive with its sales and marketing.

It was offering more features for the prices, especially in China where Huawei's dominance was going down. It finally achieved growth more than it forecasted at 23.48 percent year-on-year growth in 2021. Its sales figures also exceeded over its sales forecast of 75.3 trillion won.

Source: koreajoongangdaily, (January 7, 2022), “Samsung predicts record-breaking sales for 2021”, https://koreajoongangdaily.joins.com/2022/01/07/business/industry/samsung-electronics-earnings-guidance/20220107151211663.html# (accessed on 21/7/22)

7.9.4 Communicate Sales Goals and Objectives

After sales forecasting, the next step for sales manager is to communicate the goals and the objectives of the sales department to salespeople. When developing these aims, the involvement of salespeople is essential. By encouraging them to participate in the development, a sales manager can obtain mutual agreement from them. Once, objectives are developed, they have to be sequenced based on importance. In other words, they should be prioritized and necessary resources identified.

7.9.5 Preliminary Allocation of Resources

The next step in the sales budget development process is to allocate resources for specific tasks that have to be performed for achieving objectives. Resource allocation starts from selecting salespeople, assigning tasks to them, giving salespeople sufficient tools such as laptops and palmtops, and most importantly, enough financial resources to cover their expenses.

7.9.6 Preparing the Budget

Sales budgets have to be prepared by striking a balance between the potential of the sales force and the true nature of market opportunities. The sales budget should be flexible as stated earlier. The sales manager at this stage may ask for substantial resources to be allocated in the budget for the department. It is up to the top management to decide the amount of budget to be allocated.

7.9.7 Getting Approval for the Budget

In the final step, the sales department seeks approval of the budget prepared relating to sales expenses that it may incur in the subsequent planning period. Once, the budget has been approved, it may need modifications owing to environmental changes. The sales manager has to apply for the modified budgeted figures to the top management as and when a deviation occurs in the sales budget.

Activity 7.2

Procter & Gamble (P&G) plans to launch a new dish washing product in Europe. P&G wants to make it as one of the key brands in its global fabric and home care portfolio. The company wants to an effective and efficient sales budget for its new product. What are the steps the company needs to take in order to develop a suitable sales budget?

Answer:

Check Your Progress - 3

9. Which of the following statements about budgeting is **false**?
   a. Budgeting improves communication and coordination among different departments in an organization.
   b. Budgeting projects the course of future events accurately which helps a sales manager chalk out the sales plan.
   c. Budgeting infuses a sense of profit consciousness among the employees and encourages them to achieve sales targets with least possible expenses.
   d. The support of top management is important for successfully budgeting the different functions and activities in an organization.
   e. Budgeting brings in greater control and helps improve performance.
10. Which of the following is the first in the sequence of steps to be followed in planning of budget?
   a. Communicate plans to all the concerned people.
   b. Assess the previous year's financial performance.
   c. Relate the current year's expenditure and programs with long-term strategies.
   d. Develop short-term activities to achieve long-term objectives.
   e. Allocate budget for various activities.

Activity 7.3 Mahatma Gandhi Hospital (MGH), which was launched in 2000, established its multi-speciality hospital with state-of-the-art equipment, in Chennai.in 2018. The newly-launched hospital faces stiff competition from Fortis, Apollo, Billroth and other well-known hospitals in Chennai. The marketing department of MGH has to spend the allotted funds economically and bring patients from various nearby areas in Chennai. Suggest possible budgeting solutions to the company to achieve the marketing objectives. **Answer:**

7.10 Summary

- A budget is a process of allocating a portion of an organization's resources for its various activities for a specified period of time.
- Budgets help in planning and coordination of the organization's activities.
- Developing sales budgets serve two purposes -- as a mechanism of control and an instrument of planning.
- There are several benefits an organization derives from budgeting. They are -- improved planning, better communication and coordination, performance evaluation, psychological benefits and avoiding uncontrolled expenditure.
- In practice, sales managers prepare three types of budgets - sales budgets, selling expense budget and administrative budget.
- The different methods for budgeting include: the affordability method, percentage-of-sales method, competitive parity method, objective-and-task method and return-oriented method.
- The success or effectiveness of the methods of budgeting depends on the involvement and support received from the top management and the flexibility built into the budgets.
- To develop an efficient sales budget, a manager has to follow certain steps like review and analysis of the situation, identifying specific market opportunities and problems, sales forecasting, communicating sales goals and objectives, preliminary allocation of resources, preparing the budget and getting approval for it.
- Budgeting has its share of limitations. Once adequate care is taken to overcome the limitations of budgeting, it will act as a tool to enhance the profitability of the organization.

7.11 Glossary

Allocating: Breaking accumulated supplies into smaller units that are easier for later intermediaries and customers to handle.

Budget: Budget refers to a list of all planned expenses and revenues.

7.12 Self-Assessment Exercises

1. The budgeting process is being used as a tool for improving employee performance and organizational capabilities in functional areas. In this context, discuss the benefits from a sales budget.
2. A sales manager prepares various types of sales budgets for the sales department. Discuss the different types of sales budgets.
3. Different methods are used for developing budgets for the sales force's various activities. Explain the different methods of developing sales budget.

4. While preparing a sales budget, what are the criteria that need to be fulfilled in order to make the budget successful? What are the steps that an organization should follow while preparing a sales budget?
5. The budgeting process has certain drawbacks. Analyze the drawbacks and the necessary steps to be taken so as to garner the maximum benefits of budgeting.

7.13 Suggested Readings/Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.
4. Krishna Havaldar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

7.14 Answers to Check Your Progress Questions

1. (c) Budgeting

The budgeting process helps represent the organization's objectives and strategies in numerical terms. Budgets are the most important planning aspects of the organization. A well- prepared budget facilitates smooth functioning.

2. (c) Selling-expense budget

A selling-expense budget is a plan which gives expenses that would be incurred by the sales department to achieve the planned sales. It includes expenses incurred for commissions and salaries paid to salespersons, travelling and entertainment expenditure, training costs, etc.

3. (c) Budgets should be developed by top management

Budgets should be developed by top management and should be communicated to those responsible for achieving the stated objectives. Budgets should be developed by those responsible for achieving the stated objectives and should be communicated to top management for approval.

4. **(a) Sale budget**

A sales budget is a detailed plan showing the expected sales for a future period. It is developed based on expected revenues (as given by the sales forecast) from sales.

5. **(c) Affordability method**

The affordability method is a process where the management develops the sales budget depending on its ability to spend on sales functions. Here, a firm develops the budget based on whether it can afford to spend a certain amount for selling its goods. The fund allocation will be arbitrary as this figure may fall short or exceed the exact requirements of the sales department. In practice, most budgets prepared using this method fall short of the sales department's requirements.

6. **(a) Allocates amounts for expenses such as rent, electricity, office furniture, etc.**

The objective-and-task method develops budgets without considering the organization's objectives. Sales budget is developed based on expected revenues and shows the expected sales for the future. Percentage of sales method can be developed based on past sales revenues or forecasted sales revenues. So, the correct answer is 'a' which states that, administrative budget allocates amounts for expenses such as rent, electricity, office furniture, etc.

7. **(d) Return On Assets Managed**

ROAM or Return on Assets Managed will help the sales manager to analyze the financial picture of budgeting decisions.

8. **(d) Identify the objectives of the sales department after arriving at a consensus among sales department employees**

In the objectives-and-task method, the management develops the budget based on the objectives to be attained. The objective task method involves four steps. The first step is the identification of objectives of the sales department after arriving at a consensus among sales department employees. Next, the tasks to be performed for achieving the objectives are specified. The third step involves determining the expenditure required for these tasks. The fourth step involves adding all the above expenses to arrive at a final figure for the purpose of budgeting.

9. **(b) Budgeting projects the course of future events accurately which helps a sales manager chalk out the sales plan**

Budgeting improves communication and coordination among different departments in an organization. It infuses a sense of profit consciousness among the employees and encourages them to achieve sales targets with least possible expenses. The support of top management is important for a successful budget. However, it does not project the course of future events.

10. (b) Assess the previous year's financial performance

The correct sequence is - Assess the previous year's financial performance- Relate the current year's expenditure and programs with long-term strategies- Develop short-term activities to achieve long-term objectives and then communicate plans to all the concerned people, allocate budget for various activities.

Unit 8

Estimating Market Potential and Forecasting of Sales

Structure

"The most important thing is to forecast where customers are moving, and be in front of them."

- Philip Kotler

8.1 Introduction

Sales forecasting is important to businesses as it gives the ability to make informed decisions and develop data-driven strategies. Sales forecasting allows a company to be proactive instead of reactive. In the previous unit, we discussed sales budgets in detail. The topics discussed in the unit-7 included, purpose of sales budgets, the benefits of budgeting, different types of budgets, the steps to develop a sales budget and the precautions to be taken in preparing sales budgets. The present unit is about sales' forecast and estimating market potential.

An organization has to estimate the market potential of the new market as realistically as possible before it enters a new market. The estimation of market potential helps marketers develop effective marketing strategies. Therefore, managers seek a rational methodology to help them estimate the potential of a new market.

Today, organizations have vast capacity to store data and analyze it scientifically. Therefore, companies have moved towards fact-based forecasting. However, it is obviously very important to collect the appropriate information in order to develop an effective forecasting system.

This unit will discuss the ways in which marketers can estimate market potential. We also discuss the importance of sales forecasting and the various forecasting techniques that are widely adopted by companies to forecast their sales volumes.

8.2 Objectives

After going through this unit, you should be able to:

- Assess the need to determine market potential.
- Evaluate market potential.
- Analyze the importance of sales forecast and explain different forecasting methods.
- State the criteria for effective forecasting.
- Identify the difficulties associated with sales forecasting.

8.3 Importance of Assessing Market Potential

Assessing market potential is the first step for companies planning to enter new markets. Without this step, the company could make irrecoverable losses. In the last few years, many dotcom companies failed because they could not assess the potential of the market properly. However, companies such as Amazon and eBay succeeded because they were innovative. They were able to identify the right market with huge market potential. Companies that could not do so, lost the battle for market share and were squeezed out.

Though certain products have the potential to satisfy consumers, it may still take time to convince customers to buy them. For instance, it took about 10 years for the VCRs to become a successful product in the US market. However, Netflix, a US-based streaming service which entered India in January 2016 and started commissioning content as late as April 2017, has emerged as a key media service player in 2020. By December 2018, Netflix had over 1.2 million subscriptions. SEMrush[1], a US based SaaS[2] platform, in its study (June 2018 - July 2019) on the most trending media service (Netflix, Tata Sky and Amazon prime) players reported that Netflix is the most searched keyword[3] in India. The rapid growth of

[1] SemRush sells online visibility and marketing analytics software

[2] Software as a Service (SaaS): Under this model, Software is licensed on a subscription basis and is centrally hosted

[3] https://brandequity.economictimes.indiatimes.com/news/media/netflix-witnesses-rapid-growth-after-new-subscription-launch-reveals-study/70769303#:~:text=Netflix%20witnesses%20rapid%20growth

Netflix in less than 3 years illustrates how OTT service is gaining momentum in India, a country. The 90 plus OTT players[4] in India have been successful in capturing the attention of the price sensitive Indian audience. Sometimes, despite their market potential, certain products fail miserably in the market due to poor timing of their entry into the market. Hence, the time of entry is also vital for a firm to exploit market potential.

Even before it looks at potential of a market, a company should try to assess its own abilities and resolve certain critical issues, which it is likely to face. The critical issues include the ability of the company to face tough technical obstacles, whether the market can be won by developing complementary products or services, whether the customers need to learn new skills or processes in order to use the products effectively, how intense the competition is, and so on.

Example: Importance of Assessing Market Potential @ Disney+ Hotstar

Disney+ Hotstar was able to properly assess its market potential in Indian market and earned INR 1,000-1,100 crores from IPL during 2022 (inclusive of INR 250-300 crores through subscriptions). In the highly cluttered Indian market amidst the numerous OTT players, the biggest differentiating factor for Disney+ Hotstar was IPL. During two months of IPL season, it used to meet its annual subscription targets. Disney+ Hotstar considered India as a jewel in the crown. Assessing the market potential helped Disney reach out to its targets and it well understood the importance of assessing market potential.

Source: Niraj Sharma, June 2022, "IPL media rights: What is Disney+ Hotstar's 'Plan B' after losing IPL?" https://bestmediainfo.com/2022/06/ipl-media-rights-what-is-disney-hotstars-plan-b-after-losing-ipl (Accessed on 1/8/22)

8.4 Need to Determine Market Potential

When companies enter new markets, they are often over-optimistic with regard to the prospects for growth. For instance, many automobile firms from the West invested heavily in China, assuming that the country's huge population would soak up their products and give them high profits. But many of them failed miserably and left the country.

In June 2018[5], IHH Healthcare, Asia's largest healthcare company acquired 30 hospitals of Fortis Healthcare. In the year 2000, Indian Government allowed 100% foreign direct investments (FDI) in the healthcare sector. Since then, leading healthcare companies from foreign countries have been making huge investments in the Indian healthcare industry. The Indian healthcare industry is growing at a fast pace bringing in huge revenue for investors and the sector is also

[4] https://inc42.com/reports/india-ott-market-landscape-report-2020/

[5] https://timesofindia.indiatimes.com/business/india-business/why-are-investors-lining-up-for-indias-hospitals/articleshow/64985069.cms

generating employment. The Indian Government's healthcare insurance schemes like 'Ayushman Bharath' and many other State Government Healthcare Insurance Schemes are expected to increase the demand for healthcare. As of 2019, India has just 1.3 beds[6] per 1000, while WHO (World Health Organization) Standards mandate a minimum of 3 beds per 1000. The healthcare infrastructure is abysmally low when pitched against the huge and growing demand for healthcare. Sensing the huge market potential and opportunity, foreign healthcare organizations are making huge investments in the Indian healthcare industry.

Therefore, market potential should be determined taking all factors, whether broad or specific, into account. Selection of the right markets and the timing of entry are the two vital decisions that firms need to take when considering entering new markets.

Example: Netflix- An Urgent Need to Determine Market Potential

As of April 2022, Netflix was very less watched than its rivals. It had only 5.5 million subscribers, which was just a quarter of Amazon Prime which had 22 million subscribers. The market leader being Disney+ Hotstar with a whopping 46 million subscribers, which was 9 times more than Netflix. Apart from the leaders it also needed to deal with stiff competition from regional OTT platforms like Aha (Telugu), Hoichoi (Bengali), Nee Stream (Malayalam), Koode (Malayalam), and YouTube. There was an urgent need to rethink and determine the market potential of Netflix in the Indian market.

Source: Mrs. Haritha, April 26, 2022, "Indian Market: NetFlix fixing its net", https://www.marketexpress.in/2022/04/indian-market-netflix-fixing-its-net.html (Accessed on 1/8/22)

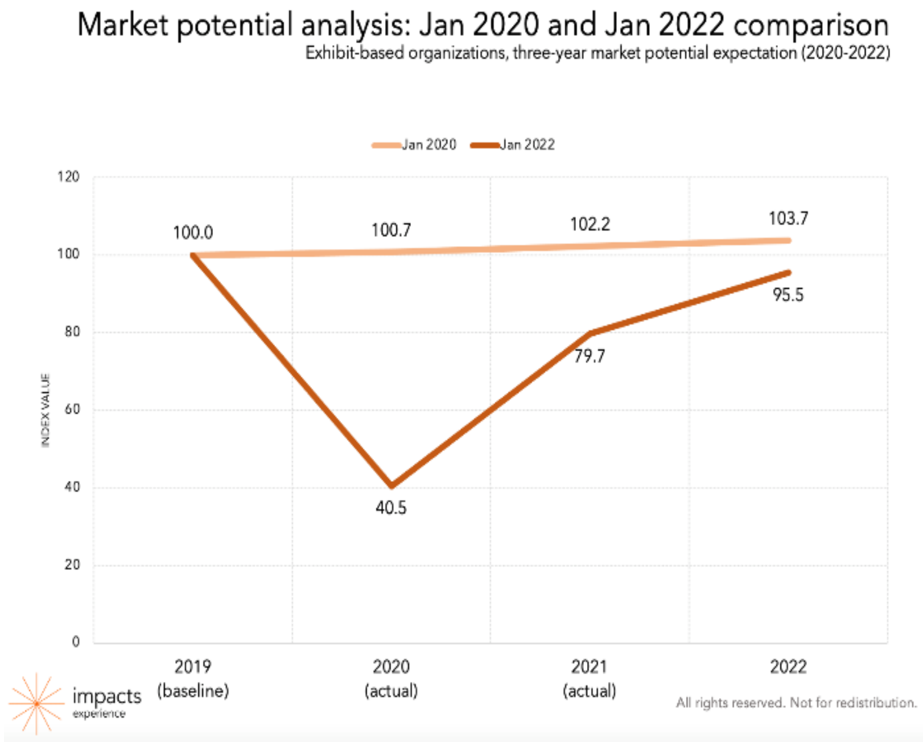
8.5 Analyzing Market Potential

There are two ways of analyzing market potential. The first is a top-down approach, while the other is a bottom-up approach. In the top-down approach, the top management assesses a particular market on the basis of macro environmental factors such as overall demographic data, GDP and disposable income. Information on macro environmental factors can be easily accessed by the top management as the data is published in various magazines, government publications, etc. In the bottom-up approach, the micro environmental factors of the market in terms of customer and product-specific data, such as the customers' ability to buy the product and the product's acceptance are analyzed usually by lower level management. The customers' ability and willingness to buy the product are ultimately of key importance, and we will look at these two factors now.

[6] https://www.financialexpress.com/economy/bringing-indian-healthcare-up-to-global-standards-suneeta-reddy-tells-how-much-investment-is-needed/1746034/

Example: Analyzing Market Potential for Exhibit-based Cultural Organizations in US

Organizations like museums, historic sites, aquariums, zoos, botanic gardens, and science centers were commonly known as Exhibit-based cultural organizations. As of January 2022, it was analyzed that the current market potential for such firms in US was 95.5% as compared to their 2019 attendance. Which meant that in 2022, for every 100,000 visitors there was a drop of 4,500 visitors as compared to 2019. The market potential dropped slightly from 2019. But from 2020 figures there was a substantial increase in the numbers from 40.5% to 95.5% in 2022.



Source: colleendilen, May, 2022, "Market Potential by Quarter in 2022: Projected Attendance to US Cultural Entities (DATA)", https://www.colleendilen.com/2022/01/05/market-potential-by-quarter-in-2022-projected-attendance-to-us-cultural-entities/ (Accessed on 1/8/22)

8.5.1 Ability to Buy

The customers' ability to buy the products of a company in a specific market is fundamental in determining market potential. If customers are interested in the product but cannot afford it, we can conclude that the market does not have potential for the producer.

8.5.2 Willingness to Buy

However, even if customers can afford the product, if they are not interested in it or not willing to buy it, the market does not hold potential. In fact, the ability to buy a product should be backed up by willingness to buy. For an analysis of the customers' willingness to buy a company's products, macro-level data or demographic data are not of much help.

Check Your Progress - 1

1. A new company wants to follow the top-down approach for analyzing market potential. Which factors would the company **not** consider?
   a. GDP
   b. Product-specific data
   c. Demographics
   d. Disposable income
   e. Consumption level in the economy
2. Which of the following factors is taken into account in the bottom-up approach?
   a. GDP
   b. Disposable income
   c. Ability to buy
   d. Demographic data
   e. Product-specific data

8.6 Sources of Data

Data can be collected from two sources – primary sources and secondary sources. Which sources are used depends on the availability of data, time, costs, affordability, etc.

8.6.1 Secondary Sources

If a company is planning to enter new markets, especially overseas markets, market data is available in the form of country level economic and demographic data from secondary sources. The sources include: government reports, and reports from various international institutions such as United Nations or the World Bank. Such data can also be gathered from private agencies that develop economic intelligence and risk assessment of different markets. While data at the macro level is useful for investment in a country, selling products and services in a particular market requires more detailed information. Information regarding customer attitudes, product usage, customer tastes and preferences and a host of such related data is vital for an organization wishing to assess a market for sales potential. Therefore, we also need to gather primary information through market research.

Example: Kearney's GRDI – A Powerful Secondary Source for Retailers in Emerging Markets

According to Kearney's Global Retail Development Index (GRDI) 2021, India stood in top 2 next to China. This GRDI Index, developed by Kearney, was a powerful secondary source for retail companies trying to enter in emerging markets. According to GRDI 2021, Kearney viewed Africa as the "Retailing's next gold rush". The study claimed that Africa will be home to the majority of new global population by 2050. Study also expected the African countries like Ethiopia, Ghana, Cote d'Ivoire, Rwanda, Kenya, Senegal, and Morocco grow faster than the regional growth and world average. The retail companies which were planning to enter or expand in African market made use of the GRDI 2021 study findings

Source: GRDI, 2021, "Global Retail Development Index (GRDI) 2021", https://www.kearney.com/global-retail-development-index/2021 (Accessed on 2/8/22)

8.6.2 Primary Sources

The primary data regarding customer spending patterns, their preferences, their product usage and product purchase information can be obtained through market research. Conducting market research in a new market is extremely difficult because customers usually do not have adequate knowledge about the product. Therefore, it is difficult for them to comment on the products, their quality, ease of use, etc. In such situations, companies can obtain information about the market in general from market research consultants, to begin with. Information regarding pricing patterns, the extent of distribution required, customer tastes and preferences and a host of other details can be gathered in this manner. Primary data has to be gathered from respondents on the basis of key indicators. The questions put to the respondents reflect the indicators and are tailor-made to get the required information for the firm.

Activity 8.1

When German luxury car maker BMW announced its plans to start its operations in India it decided to enter in the market by setting up a manufacturing plant in the country. The company planned to first forecast its sales to decide on the capacity of the manufacturing plant. List out the activities involved in forecasting of sales by BMW.

Answer:

8.7 Importance and Uses of Sales Forecasts

The importance of sales forecasting has been increasing over the years. This is because of the constantly changing market environment and customers' attitudes. Constant change means that organizations are forced to modify their plans and strategies from time to time in order to stay in the business.

Conventionally, sales forecasting was based on the intuition of the management. But today, sales forecasting has become much more systematic. This systematic approach is warranted, since mistakes can be easily detected if a systematic approach is followed. The forecasting process of the firm has also changed. People from different departments collaborate with each other and take collective decisions to reach a consensus on the sales forecasts. For collective decisions on forecasting, techniques such as Vendor Managed Inventory Program (VMI), and Collaborative Planning, Forecasting and Replenishment (CPFR) have been developed.

Earlier, forecasting was undertaken mainly to predict how changes in the economy would affect a firm's performance and to extrapolate from prevailing business trends in a country. But now, forecasts can be made not just at a general level, but even for specific areas of concern such as for demand measurement, logistics movement, cash flow of the organization, etc. Forecasting can be divided into long-term forecasting and short-term forecasting. Short-term forecasting or operational forecasting helps an organization in taking decisions regarding day-to-day operations like production processes, logistics management, raw material procurement, sales management, marketing management, advertising management, etc.

We take a look at one area of forecasting, namely sales forecasting in this unit. Sales forecasts help an organization to determine accurately the market demand for products, and customer tastes and usage patterns. The data from customers and markets are the primary sources of data for sales forecasting. Forecasts developed using such data are often highly accurate and help the organization in achieving both short-term and long-term sales objectives. Field sales staff play a vital role in attaining first-hand information about the markets and customers. Therefore, the top management of a company has to motivate its sales force and work closely with them to obtain crucial information.

Example: Sales Forecast @ Samsung Galaxy S22 helps to Plan Production

Smartphone market analysts witnessed a drop in demand for the Galaxy S series flagship smartphones. Sales figures showed that interest in Samsung Galaxy S 22 was declining, which forced the company to revise its production and financial forecasts.

Contd.…

Based on these forecasts, it ordered 20% more than the volume of components as compared to the Galaxy S21 series. It estimated that it will be able to sell at least 30 million units. These sales forecasts helped Samsung to plan its production for Galaxy S22.

Source: Abdullah, Feb 2022, "Samsung's Expectations for Galaxy S22 Series Sales Are high", https://www.gizchina.com/2022/02/11/samsungs-expectations-for-galaxy-s22-series-sales-are-high/ (Accessed on 2/8/22)

Check Your Progress - 2

3. Which of the following can be classified as a primary source of data?
   a. Government reports
   b. Market research
   c. Reports from international institutions
   d. Economic intelligence from private agencies
   e. Newspapers and magazines
4. VMI technique is used for taking collective decisions on forecasting. Expand VMI.
   a. Vendor Managed Inventory Program
   b. Vendor Management and Inventory Control
   c. Vendor Management and Industrial Relations
   d. Vendor Managed Industrial Program
   e. Vendor Managed Investment Program
5. CPFR technique is used for taking collective decisions on forecasting. Expand CPFR.
   a. Combined Planning, Forecasting and Replenishment
   b. Collaborative Planning, Formulating and Reprogramming
   c. Combined Planning, Formulating and Reprogramming
   d. Collaborative Planning, Forecasting and Replenishment
   e. Collaborative Planned Formula for Re-ordering
6. Which of the following technique is used in taking collective decisions in forecasting?
   a. Vendor managed inventory program
   b. Delphi technique
   c. Regression and correlation analysis
   d. Multiple regression model
   e. Market survey

8.8 Sales Forecasting Methods

There are different methods one can use to forecast the sales of a product or service. Some of the important methods that are used for sales forecasting are discussed in the following sections.

Forecasting methods are classified into qualitative methods and quantitative methods. The expectations of customers, the sales force, executives and experts about the future trends in sales are used in qualitative methods, whereas forecasting through the use of mathematical models come under quantitative methods.

8.8.1 Qualitative Methods

Among the methods of qualitative forecasting, we have forecasting based user expectations, sales force composite, jury of executive opinion, the Delphi technique and market test.

User expectations

Forecasting based on user expectations is normally carried out for industrial products, where the number of customers is less and the products are well-defined. In this method, the customers’ requirements are found out directly by meeting them. The information from customers can be gathered using different methods ranging from simple questionnaires to complex probability analysis. Although this method has the advantage of establishing direct contact with the customers, this also gives rise to certain drawbacks. Customers sometimes overestimate their product requirements, while, in other cases, they may not stick to their plans due to changes in the business environment.

Sales force composite

The sales force composite is derived by taking an estimate of expected sales in the forecast period from each salesperson of the company. Thus, in this method, the sales forecast is based on the expectations and experience of the salespersons. The data from each salesperson is then combined to form the overall company's sales forecast. This method is considered a reasonable method of forecasting, since it is based on the expectations of those who are actually involved in the sales activity. However, this process too has some shortcomings as salespersons are not always the best judges of sales possibilities. They normally tend to underestimate or overestimate their performance with regard to meeting the target. Salespeople may also lack a broader perspective on the environment in which the firm is operating and therefore sometimes lose sight of overall picture while forecasting sales.

Jury of executive opinion

This is one of the simpler methods of sales forecasting. This method is based on the opinions of executives at the top level of management. These people give their opinions based on their experience and intuition. The opinions of all the executives are combined and an average forecast is prepared. Another way of doing this is to convene a meeting of all the executives. After exchanging ideas, they are asked to reach a common forecast figure with regard to sales. This method too has certain disadvantages. It lacks scientific validity as it is based on the intuition and opinions of top level executives. A great deal of time is wasted on deliberations in order to arrive at a common figure and usually the top most executives' opinion prevails over the opinions of those people who have more detailed knowledge about the product and the markets. This brings inaccuracies into the process of forecasting sales.

Delphi technique

The Delphi technique is similar to the jury of executive opinion, in this technique experts are asked to forecast the sales of an organization. The experts involved are usually from universities, government institutions, industry and so on. In this method, the opinion of the experts is sought independently. The participants are kept apart so that group pressure can be avoided. Once the experts give their opinion, it is compiled together and an average figure is given to each of them. The experts are kept informed about the general opinion of the group, so that they can modify their own positions, if they wish. This continues until a consensus is reached. This method requires that the coordinator be very efficient in compiling the opinions and presenting them accurately to the others. He/she should also be able to decide when a consensus has been reached to ensure effective forecasting.

Market test

This is a method that has wide acceptance for sales forecasting. In this method, the product is tested in a limited area to find out about consumer acceptance of the product. Based on the sales of the product in that particular market, future sales are forecasted. Companies usually choose cities and towns that reflect the behavior of the country as a whole and are representative of the entire country. The biggest advantage of this method is that companies do not need to spend millions of rupees for launching the product nationally. The consumers' reaction in the particular market where the product is launched is taken as a base for the forecasts of overall sales of the product or service in the country as a whole.

8.8.2 Quantitative Methods

The methods used in quantitative forecasting are: time series analysis, moving averages, exponential smoothing, regression and correlation analysis, and multiple regression model.

Time series analysis

Time series analysis is a method of estimation of future trends based on the past performance of the organization. The past sales performance forms the basis of future sales for the company. Many companies including Coca-Cola use this method for forecasting sales. This method is normally used for long-term forecasts usually for a period of 10 years and above. Four elements of sales variations are considered for forecasting sales. They are long-term variations denoted by T, cyclical variations are denoted by C, seasonal changes denoted by S, and finally, irregular or unexpected changes in the environment is denoted by I. The analysis is dependent on the assumption that these elements are combined as shown below.

$Sales = T \times C \times S \times I$

These elements are then projected by extrapolating the trend with adjustments for the seasonal and cyclical factors. The irregular factors are considered but are not forecasted separately.

Moving average

An extension of the time series analysis is the moving average model. In this method, sales are forecasted based on the sales of the previous period. This is done on the assumption that the environmental factors prevailing in the previous periods will also be present in the future period. Since one period may not be an accurate representation, the average of several sales periods is considered. This average of sales for several periods is used for projecting future sales. Future sales are calculated by using the formula:

$Sales_{t+1} = (Sales_t + Sales_{t-1} + Sales_{t-2} +....+ Sales_{t-n+1})/n$

Where $Sales_{t+1}$ is forecasted sales, $sales_t$ is sales in the current period, $sales_{t-1}$ was the sales in the immediate past period and so on. The sales of all the periods that have been considered are added and are divided by the number of periods to arrive at an average, which is the forecasted sales figure. When calculating the forecast for the next period, the oldest period's sales are dropped from the average and the latest sales are added for calculations. Hence, it is called the moving average method.

Exponential smoothing

Exponential smoothing is a further refinement of the moving average method for sales forecasting. In the moving average method, all the past periods considered have the same impact on the projection of future sales. But in exponential smoothing, greater weightage is attached to sales in recent periods compared to sales in earlier periods. This method is best suited to short-term forecasting when the market is relatively stable. It is usually of great help when updating quarterly forecasts. This method also has the advantage of being easier to use than more sophisticated mathematical models.

Regression and correlation analysis

Regression and correlation analysis are used for forecasting the sales of a firm. Regression analysis is used to identify the factors that influence sales. If there is only one single independent variable then it is called simple regression analysis. When the number of variables is two or more, it is called multiple regression analysis.

Simple regression analysis is determined by the least-squares method. The formula is:

$Y = a + bX$

Where, Y = the dependent variable (sales)

a = the Y-intercept value (the value of Y when X=0)

b = the average increment of sales change (the slope of the equation)

X = the independent variable (gross state product)

This formula can be used to determine the average increment of change in Y (sales, which is the dependent variable) resulting from one increment of change in X (gross state product, which is the independent variable).

Correlation analysis is carried out to measure the degree of relationship between the sales and other variables. This method helps identify a coefficient of correlation (r). The value of coefficient ranges from -1.0 to +1.0 (-1.0 represents perfect negative correlation and +1.0 represents perfect positive correlation). A correlation coefficient (r) of +1.0 would indicate that for each one unit change in the independent variable, there would be an equal change in sales in the same direction in the dependent variable. Similarly, a correlation coefficient (r) of -1.0 would indicate that for each unit change in an independent variable, a proportionate change in the dependent variable takes place but in the opposite direction. It means that if the independent variable goes up by one unit then the dependent variable goes down by one unit.

Multiple regression model

Forecasting methods normally include several independent variables. Multiple regression analysis will help a forecaster to identify the relationship between sales and several independent variables. The equation is given by:

$Y_f = a + b_1X_1 + b_2X_2 + b_3X_3 + \ldots + b_nX_n$

Where

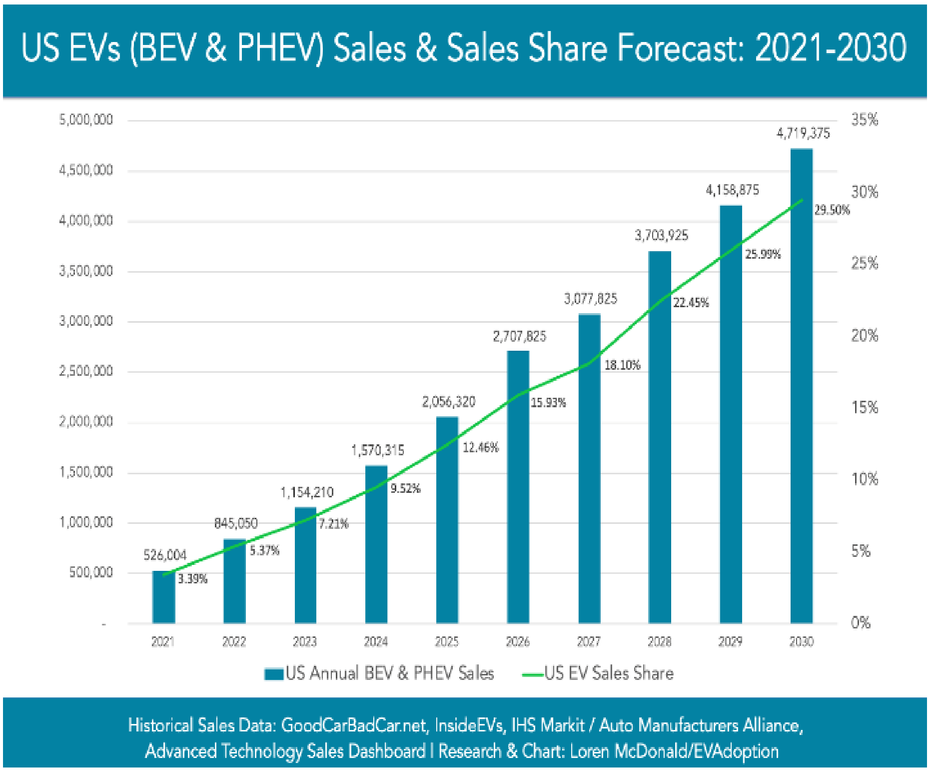
X_1 ......X_n denote different independent variables.

Example: Time Series Analysis of EV Sale Forecasting in US

Example: Evadoption.com gave long-term forecast for new electric vehicle sales for BEV (Battery Electric Vehicle and PHEV (plug-in hybrid electric vehicle) in the US market up to 2030 as shown in the graph.

Contd….

Time series analysis was used in the sales forecasting. The graph showed that the EV sales grew to 29.5% approx. of all new EV sales in 2030.



Source: Loren McDonald, 2022, "EV Sales Forecasts", https://evadoption.com/ev-sales/ev-sales-forecasts/ (Accessed on 2/8/22)

Activity 8.2

Bell Canada (Bell), is a telecommunication services company. The Business Planning Group at Bell identified that the communication field was in the midst of rapid change that could significantly impact its future business. The company identified segments such as medicine, education, information technology, etc. that offered potential for its future growth. Before venturing into offering solutions to customers in these segments, the Group wanted to forecast the potential future of these fields. However, it did not have sufficient statistical data on which it can base the forecast. Which method should the Group have adopted for forecasting sales?

Answer:

Check Your Progress - 3

7. Identify (from the methods given below), the method that does not come under the qualitative method of forecasting sales.
   a. Delphi technique
   b. Multiple regression model
   c. Market test
   d. Sales force composite
   e. Jury of executive opinion
8. When should a company undertake market testing as a tool for sales forecasting?
   a. When company wants opinions of experts.
   b. When sales force expectations are taken into account.
   c. When there is an efficient coordinator to compile various opinions.
   d. When a company does not want to spend large amount on national product launch.
   e. When a company wants opinions of market intermediaries and salesmen.
9. Suggest a suitable forecasting method for a company, which wants to accurately forecast its sales based on the sales of the previous three years.
   a. Sales force composite
   b. Correlation analysis
   c. Moving averages method
   d. Time series analysis
   e. Delphi method

8.9 Selecting a Forecasting Method

The appropriate sales forecasting method for a particular purpose can be selected depending on factors and requirements like accuracy, costs, type of data available, requirements of the software, and experience of the company.

8.9.1 Accuracy

Accuracy of a forecasting method is an important aspect to consider when selecting the method to be used. The accuracy of quantitative methods is often found to be higher than in qualitative methods since qualitative methods use an informal approach. Each of the individual quantitative forecasting methods is accurate. However, the different methods are appropriate to different time periods over which one is making the forecast. For instance, for short-term forecasts, exponential methods give the desired level of accuracy. For forecasts that exceed six months, exponential smoothing and moving averages methods are appropriate. Regression analysis is accurate for longer time periods of more than one year.

8.9.2 Costs

The cost of the technique is a consideration for its choice. The setting up costs are important at the initial stages when it is being developed and installed. But once the set-up is established, the additional costs of generating updated forecasts are usually quite low.

8.9.3 Type of Data Available

Prior to the selection of the technique to be used, the forecaster must consider the elaborateness, validity, relevance and accuracy of the available data. The level of extensiveness of the data determines the accuracy of the data. Detailed and extensive data are a prerequisite for certain types of forecasting. If such data cannot be collected, a less complex forecasting method may be selected.

8.9.4 Requirements of the Software

Today, sophisticated mathematical models and software applications are used for forecasting. The format in which the data is required in the application should be borne in mind when selecting the method of forecasting. Advanced computing tools also make possible more complex analysis and forecasting with a high degree of accuracy, according to the needs of the researcher.

8.9.5 Experience of the Company

The company’s own experience in forecasting sales also helps it select an appropriate sales forecasting method. Past experience gives the manager an awareness of the constraints and pitfalls of forecasting methods that may be peculiar to a particular industry or product market. Several large companies have developed their own techniques of forecasting, as in the case of the Lockheed Aircraft Corporation.

Example: Zoho Software for Better Sales Forecasting @ Zoomcar

Example: Zoomcar was the number one marketplace for car sharing in emerging markets. More than 20,000 cars were on its technology-driven platform in India, Southeast Asia, and the MENA region. Headquartered in Bengaluru, Zoomcar employed around 300 professionals and operated in 50 cities across India, Indonesia, Vietnam, and Egypt. Zoho software helped it to better manage its sales forecasting and achieve the results and targets without much complex analysis.

Source: Zoho, 2022, “How Zoomcar mobilized Zoho CRM across various departments to increase conversion rates by 150%”, https://www.zoho.com/crm/customers/zoomcar.html?source_from=zcx_home (Accessed on 2/8/22)

Check Your Progress - 4

10. Which factor would **not** be taken into account while selecting a suitable sales forecasting method?

    a. Type of data available

    b. Experience of the company

    c. Cash flow of the organization

    d. Software requirements

    e. Risk associated with a wrong decision

11. Which among the following is a correct statement regarding sales forecasting from the following four options?

    a. Qualitative methods are generally more accurate than quantitative methods.

    b. Quantitative methods are generally more accurate than qualitative methods.

    c. Both the methods are equally accurate on all occasions.

    d. Quantitative methods use informal approach.

    e. Qualitative methods use huge sample size.

8.10 Summary

- Estimating the potential of a market is very important for a company planning to enter a new market. This is a process where an organization estimates the attractiveness of the market for selling its products or services.
- Besides, studying the broad market factors such as the size of the population, GDP, and the spending capacity of the market, firms should also analyze market specific factors such as customers' tastes and preferences, the cultural factors prevailing, their willingness to buy the products, and so on.
- Data regarding customer and market specific factors can be obtained through primary and secondary sources.
- Estimating the future sales of the company in a given market is called sales forecasting.
- Forecasting can be classified into qualitative forecasting and quantitative forecasting.
- The methods used in qualitative forecasting are user expectations, sales force composite, jury of executive opinion, Delphi technique, and market test.

- The methods used in quantitative forecasting are time series analysis, moving averages, exponential smoothing, regression and correlation analysis, and multiple regression models.

8.11 Glossary

Delphi technique: A forecasting method that uses the averaged opinions of inside and outside experts who are allowed to change their predictions after learning the overall results of a first-round forecast. The revised estimate becomes the final forecast.

Derived demand: The demand of a product in this case occurs as a result of the demand for another product. For instance, there is a demand for tyres or other components like speedometers or brakes, because of the demand for cars.

Independent demand: It is the quantity of the product demanded by the end user of the supply chain.

Return On Investment (ROI): A financial ratio indicating the degree of profitability. Net Profit divided by Net Worth.

Sales potential: The amount of product, in dollars or units, that a firm's entire industry can be expected to sell during some specified future period.

8.12 Self-Assessment Exercises

1. An organization has to estimate the market potential of the new market as realistically as possible before it enters a new market. In this context, explain different ways to analyze market potential.
2. Over the years, the constantly changing market environment and customers' attitudes has made sales forecasting become an important part of organization strategy. What are the different methods of sales forecasting?
3. The effectiveness of forecasting depends on several factors. Discuss the different factors that need to be considered while choosing a forecasting method. In your opinion, which factor plays the most important role?
4. There are many difficulties associated with forecasting. Analyze the difficulties associated with sales forecasting.

8.13 Suggested Readings/Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.

4. Krishna Havaldar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

8.14 Answers to Check Your Progress Questions

1. (b) Product-specific data

In the top-down approach, the top management assesses a particular market on the basis of macro environmental factors such as overall demographic data, GDP and disposable income. In the bottom-up approach, the micro environmental factors of the market in terms of customer and product-specific data, such as the customers' ability to buy the product and the product's acceptance are analyzed.

2. (c) Ability to buy

In the bottom-up approach, the micro environmental factors of the market in terms of customer and product-specific data, such as the customers' ability to buy the product and the product's acceptance are analyzed. GDP, disposable income and demographic data are used while following the top- down approach.

3. (b) Market research

The primary data regarding customer spending patterns, their preferences, their product usage and product purchase information can be obtained through market research. The accuracy of quantitative methods is often found to be higher than in qualitative methods since qualitative methods use an informal approach.

4. (a) Vendor Managed Inventory Program

VMI stands for Vendor Managed Inventory Program. It is used in taking collective decisions in forecasting.

5. (d) Collaborative Planning, Forecasting and Replenishment

The full form of CPFR is Collaborative Planning, Forecasting and Replenishment.

6. (a) Vendor Managed Inventory Program

Vendor Managed Inventory Program (VMI) is used in taking collective decisions in forecasting. Delphi technique is used as a qualitative method of sales forecasting. Regression and correlation analysis and multiple regression models are used as part of quantitative methods of sales forecasting.

7. (b) **Multiple Regression Method**

The methods of qualitative forecasting include: forecasting- based user expectations, sales force composite, jury of executive opinion, the Delphi technique and market test. Multiple regression model is not a qualitative method of forecasting sales.

8. (d) **When a company does not want to spend large amount on national product launch.**

he advantage of market test method is that companies do not need to spend large amount of money for launching the product nationally. The consumers' reaction in the particular market where the product is launched is taken as a base for the forecasts of overall sales of the product or service in the country as a whole.

9. (c) **Moving averages method**

In moving averages method, sales are forecasted based on the sales of the previous period.

10. (c) **Cash flow of the organization**

While selecting a forecasting method, the factors to be taken into account are accuracy, cost, type of data available, requirements of the software and the experience of the company. Cash flow of the organization is not taken into consideration.

11. (b) **Quantitative methods are generally more accurate than qualitative methods.**

The accuracy of quantitative methods is often found to be higher than in qualitative methods since qualitative methods use an informal approach.

Unit 9

Sales Quotas

Structure

" A sales quota is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort."

- Philip Kotler

9.1 Introduction

Quotas are the expected performance objective, which are routinely assigned to the sales units like departments, divisions, and individual sales people, and they proceed to reach at these quotas in their respective domain. Sales quotas can be sales assignments or goals that need to be achieved in a specific time period. In the previous unit, we discussed the need and importance of estimating market potential, various methods used for forecasting sales, the factors to be considered while selecting a forecasting method and the criteria for effective forecasting and difficulties associated with it. The present unit will discuss sales quotas.

Quotas are quantitative sales goals assigned to salespeople. They are used as a standard of measurement of performance in a sales organization. Sales quotas serve as a challenge that helps motivate the sales force. They can be set not only for individual sales persons but also for a sales team, a territory or a region. Properly set sales quotas go a long way in ensuring the satisfaction of the sales force. Sales quotas have a significant relationship with the success of an organization in terms of increase or decrease in sales productivity. Although sales quotas are usually established for a year, they can be altered during the course of the year in keeping with current circumstances.

The unit will discuss the importance of sales quotas. It will focus on different types and characteristics of sales quotas. The unit will also deal with methods of setting sales quotas and its limitations.

9.2 Objectives

After going through this unit, you should be able to:

- Illustrate the importance of sales quotas.
- Explain different types of sales quotas.
- Identify the characteristics of a good sales quota.
- Analyze the methods of setting sales quotas.
- Evaluate the steps involved in administering sales quotas.
- Discuss the limitations of sales quotas.

9.3 Purpose of Sales Quotas

The purpose of assigning sales quotas is to achieve organizational objectives and provide a direction to sales activities. Sales quotas help sales managers set targets for sales personnel. Quotas play a critical role in sales management because various selling activities are performed with quotas as the focal point. By setting a sales figure for various product lines or for certain classes of customers, sales managers can direct the activities of the sales force towards reaching these targets. Sales quotas also act as a standard to evaluate sales personnel and are widely used as a basis for compensating them. They help develop a system to control selling activities of sales people. Successful achievement of quotas indicates that sales activities are moving forward in the right direction.

Example: Inside Sales Manager at Dell Set Sales Quota that Motivates Sales Team

Dell provided the technology that transformed the way people work and live. The Inside Sales Professionals worked on acquiring new accounts to driving expansion/conversion across existing accounts. An Inside Sales Manager at Dell lead a team of Inside Sales Professionals who were responsible for selling Dell Technologies' products.

The Inside Sales Manager set goals and quotas for the inside team with a focus on the vertical/business and motivate and drive the Inside Sales. Inside sales worked to manage, inspire and motivate professionals at all levels to deliver against defined targets.

Source: (February 8, 2022). Manager 2, Inside Sales Management. Retrieved from https://jobs.dell.com/job/bengaluru/manager-2-inside-sales-management/375/23253542032. Accessed on 23-06-2022

9.4 Importance of Sales Quotas

Quotas have an effect on the entire organization as they are closely linked to sales force productivity and organizational growth. Quotas lay down performance standards which help sales managers adopt a uniform approach to assess and compare sales force performance. Quotas serve as targets that help sales personnel orient their activities to achieve these targets and also serve as a means for sales managers to direct the activities of the sales force. Sales managers too can give proper directions. In other words, sales quotas motivate and control the sales force. Setting sales quotas are important for a sales organization due to many reasons. Some of these are discussed below:

9.4.1 Provide Performance Targets

Quotas provide sales personnel with fixed goals to be achieved within a certain time period. They help sales managers guide and direct the activities of sales personnel by setting goals for them. To attain these goals, sales personnel have to focus their efforts in a way that complements the company's overall objectives. Assigning challenging goals prompts sales personnel to work harder and perform better. Managers should communicate the importance of attaining quotas to the sales force. The target should be increased each year so that sales persons can devise new ways to achieve them. It will also serve as encouragement for them. At the same time, managers have to be extremely careful while setting quotas because unrealistic quotas will have a negative impact on sales force performance. Achieving quotas requires sales persons to adopt effective means of conducting sales activities. This aspect gains more importance, especially in the summer season in India, when achieving targets becomes increasingly difficult.

9.4.2 Provide Standards

Sales quotas are excellent tools to measure the performance of sales personnel. They represent a standard for measuring actual sales results and a uniform basis for comparing the performances of sales personnel throughout the organization, irrespective of differences in territories, products sold, etc.

Thus, the utility of setting quotas is that irrespective of differences in assigned quotas, the performances of individual sales persons can be ranked. Quotas, thus, act as a performance standard in organizations.

9.4.3 Provide Control

Quotas serve as a very good source of control as they facilitate evaluation of sales force performance. The failure of sales persons to achieve quotas set for them provides the sales manager an easy index to spot deviation in performance. Consider a situation in which the expense reports filed by a salesperson consistently exceed the expense quota set for that person. Expense quotas are the amount of money allocated to each salesperson to utilize for increasing sales in an assigned territory. Setting expense quotas helps sales managers analyze the reasons for excess expenditure and take remedial measures such as reorienting selling activities to enable target achievement within expense quota limits.

9.4.4 Provide Change of Direction

Sales quotas also aid sales managers to direct the efforts of sales personnel in the desired course to achieve organizational goals. Sometimes, for certain products or product lines, sales managers set quotas that are challenging, attaining which brings significant rewards to the sales person. This makes sales persons spend more time on selling these products. By setting difficult and challenging targets, sales managers can encourage sales persons and indirectly contribute to achieving manufacturing efficiency and the organization's long-term goals.

Example: Importance of Sales Quota @ Samsung

Samsung reduced its smartphone sales target for 2022 by ten percent. The firm had initially set a target of 300 million units but then revised its projection to sell around 270 million smartphones. The sales managers and executive teams readjusted the sales quota and provided the new sales target while analysing the quantitative trends of the marketplace.

According to the Korean media, this change of direction was due to the worldwide inflation crisis following the Russia-Ukraine war. Increasing prices reduced the demand for smartphones in 2022 and manufacturers were also making adjustment in their strategies accordingly.

Source: Adhikari, S. (May 27, 2022). Samsung Reduces Smartphone Sales Target For 2022 Due To Inflation. Retrieved from https://www.androidheadlines.com/2022/05/samsung-reduces-smartphone-sales-target-2022-inflation.html. Accessed on 23-06-2022

9.4.5 Tool for Motivating Salespeople

Quotas are a tool for motivating the sales force to enhance their efforts and performance. Locke's goal setting theory suggests that individuals are more motivated in their efforts when they have a goal to achieve. Based on this theory, it can be concluded that sales personnel will perform better if they have a target to achieve than when they have no targets to meet. Sales quotas also help sales persons to compete among themselves, leading to improved performance and sales volumes.

Several studies have been conducted to determine the impact of quotas on motivation. One such study presents the relationship between the level of self-efficacy of sales personnel and the achievement of sales quotas. Self-efficacy refers to an individual's perception or level of self-confidence on the ability to accomplish a certain task. It has been observed that sales persons respond differently in terms of motivation at high quota levels while the response is very similar at low quota levels. When quotas are set high, different salespersons respond differently, whereas when the quotas are set low, the response of almost all salespersons is similar. This has an important lesson for sales managers. They can assign higher quotas to salespersons with higher self-efficacy as they will respond positively. Those with lower self-efficacy will react the opposite way. So, it helps sales managers to allocate higher quotas to specific sales personnel and ensure a higher probability of success in terms of fulfilment of quotas.

Vroom's expectancy theory (1968) also relates salesperson's motivation to expectancy and the valence of reward obtained. Expectancy refers to the probability that a certain level of effort expended by an individual will lead to a certain performance level. Valence refers to the value that an individual assigns to the rewards obtained. According to this theory, if quotas are set too high, it leads to low expectancy. On the contrary, if the rewards are too low, sales personnel will not feel it worthwhile to pursue the set quotas. They experience a low reward valence.

Let us move in a different direction now. We have seen that quotas are useful in many ways. However, many sales managers are increasingly of the opinion that sales quotas are no longer an effective measure to compensate sales personnel. The expectations of sales personnel too have changed. They are no more satisfied with compensation, but desire acknowledgment and appreciation for their work. They seek avenues for personal development too. Companies like JD Edwards and eBay have moved away from the traditional quota system and have started using non-traditional measures for compensation. Nearly 20 to 40% of the salesperson's earnings are dependent on customer satisfaction surveys conducted twice a year by the company. This kind of compensation plan has improved the salespersons' motivation levels and enabled companies to attract and retain salespeople. It has also ensured a wider distribution of bonuses. Under the new compensation plans, salespeople are able to earn between 25 and 300% in bonus form. In traditional quota plans, payments were rigid and bonuses ranged between 90 and 110%. The new system has also enabled companies to ensure the profitability of the business by rejecting customers who are not viable in terms of strategy alignment or profitability. This was not possible in the traditional quota system.

In the near future, there is a major possibility that many more organizations might shift from the traditional sales quota system of compensating salespeople to compensation based on fulfilment of various other criteria.

Activity 9.1 Sales quotas act as a tool for motivating the sales force, leading to improved performance. They also serve to make the entire team work toward achieving organizational objectives. Explain with an example how sales quotas help in motivating a sales force. **Answer:**

Check Your Progress - 1

1. Which of the following statements regarding sales quotas is **not** true?
   a. Sales quotas are influenced by the industry in which the company is operating.
   b. Non-monetary incentives are useful to motivate salespersons to achieve sales quotas.
   c. Challenging sales quotas usually demoralize the sales force.
   d. Sales quotas are tools to measure sales force performance.
   e. Sales quotas with time-frame serve as a useful control measure.
2. Which of the following gives the best explanation for Occupational equity with respect to sales quota?
   a. Quotas fixed based on past experience.
   b. Feeling of satisfaction or dissatisfaction when a salesperson compares himself/herself to salespersons in other organizations.
   c. Probability that a certain level of effort will lead to certain performance level.
   d. Reduces expenditure by a salesperson as per industry norms.
   e. Treating all employees equally.
3. Which of the following statements regarding the importance of sales quota is not true?
   a. Quotas provide sales personnel with fixed goals to be achieved within a certain time period.
   b. Sales quota represents a standard for measuring actual sales results.
   c. Sales quotas do not act as tools for motivating the sales force to enhance their efforts and performance.

d. Quotas serve as a very good source of control as they facilitate evaluation of sales force performance.

e. Sales quota can serve as a suitable basis for fixing incentives and deciding on non-monetary rewards.

4. Which of the following is true according to Locke's goal setting theory?

   a. Individuals are more motivated in their efforts when they have a goal to achieve.

   b. Sales quotas do not help sales persons to compete among themselves.

   c. Sales personnel do not perform better if they have a target to achieve.

   d. Sales quota does not lead to improved performance and sales volumes.

   e. Sales quota puts undue pressure on sales persons and negatively impacts their performance.

5. What does valence in Vroom's expectancy theory refer to?

   a. Value that an individual assigns to the rewards obtained.

   b. Probability that a certain level of effort by an individual will result in a certain corresponding performance level.

   c. Monetary expectations of a sales person with reference to a sales quota.

   d. Moving from traditional quota system and plans.

   e. Sales workers expect reward commensurate with efforts put in.

9.5 Types of Sales Quotas

After this interesting discussion on scrapping sales quota and newer types of compensation, let us now move back to the subject on hand. Let us elaborate the different types of sales quota.

The various types of quotas used to measure salespersons' performance include those based on sales volume, net profit for the company, expenses and activities of the salesperson.

9.5.1 Sales Volume Quotas

In many organizations, sales quotas are based on sales volumes. Sales volumes refer to the quantity or value of products sold by sales personnel. Industrial manufacturers set quotas based on the number of units to be sold. Companies selling consumer goods, especially Fast-Moving Consumer Goods (FMCGs), also have quotas based on sales volumes, say 2 million per month. Once the annual quota is set, it is broken down into monthly, quarterly or half-yearly targets/quotas. The quota by sales volume can be set as a total for all products handled by the salesperson or for each separate product.

Sometimes, sales managers set quotas at levels above what can be normally achieved, with the aim of directing the salesperson's efforts towards certain products the manager wants to push. The drawback here is that there is a possibility of sales personnel spending more selling time on these products and less on other products.

Setting sales volume quotas makes it easy for sales managers to evaluate and compare the performance of sales personnel. The sales manager should take into consideration factors like territory size and potential, concentration of business activity and product features while setting quotas.

Example: Netflix Sales Volume Quota Drip Down

Netflix in April, 2022 reported a loss of 200,000 subscribers during the first quarter of 2022. It was the first decline in paid users in more than a decade for Netflix and signalled deepening trouble ahead.

Netflix was forecasting a global paid subscriber loss of 2 million for the second quarter of 2022. This caused a shift in the sales quota based on the number of paid subscribers for Netflix accordingly

Source: Whitten, S. (April 19, 2022). Netflix shares crater 25% after company reports it lost subscribers for the first time in more than 10 years. Retrieved from https://www.cnbc.com/2022/04/19/netflix-nflx-earnings-q1-2022.html. Accessed on 23-06-2022

9.5.2 Profit Quotas

Sales managers generally assume that an increase in sales will lead to a rise in profits. Managers tend to prefer activities that maximize sales volumes unless clear evidence against this approach is available. Organizations have gradually shifted their focus from quotas based on sales volume to quotas based on profitability. Ultimately, profit is the single most important criterion for an organization to survive in the market. Profit quotas have gained prominence thanks to the advent of advanced data processing systems which help calculate the profitability of sales calls for the entire sales period.

The profit quota for a sales person is fixed based on the gross margin or net profit aimed at. The gross profit margin is obtained by deducting the cost of goods sold from the total sales volume achieved by a sales person. Net profit is obtained when cost of goods sold plus expenditure incurred by the sales person during the quota achievement period is deducted from the total sales volume. This can be illustrated:

Sales volume achieved: INR 20 million

Cost price of goods: INR 15 million

Gross margin achieved: INR 20-15 million = INR 5 million.

Assuming that the expenses incurred by the sales person to achieve INR 20 million are INR 2 million (salary, allowances, gifts)

Net profit = Sales Volume – [Cost of Goods Sold + Expenditure]

= 20 – [15+2]

= INR 3 million

Organizations can fix a gross margin quota or a net profit quota for the sales force. The advantage of net profit quotas is that it gives an accurate picture of profits generated which cannot be clearly gauged from sales volume quotas. For example, a salesperson may achieve a sales volume quota of 20 million but the net profit margin may be in the negative because of higher expenses. Hence, profit quotas are effective when profitability varies with the type of products, class of customers and differences in territories.

When Maruti Suzuki launched 'Nexa', a new sales channel to sell its premium cars, it set a target to sell 2 million through Nexa by 2020[7]. Nexa did not see immediate success. With the launch of Baleno and Ignis, Nexa sales picked up. Maruti Suzuki's 'Ciaz', which was sold through 'Nexa' network went on to become the highest selling premium sedan[8] in 2019.. Thus, Maruti clearly understood the growing demand for mid-sized and premium cars and set target for the premium cars that contributed to the increase in its profits.

Another advantage of profit quota is that commission paid to salespersons is more accurate when calculated based on gross margin than other methods. Profit quotas also help sales managers use profitability analysis for measuring the effectiveness of the entire organization. Here, profit potential instead of sales potential is adopted as the basis for deciding pricing policies, advertising expenses, territory design and product mix. The disadvantage of this type of quota is that there is a possibility of sales personnel selling only those products that bring maximum profits, i.e., products which fetch them a high margin on selling and expenses incurred is minimum.

9.5.3 Expense Quotas

Many organizations are going in for this type of sales quota to ensure that their costs are controlled. Here, a limit is set for the sales person's expenditure on food, boarding and entertainment of prospective customers. The expense limit may be a percentage of the sales volume that the sales person has to generate or may be a fixed amount. For example, if the sales volume expected is say, ₹ 20 million, the expense quota may be fixed at 10% of the sales volume, i.e. the maximum expenditure permitted to the salesperson would be ₹ 2 million.

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[7] https://www.zeebiz.com/automobile/news-can-marutis-nexa-achieve-2-million-sales-target-by-2020-4262

[8] https://auto.economictimes.indiatimes.com/news/passenger-vehicle/cars/maruti-suzuki-ciaz-becomes-highest-selling-premium-sedan-in-h1fy19/66145083

Setting expense quotas helps sales managers reduce the expenditure by salespersons so that net profit or gross margins can be attained. Sales managers can also align the sales force activities to the sales budget established during planning.

9.5.4 Activity Quotas

This type of quota is useful when the sales manager wants to direct the activities of the sales personnel towards certain aspects not directly related to selling but will nevertheless increase the probability of achieving sales objectives. Setting activity quotas makes sales personnel perform non-selling activities like maintaining customer relations, providing after sales service to customers, helping retailers display company products on their shelves, etc. These activities might not otherwise be given much importance by salespersons.

For example, if a sales manager wants sales personnel to focus on account relationship management to develop long-term relationships with customers, an activity quota can be set that makes it mandatory for sales personnel to make a certain number of calls each day. Apart from customers, this fixing can be done for retailers, dealers, conducting product demonstrations and so on. These are the activities that tend to be neglected by salespersons in their efforts to achieve sales targets.

9.6 Characteristics of a Good Sales Quota

Sales managers must exercise a lot of care while determining sales quotas of sales persons. A well-estimated sales quota goes a long way in ensuring that the organization achieves its goals and objectives without much difficulty. Sales quotas should be fair, challenging, flexible, easily understandable, and help managerial coordination.

Fair: While setting quotas sales managers must take into account factors like competition, territory potential and economic conditions. They should also maintain uniformity in the method of setting quotas. This will make quotas realistic and fair. If sales quotas are not realistic, conflict will arise between the sales manager and sales personnel. This will lead to a decrease in their commitment and job satisfaction which might eventually make sales persons leave the organization. Quotas have to be set keeping in mind average performers and not high achievers.

Challenging: At the same time, according to the goal setting theory, if sales quotas are challenging, they motivate sales personnel to perform better. In the process of setting challenging quotas, sales managers should not set quotas that are out of reach. If this happens, the sales person’s expectation of achieving the quota diminishes and their motivation levels go down correspondingly. This will have a negative impact on organizational growth.

Flexible: Quotas have to be flexible so that sales managers can modify them when required without causing drastic changes to the activities of sales personnel. This has to be kept in mind when setting activity or expense quotas. It is crucial for companies with seasonal products or selling schedules to have flexible quotas. Flexibility permits quota modifications without disturbing other aspects like sales budget or sales forecast. To sum up, flexibility allows sales managers to adopt contingency or reactive measures at short notice.

Easily understandable: Quotas have to be easy to understand and interpret. Otherwise, sales personnel will not be able to direct their activities towards achieving them. Sales managers must ensure that sales personnel have clearly understood what is expected of them. Clarity about quotas helps improve sales force morale and commitment to the organization. Sales managers must set quotas after mutual discussion with sales personnel to avoid confusion. Periodical meetings with sales personnel and putting them through coaching sessions will ensure clear communication.

Help managerial coordination: Quotas must help sales managers to streamline sales force activities. Salespeople operate away from the sales office and it is difficult for managers to directly supervise them. Quotas can help managers exercise control from a distance and provide direction towards organizational goals. This reduces the need for supervision and enables manager to effectively coordinate the activities of the entire sales force with ease.

Example: Qualia Brings Flexibility at Play in its Sales Quota

At Qualia, a new class of real estate and mortgage technology company, the leadership team put in some stipulations to regulate how much quota it relieved. Since the team operated on quarterly quotas, representatives were required to lock in their vacation days ahead of the next quarter. This gave the sales leaders time to forecast for the next quarter with the adjusted quotas.

Source: Nordli, B. (December 14, 2021). Sales Team Struggling With Burnout? Consider Quota Relief. Retrieved from https://builtin.com/sales/quota-relief. Accessed on 23-06-2022

Activity 9.2

Good sales quotas ensure that the organization achieves its goals and objectives without much difficulty. Discuss the statement using an appropriate example.

Answer:

Check Your Progress - 2

6. Name the sales quota method which is useful when profitability varies with the type of products.
   a. Expense quota
   b. Activity quota
   c. Profit quota
   d. Sales volume quota
   e. Performance quota
7. Name the sales quota method which is useful when an organization wants to ensure that their costs are controlled.
   a. Expense quota
   b. Activity quota
   c. Profit quota
   d. Sales volume quota
   e. Equity quota
8. Which of the following is true regarding sales volume quota?
   a. Sales quotas are based on sales volumes.
   b. Sales quotas are based on profitability.
   c. Sales quotas are based on sales person's expenditure on food, boarding and entertainment of prospective customers.
   d. Sales quotas are based on activities of the sales personnel.
   e. Sales quotas are based on number of calls made by sales personnel.

9.7 Methods of Setting Sales Quotas

Sales managers' ability to set reasonable and clearly defined sales quotas is influenced by the industry the company operates in, the type and size of the sales organization and the product or service being offered. There are different methods to set quotas, but the basic criteria include company profitability, past sales performance, present method of setting quotas, present and future plans for maintaining market share, increasing the sales force size and new product introduction.

9.7.1 Quota Setting Processes

Most organizations emphasize streamlining production and distribution activities through continuous research. However, the same importance is not given to quota setting processes. Quotas are often set through crude methods like extrapolation or personal hunches. As quotas are invaluable tools for organizations to achieve profits and evaluate sales force performance, the need for accuracy in quota setting methods is absolute. Quotas can be set on a monthly, quarterly or on an annual basis. A quarterly sales quota is generally used by industrial goods and machinery producers, while manufacturers of consumer goods prefer monthly quotas. It is relatively easier to set quotas for industrial products than for consumer products because industrial customers are fixed and relatively small in number, with demands that are easy to determine. This is not so for consumer products.

Organizations can set sales quotas based on sales forecasts and market potential, sales forecasts alone, past experience, executive judgment, sales force compensation, or quotas may be set by the sales people themselves.

Example: Toyota Motor Corporation Revisits its EV Sales Forecast Gauging the Market Focus

Toyota Motor Corporation Report stepped up its commitment to selling electric vehicles, shifting its global sales target to 3.5 million by 2030 from an earlier target set at 2 million. The company said it wanted all models in its upscale Lexus brand to be electric by 2030 in the U.S., China and Europe.

Toyota President Aiko Toyoda said the shift resulted from the climate summit in Glasgow, Scotland in November, 2021 and President Joe Biden's executive order increasing the U.S. electric-vehicle target. An estimate of the market size of the EV market helped revise the sales quota at Toyota Motor Corporation.

Source: Owusu, T. (Dec 14, 2021). Toyota Boosts 2030 EV-Sales Target, Wants Lexus Brand All-Electric. Retrieved from https://www.thestreet.com/investing/toyota-boosts-ev-target-for-2030-all-electric-lexus. Accessed on 23-06-2022

9.7.2 Quotas based on Sales Forecasts and Market Potential

This is the most common method of setting sales quotas and is used in organizations across the world. This method uses sales forecasts as well as territory or market potential to determine appropriate quotas. Disposable income, population growth, employment, consumer preferences and a host of other demographic and geographic factors are considered while developing sales forecasts. Factors like concentration of business activity, territory size, competitor presence and so on are taken into account while estimating the territory or market potential.

The problem here is to identify and list factors that have a direct impact on the sales of the company’s product or territory potential. The factors identified are calculated on a percentage basis for the entire country or region. Let us assume that a region’s market potential is dependent on the population. The forecaster will then calculate the population of the sales territory as a percentage of the total population of the state or country. This percentage will help arrive at the sales quota for that territory.

9.7.3 Quotas based on Sales Forecasts Alone

This method is used only when the organization lacks the required data, capital, software or personnel to estimate the territory or market potential. As a result, sales quota is set only on the basis of sales forecasts or total market estimates. It does not consider sales potential of the given region. For example, if a region had generated 20% of total company sales last year, it is expected to generate 20% of proposed total sales this year too. Disposable income, population growth, employment, consumer preferences and other demographic and geographic factors will be considered while developing sales forecasts. For example, a company manufacturing tyres, say MRF, will have to study the following factors while making its sales forecasts – the number of new vehicle registrations, total volume of tyres sold by dealers in a year, volume sold by competitors in a given year, tyre features preferred by consumers and so on. The quotas for sales personnel will be based on these forecasts.

9.7.4 Quotas based on Past Experience

This method is based on past sales records. The sales manager sets the quota based on the previous year's sales of the organization and increases it on an arbitrary or fixed basis every year. The quota is then divided among territories and product lines according to past sales of the respective territory or product. Some organizations set quotas by averaging the sales figure for several years. This provides the advantage of eliminating variations in sales volumes and provides a logical average of probable future sales. This method is very simple and preferred when the organization does not have any sales forecast or market potential data. The disadvantage is that it does not consider changes in market potential or customer profile. It is difficult to gain the commitment of sales personnel to achieve quotas set by this method because the equitability of the quota cannot be justified.

For example, new competitors may have entered a territory. It is then illogical to expect the sales person to achieve for the present year, a sales volume proportionate to the previous year's. Another disadvantage is that it is not seen whether the sales person's performance is proportionate to the actual territory potential. Even if the sales person's performance falls below actual potential, the sales manager will not be aware of it and may set quotas based on the previous year's sales volume. This will lead to misalignment.

9.7.5 Quotas based on Executive Judgment

In this method, quotas are set based on the sales manager's opinion. This method is generally used when no information is available to set the quota. It is common in small organizations that lack the resources and personnel to collect information on markets, competitors and other relevant factors. Some organizations use a jury of executive opinion where personnel from various departments sit together and share views on what products should be offered to the market. This process obtains the views held by various specialists, lacking in the methods described above. The drawback is that it is impractical for a new product launch or when the company is planning to enter a new territory, because in such cases, the personal experience of managers is not sufficient to accurately determine sales quotas.

9.7.6 Quotas based on Sales Force Compensation

Quotas are set keeping sales force compensation in mind. Sales manager can set quotas so that sales personnel can get higher benefits on achieving them. Compensation in the form of incentives and commissions are given, starting from 50% on attainment of the quota to 150% on exceeding it. By maximizing compensation benefits through quotas, the sales manager can motivate sales personnel and direct their activities to achieve organizational objectives. Based on whether a straight salary, straight commission or combination plan is used, quotas can be set to benefit sales personnel maximally. If a substantial bonus is being given, then a higher than average quota can be set to motivate the sales personnel to push harder. If the compensation plan is based on regular commissions, the sales manager can set quotas based on net profit or activity-based quotas as these types are set to focus sales personnel on certain products. For example, if a company's strategy is to develop and enhance customer relations, the activity quota may involve making a certain number of calls to certain customers. This is tied to a different level of commissions. So, compensation plans influence the method by which quotas are set by sales managers.

9.7.7 Quotas Set by Sales People Themselves

This method is also called the sales force composite method. The sales force of an organization is one of the best sources of information about market conditions and competitors. These are the people in the field. Many companies capitalize on this information in their sales forecasting methods to conduct market research and formulate future strategies. In this method, sales personnel are asked to give their estimates of likely sales, either in prescribed forms or at meetings where the sales manager holds discussions with the salespersons on sales opportunities in their respective territories. Mutually agreed upon quotas are then set. The advantage is that it gives sales personnel an opportunity to make projections confidently and helps increase their commitment as they are participants in the process. However, few organizations prefer this method. The reluctance might be due to the inability of sales personnel to project relevant information and their lack of awareness of top management plans and strategies, or the possibility that salespersons might underplay territory potential to avoid the setting of higher targets. Yet another factor that prevents sales personnel participation is the relationship between sales force compensation and quota attainment. As bonuses and commissions are tied to exceeding quota limits, sales managers might fear that sales personnel might set a simple quota to ensure winning these benefits.

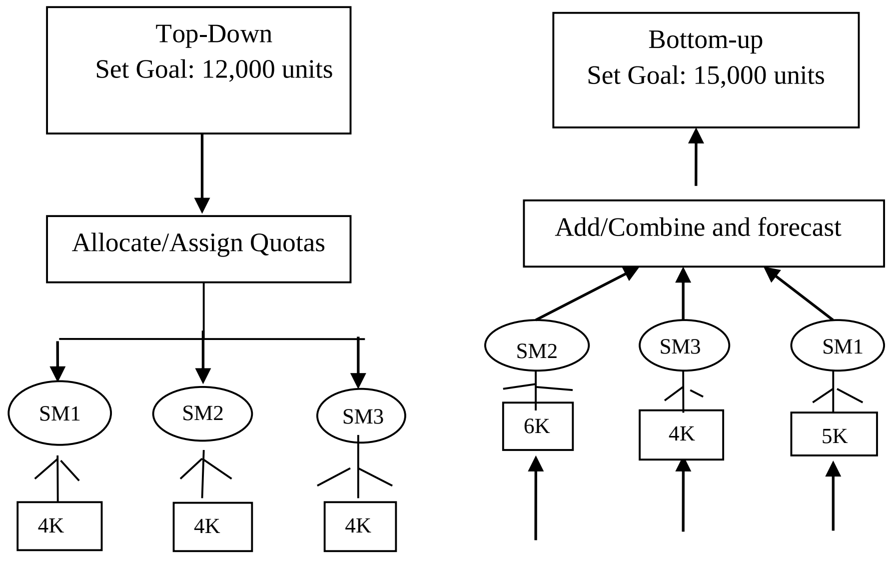
Based on several studies over the years, it has been found that the probability of salespersons setting quotas in an organization is linked to factors like the involvement of salespeople in making sales forecasts, the type of compensation received by them, etc. Exhibit 9.1 illustrates Top-down and Bottom-up approach methods of setting sales quota.

Exhibit 9.1: Top-down and Bottom-up Approach to Setting Sales Quota

Managers can deploy different methods to set fair quotas that are achievable. Let us understand the most common approaches of setting quotas, 'the top-down' and 'bottom-up' approaches.

Under the 'top-down-approach', the company's top management sets the quota which is communicated to the sales executives. The top management fixes the quota in terms of sales in units or revenue and the sales managers assign quotas to the sales team.

Alternatively, under the 'bottom-up' approach, based on historical data (sales achieved by each sales executive) and the capability of individual salesman's capability, sales quotas are fixed. Sales managers, who know their team, typically know what would be closing sales of each sales executive for each quarter. Quotas using bottom-up approach are realistic and challenging. The following figure illustrates the two approaches:



Sources: 1. Krishna Havaldar and Vasant Cavale, "Sales and Distribution Management: Text and Cases," Tata McGraw Hill. 2017

2. Emily Bauer, "What are Sales Quotas and Why does your sales team need them", Propeller.com, 2/11/2017

In addition to the above methods of setting quotas, companies are adopting new and innovative practices. Many companies to avoid the cost and time involved in manually setting accurate and equitable quotas, are using software that automates the quota-setting process. For example, the quota module of Ockham Technology's Sales-Razor 3.0 software performs the task of setting quotas by considering new product launches, trends in buying behaviour and patterns in different regions and segments of the industry in which the company operates. The software enables sales managers to set quotas that do not allow sales personnel operating in high potential regions to derive undue advantage from this. It also helps sales managers keep compensation costs under control by keeping track of sales personnel who meet or exceed sales quotas. By linking the software to a point-of-sale system which is connected to the company's database, sales managers get to know immediately when a product is sold by a sales representative. Sales personnel also need not spend time preparing spreadsheets and other information documents, as the data can be fed on to the web page of the software program. Oracle Corporation too offers a tool, the Oracle Incentive Compensation, which when coupled with the Oracle Sales Online tool, facilitates sales managers to obtain real-time forecasts of global sales targets.

Activity 9.3 Kennametal Inc., a maker of tooling machinery for General Motors, uses sales records of the previous year to set sales quotas for the current year. Mention the advantages and disadvantages to Kennametal Inc. in using this method of setting sales quotas. **Answer:**

<u>Check Your Progress - 3</u>

9. Which basis for setting sales quotas is usually adopted by the industrial and machinery producers?
   a. Daily
   b. Weekly
   c. Quarterly
   d. Yearly
   e. Fortnightly

10. Name the method used for setting quotas by organizations that lack data, software, personnel or capital needed in order to estimate market potential.
    a. Quotas based on the sales forecasts and market potential.
    b. Quotas based on sales forecasts alone.
    c. Quotas based on sales force compensation.
    d. Quotas based on past experience.
    e. Quotas based on thumb rule.
11. When will an organization opt for executive judgment method to set sales quotas?
    a. When no information is available to set the quotas.
    b. When benefits to the sales force have to be kept in mind.
    c. When past sales records are taken into account.
    d. When the company wants to conduct market research.
    e. When executives are competent to fix sales quota.

9.8 Administering Sales Quotas

It is not enough for a sales manager to set quotas for the sales force. This should be followed by steps to ensure that sales personnel are making efforts to achieve the quota. If sales manager does not make these efforts, the entire exercise of setting a quota is negated. Sales managers have to involve themselves and spend quality time in administering the sales quotas. This involves the following:

9.8.1 Minimizing Acceptance Problems

The sales manager has to be very careful in setting quotas because maintaining equity is essential for the quotas to be acceptable to salespersons. The equity can be in terms of job equity, occupational equity or corporate equity. The perception of job equity or inequity is as a result of how sales persons look at themselves with respect to their colleagues in the same sales force. The criteria adopted by a sales manager to set quotas have to be uniform for all salespersons if there has to be job equity. Sales quotas may also give rise to occupational equity or inequity. This refers to the feeling of satisfaction or dissatisfaction when a company salesperson compares himself or herself to a salesperson in another organization. To ensure occupational equity, sales managers should take care that methods used to set quotas are similar to those used in other organizations.

Last, quotas give rise to corporate equity or inequity. This means the feeling of satisfaction or dissatisfaction that arises when salespersons draw comparisons between their equity ratio and that of the firm. Dissatisfaction results when they feel that the organization is not giving them their due.

Sales managers must also remember that for quotas to be acceptable to salespersons, the targets set should be similar in terms of challenge and achievability to those set for employees in other departments of the organization like production, R&D and marketing.

Acceptance problems can be minimized if the importance and objectives of the quota are clearly explained to sales personnel.

This can be achieved by:

Briefing: The sales manager should conduct briefing sessions to explain to the sales personnel, especially new recruits, the system and process of setting quotas including benefits to the sales person and to the company. At the end of the briefing session, the manager can ask sales personnel to define their objectives for the coming year which can be subsequently discussed in a conference.

Conference: The sales manager can also organize a conference for salespeople to discuss various aspects of sales activities like territorial management, account management, call-management and self-management in alignment with quotas assigned to them. The conference can also serve as a forum to clearly define and discuss the annual objectives of salespeople.

Periodical meetings: The sales manager must also arrange for regular monthly or quarterly meetings to review progress and redirect the efforts of sales personnel.

9.8.2 Managing and Controlling People through Quotas

In addition to budgets, sales quotas serve as a tool for sales managers to manage and control the sales force. They provide a benchmark against which the actual performance of sales personnel can be evaluated. A sales manager can effectively manage the sales force by focusing on coaching and using non-monetary incentives.

- **Coaching:** The sales managers must sit down with sales personnel and try to find ways and means that would enable the latter to sell more. The manager should analyze the daily activities of sales personnel to know how much time they spend on non-selling activities (travelling, waiting, etc.) and selling activities (prospecting, sales presentations, etc.). Based on this, managers can suggest ways to reduce time spent on non-selling activities. This helps salespersons stay focused and on course to achieve quotas.
- **Non-monetary incentives:** Sometimes, monetary incentives alone may not motivate sales person to direct efforts towards achieving quotas. Non-monetary incentives sometimes help improve sales force morale and redirect efforts towards productive selling. For example, providing furnished accommodation or a foreign trip as an incentive for achieving quotas are methods which managers can adopt to motivate the sales force.

Example: Motivating Sales Force in a New Normal

Andy Paul, host of Sales Enablement Podcast, in a 2021, LinkedIn poll, asked his community of sellers if they wanted to go back to a traditional President's Club on achievement of sales quota assigned to them.

Over 350 people voted and 65% said "No, I want to choose my reward." The traditional President's Club which was the ultimate sales incentive in years past was no longer what the sales people really looked for.

A 2020 study from Incentive Research Foundation (IRF) showed that receiving a cash bonus ranked pretty low (6 out of 10) when rewards were correlated to "job satisfaction" and for "motivation to do best work". On the other hand, rewards like paid time off and an incentive trip for yourself and a loved one ranked at the top.

Source: Wahid, N. (October 19, 2021). Are your sales incentives working? How to motivate your sales force in a new normal. Retrieved from https://www.blueboard.com/blog/innovative-sales-incentives-to-motivate-sellers. Accessed on 23-06-2022

Sales managers in some organizations set quotas that are low enough to enable a majority of sales personnel to achieve them. The objective is to maintain control over sales force activities rather than to increase sales volume. This is a common way of maintaining control through quotas. Organizations usually focus on the advantages of sales quotas but while evaluating their effectiveness, forget to consider the costs incurred for administering the quotas.

Activity 9.4

Sales quotas not only help to measure the performance of sales personnel but also aid managers to manage and direct the efforts of sales personnel in the right way. Discuss the statement with an example.

Answer:

9.9 Limitations of Sales Quotas

Although quotas serve a host of functions in sales management, they have certain limitations.

Some are:

- In the case of profit quotas, sales personnel have no control over prices and manufacturing costs. Profit quotas (that are based on the gross margin) lack uniformity. Any increase in manufacturing costs will lead to a proportionate increase in sales quotas and decrease in profit margins, irrespective of factors like concentration of buyers, size and potential of the sales territory, etc.

- Small organizations can set quotas based on forecasts only. They cannot depend on experience or market potential as they lack the necessary information, data, money and personnel to determine sales potentials for individual territories for their sales personnel.
- Quotas based on past experience may not always be accurate. For example, let us consider two sales territories with equal potential. The salesperson operating in one territory achieves the full quota of 100%, but the salesperson operating in the other territory achieves only 80% of the set quota. While setting quotas based on past experience, the sales manager will increase the quota by the same percentage for both territories in the next year. This means the underachieving salesperson will have a lower quota than the achieving salesperson, though both territories have the same potential.
- Quotas based on sales forecast or total market estimates cannot always be accurate. Let us understand through an example. If in the previous year, a territory sold 10 million of a total company sale of 50 million, and if the company's target in the current year is 60 million, the sales quota for the territory will be 12 million. This is not equitable as it does not consider the region's current sales potential.
- Quotas can influence the decision-making and risk-taking capacity of sales personnel by making them risk averse. For example, if a sales person may be risk averse and give priority to short-term gains in sales to reach targets. He may do this at the expense of foregoing customers who may bring higher revenue in the long run to the company. This is because there is greater possibility of getting the sale and fulfilling the sales quota. In doing so, the salesperson overlooks the benefit to the company in pursuing the larger account.
- If failure to achieve quotas is not followed by consequences like warnings, increase in probation period or dismissal, there is a possibility of quotas losing their efficacy as a control mechanism for the sales force.

In addition to the above limitations, another significant aspect that has come into the limelight from several research studies on sales force behavior is that of ethical issues involved in achieving sales quotas.

Example: Limitations of Sales Quota – A Myth

Tyler Smith, pricing and sales analytics manager at Lupin Pharmaceuticals in July, 2021, said, the sales environment was very different. According to a Stanford study, companies increasingly realize sales quotas promote a short-term mindset and can damage morale, and can even undercut profits.

Contd…

A Fortune 500 company found that sales went up by $1 million a month after they abandoned quotas. The sellers of the future may not be as focused on hitting numbers, because they'll be too focused on creating a customer-first buying experience.

Source: Little, A. (Jul 14, 2021). Sales Quotas Won't Exist in 2025 — Here's Why. Retrieved from https://www.salesforce.com/blog/end-of-sales-quotas/. Accessed on 23-06-2022

Check Your Progress - 4

12. Why should the sales manager conduct periodical meetings in relation to sales quotas?
    a. Coaching sales force
    b. Explaining process of setting quotas
    c. Involving salespersons in preparing information documents.
    d. Review progress
    e. Training salesforce

9.10 Summary

- Sales quotas are a way of life for the sales force. Sales quotas are targets assigned to sales personnel. Sales quotas are prepared on the basis of sales forecasts and budgets. Sales quotas serve various purposes in organizations. They provide targets for sales personnel to achieve and act as standards to measure sales force performance and help motivate the sales force.
- Compensation plans are invariably linked to quotas. The four categories of sales quotas widely used are -- sales volume quotas, expense quotas, activity quotas and profit quotas.
- A sales quota should be fair, challenging yet attainable, rewarding, easy to understand, flexible and must satisfy management objectives. Various methods are used to set sales quotas, among which, quotas based on sales forecasts and market potential are the most common.
- Skilful administration by sales managers is required for effective implementation of quotas. Convincing salespeople about the fairness and accuracy of quotas helps the sales management to successfully implement quotas.
- Sales quotas have certain limitations such as being time consuming, difficulty in comprehending if complicated statistical calculations have been used and focusing on attaining sales volumes at the cost of ignoring important non-selling activities. Quotas may reduce risk-taking among sales personnel and may influence them to adopt unethical selling practices.

- With changes in the competitive environment and variations in customer expectations, many companies have started developing compensation plans that are increasingly based on non-traditional aspects, thereby reducing dependency on quotas.

9.11 Glossary

Activity quotas: Objectives set to specify the job-related activities of a sales person which help the sales person achieve his performance targets.

Cost of goods sold: The direct cost associated with manufacturing/procuring the merchandise for the store.

Expense quotas: Quotas set to control costs of sales units by placing a limit on the expenditure of sales personnel.

Product portfolio: A combination of products and product lines balanced to achieve the company's profitability goals and to satisfy the needs of the target market.

Selling time: The time a salesperson spends with a customer while demonstrating the product, writing sales receipts or assisting the customer in other potentially revenue-generating activities.

9.12 Self-Assessment Exercises

1. Quotas have an effect on the entire organization as they are closely linked to sales force productivity and organizational growth. In this context, discuss the importance of sales quotas.
2. What are the various types of sales quotas?
3. What are the characteristics of a good sales quota? Describe each of the aspects of a good sales quota.
4. Sales managers' ability to set reasonable and clearly defined sales quotas is influenced by the industry the company operates in, the type and size of the sales organization and the product or service being offered. Analyze different methods of setting sales quotas.
5. Sales quotas have certain limitations. Explain all the limitations associated with sales quotas.

9.13 Suggested Readings/Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.

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5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.

6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.

7. Gupta S L (2018). “Sales and Distribution Management – Text and Cases An Indian Perspective,” Laxmi Publications Pvt. Ltd.

9.14 Answers to Check Your Progress Questions

1. (c) Challenging sales quotas usually demoralize the sales force.

Assigning challenging goals prompts sales personnel to work harder and perform better. Managers should communicate the importance of attaining quotas to the sales force.

2. (b) Feeling of satisfaction or dissatisfaction when a salesperson compares himself/herself to salespersons in other organizations. Occupational equity is the feeling of satisfaction or dissatisfaction when a salesperson compares himself/herself to salespersons in other organizations.

3. (c) Sales quotas do not act as tools for motivating the sales force to enhance their efforts and performance.

All the statements are true regarding the importance of sales quota, except statement (c). Sales quotas act as tools for motivating the sales force to enhance their efforts and performance.

4. (a) Individuals are more motivated in their efforts when they have a goal to achieve.

Locke’s goal setting theory suggests that individuals are more motivated in their efforts when they have a goal to achieve. Based on this theory, it can be concluded that sales personnel will perform better if they have a target to achieve than when they have no targets to meet. Sales quotas also help sales persons to compete among themselves, leading to improved performance and sales volumes.

5. (a) Value that an individual assigns to the rewards obtained.

Vroom’s expectancy theory relates salesperson’s motivation to expectancy and the valence of reward obtained. Expectancy refers to the probability that a certain level of effort expended by an individual will lead to a certain performance level. Valence refers to the value that an individual assigns to the rewards obtained.

6. (c) **Profit quota**

Profit quotas are effective when profitability varies with the type of products, class of customers and differences in territories.

7. (a) **Expense quota**

In the case of an expense quota, a limit is set for the sales person's expenditure on food, boarding and entertainment of prospective customers. Setting expense quotas helps sales managers reduce the expenditure by salespersons so that net profit or gross margins can be attained.

8. (a) **Sales quotas are based on sales volumes.**

Sales volume quotas are based on sales volumes which refer to the quantity or value of products sold by sales personnel.

9. (c) **Quarterly**

A quarterly sales quota is generally used by industrial goods and machinery producers.

10. (b) **Quotas based on sales forecasts alone**

Quotas based on sales forecasts alone are used only when the organization lacks the required data, capital, software or personnel to estimate the territory or market potential.

11. (a) **When no information is available to set the quotas**

Quotas based on executive judgment are set based on the sales manager's opinion. This method is generally used when no information is available to set the quota. It is common in small organizations that lack the resources and personnel to collect information on markets, competitors and other relevant factors.

12. (d) **Review progress**

The sales manager arranges for regular monthly or quarterly meetings to review progress and redirects the efforts of sales personnel towards achieving quotas.

Unit 10

Sales and Cost Analysis

Structure

"Too often, business leaders confuse high current growth with high long-term performance. They may take unwise risks in their effort to maximize short run profits."

\- Philip Kotler

10.1 Introduction

Here, Philip Kotler emphasizes the significance of analysing the sales and cost. He pointed out how business leaders get confused over enhancing short term growth with long term performance by taking unwise risk in maximizing short term profits. The analysis of sales and costs would help companies in taking wise decisions for maximizing growth, performance and profits for both short and long term. In the previous unit, we discussed the purpose, importance and characteristics of sales quotas, various types of sales quotas, methods of setting quotas and their limitations. The present unit explains sales and cost analysis.

Performance is closely associated with cost in all businesses. Companies focus on ensuring that performance exceeds the cost incurred. Even the most profitable companies cannot cut out costs altogether. In fact, many companies that appear to be profitable may have actually incurred extremely high costs. Conversely, the costs may have been low, but the performance may not be of the level expected. Thus, it is essential for companies to know what costs they are incurring in obtaining the desired performance from their employees.

This unit will discuss in detail the various aspects associated with the sales and cost control functions of sales management. The unit started with a brief description of a sales manager's responsibility to ensure profits followed by a discussion on the nature of sales control. Thereafter, it discusses sales analysis and sales audit. Then the unit will examine various aspects of cost analysis. It ends with a description of the principles involved in sales and cost analysis.

10.2 Objectives

After going through this unit, you should be able to:

- Explain the objectives of sales control and different steps involved in sales controlling process.
- Analyze the purpose of sales analysis and different steps of sales analysis.
- Identify different elements of sales audit.
- State different types of cost and illustrate the procedure for marketing cost analysis.
- Evaluate the process followed for marketing audit analysis.
- Discuss the techniques for profitability analysis.
- Understand he principles followed for sales, cost, and profitability analysis.

10.3 Sales Manager's Responsibility to Ensure Profits

The sales manager's role includes planning, organizing, directing, controlling and leading the sales force personnel of the firm. Controlling the sales efforts of the sales force forms a critical part of managerial tasks. The sales manager's control function involves evaluating the performance of the sales force and identifying weaknesses, if any, in their sales efforts before these weaknesses become liabilities.

Sales control is one of the primary responsibilities of a sales manager. The sales control function which involves sales and cost analysis of the company had undergone a lot of changes over the past. Traditionally, the responsibility of a sales manager was to ensure that the sales team achieved its sales targets. Gradually, companies realized that achieving high sales volumes did not by itself assure the firm of high profitability. Sometimes, high sales volumes brought in undesired results for the business, such as unprofitable operation, customer dissatisfaction, etc. The methods that some of the companies adopted to increase their sales volume also attracted a lot of criticism. Many companies expanded their plant capacities and achieved high sales volume through forceful selling.

In doing so, they incurred huge overhead costs on selling which adversely affected their profitability despite the large sales volume.

The term 'profitless prosperity' began to be used to describe businesses which had large sales volumes that did not, however, add much to their profitability. Despite the high sales volume achieved, the profitability of these firms didn't increase due to high operating costs and high cost of sales.

Therefore, there was a growing need felt that sales managers should take profitability of the business into consideration while setting the sales volume. The emphasis on profitability made the sales manager focus on the sales control and analysis process as well, apart from his usual focus on other marketing activities like managing the distribution structure, market research, price emphasis, etc.

A sales and cost analysis helps a company to analyze its past performance and also to utilize its resources better. The results of the analysis form the basis for sales management decision-making. Sales analysis involves studying the company's sales results. It helps the company in better sales forecasting. Cost analysis involves establishing the cost of selling to ascertain the profitability of sales transactions.

Example: Sales Manager Vamsi Mohan ensuring Profits @ Coca-Cola

Example: As of 2022, T Vamsi Mohan was working in 'The Coca-Cola Company' as President in Greater China and Mongolian regions. He was in the Coca-Cola system in India since 1998. He held many leadership roles in sales, operations and general management. His responsibility, experience and a strong track record ensured profits for Coca- Cola Company during his tenure. He ensured profits by achieving results, turnarounds, building capabilities around market execution, commercial development and people development etc.

Source: Coca-Cola, June 2022, "Vamsi Mohan Thati-President, Greater China and Mongolia" https://www.coca-colacompany.com/company/leadership/vamsi-mohan-thati (Accessed on 2/8/22).

10.4 Nature of Sales Control

Sales control involves the statistical and accounting analyses that help a sales manager to determine the profitability of the company based on product lines, customers, etc. The concept of sales control has caught the attention of the sales management over the years and efforts are being made to make sales control a more efficient and powerful tool for analyses.

The following section discusses the objectives of sales control, the sales control process, and the difficulties faced in sales control.

10.4.1 Objectives of Sales Control

The sales control function, by taking necessary measures, ensures that the company's sales efforts are in tune with its sales plan. The objectives include: Measuring sales force performance, identifying sales problems, and identifying market opportunities before the competitors do.

Performance measurement

The first step in effective sales control is measuring the performance of the sales force. The objective evaluation of sales efforts is critical in ensuring that the company's growth is progressing as planned. An objective evaluation helps the company to identify the difference between actual and desired performance and enables sales managers to take corrective action before irrevocable damage takes place.

Managers have started laying more emphasis on performance ratios than the traditional period-to-period increase in sales to measure sales performance. The ratios used to evaluate sales force performance include Sales/Quota ratio; Sales/Budget ratio; 'Current year sales /previous year sales' ratio; and Closes/Calls ratio.

Problem identification

Sales control helps managers to identify problems before they become liabilities to the firm. In most businesses, sales problems are difficult to fix because they relate to sales effectiveness, and improving sales effectiveness requires ensuring the right mix of skills, supervision, strategy, and systems. Some of the common sales related problems that organizations face today are: the inability of sales personnel to bring in adequate business, inaccurate sales forecasts, difficulty in increasing profit margins, and the inability of the sales management to capitalize on revenues from existing customers.

Constant feedback can help identify problems at the budding stage itself. Regular reports from sales personnel allow sales managers to monitor the functioning of the existing system and to take necessary action to get the system in line if deviations are observed. Continuous feedback from field sales personnel allows sales managers to identify the problems, both within the system as well those pertaining to the resources (man, machine, material, and capital) involved in the selling process.

Identifying opportunities

Identifying sales opportunities before the competitors do, and thus helping the firm gain a competitive advantage is another objective of sales control. This objective comprises the most dynamic activity of sales efforts and involves a thorough and careful analysis of the market and the competitors.

The sales control system, thus helps a sales manager to diagnose problems in their early stages and initiate necessary action.

10.4.2 Sales Control Process

The sales control process essentially involves three steps – setting goals, comparing actuals with targets, and taking corrective action whenever necessary.

Setting goals

Setting goals is the primary task of any sales manager. Sales managers direct the sales force by setting goals and framing objectives. They design the courses of action by which the sales force can achieve these objectives and they measure the sales force's performance against the goals set. Goals are set as a part of the sales planning and sales budgeting processes. Thus, sales planning and sales budgeting are forms of sales control in an organization.

Planning is an important function of a manager. Companies that survived recession were those that had a plan and adhered to it. These companies thus demonstrated how essential it is for the survival and success of an organization to have a plan and adhere to it. Sales planning guides the sales force to improve performance by giving them a direction along which to work. It sets targets in the form of sales quotas. Thus, it forms a critical component of the sales control function. For a sales strategy to be successful, there should be careful and efficient sales planning. Sales planning involves functions such as staffing, recruiting, training, evaluation, and control. It provides the necessary framework for all sales activities. The strengths and weaknesses of the sales team and individual salespersons have to be taken into consideration when sales planning is done so that training requirements can be suggested to improve the sales team's performance. This will, in turn, facilitate the fulfillment of the sales objectives.

Sales budgets set targets for the costs associated with various sales activities. They help compare actual spending with the budgeted allowance and enable firms to confine their spending to the limited resources available to them.

Comparing actuals with targets

The next step in the sales control process involves comparing the actuals with the set goals. Large deviations from targets call for investigation into the causes for the deviations.

The performance of the sales force is usually measured by means of sales quotas. Sales managers use the sales quotas as a tool to influence and improve the performance of the sales personnel. Several factors related to the territory, such as territory size, concentration of business, and growth of business activity in the region play an important role in the assignment of quotas.

The costs incurred on sales related activities are compared with the budgeted allowances set during the sales budgeting process. An analysis of the deviations between actuals and budgeted costs helps the sales management take corrective action if actual spending exceeds the budgeted costs significantly. An analysis of the deviations indicates either an inaccuracy in setting goals or a need to improve performance and efficiency in order to meet the targets. Inaccuracy in setting goals is evident if the sales achieved exceeds the targeted sales at a substantially low cost. And the need to improve performance and efficiency arises when there is an underachievement of sales accompanied by heavy expenditure.

Taking necessary measures

Once the causes for the gaps between the actuals and the budgeted values are established, there is a need to take corrective action. This can be done by modifying the sales plan and budget. If the major cause for the deviation is under-performance of the sales force, the reasons for the under-performance have to be analyzed and remedial measures taken to improve the sales productivity.

Example: Efficient Sales Control Process @ Samsung

Example: Samsung reduced sales target for its smartphones by ten percent during 2022. It was planning to sell around 270 million smartphones in 2022, instead of initially set target of 300 million units. It targeted a share of 21.9% in the global smartphone market for 2022. Samsung, the global market leader of smartphones, executed efficient sales control process by comparing actual sales with sales targets. Every year it achieved and exceeded its sales targets.

Source: Sumit Adhikari May 27, 2022, "Samsung Reduces Smartphone Sales Target for 2022 Due To Inflation", https://www.androidheadlines.com/2022/05/samsung-reduces-smartphone-sales-target-2022-inflation.html, (Accessed on 3/8/22)

10.4.3 Difficulties in Sales Control

There are certain difficulties that come in the way of effective sales control.

External factors, such as the regulatory, legal, political, and economic environment, play an important role in the process of sales control. However, sales managers and the sales personnel have no control over these factors.

The sales control process is further complicated by the inability of sales managers to obtain information about which variable in the marketing mix (product features, promotional activities or pricing) has contributed to the increase or decrease in sales.

Yet, another problem that sales managers encounter pertains to the type of information that can be obtained. Though there are several information systems that cater to the their needs by providing vital information pertaining to sales activities, information pertaining to buyers' purchase plans and purchase intentions cannot be captured.

Activity 10.1

The sales manager of the credit cards division of HDFC Bank wants to evaluate the sales efforts of the company in order to improve sales for the coming years. In this context, explain how sales control would help the manager to evaluate the sales efforts of the company.

Answer:

Check Your Progress - 1

1. All of the following ratios are used to measure sales performance except one. Which one is that?
   a. Sales/Quota ratio
   b. Quota/ Budget ratio
   c. Closes/Calls ratio
   d. Sales/Budget ratio
   e. Sales in the current period/sales in the previous period
2. Which of the following is not among the objectives of sales control?
   a. Identification of sales problems
   b. Measuring sales force performance
   c. Identifying sales opportunities
   d. Developing sales quotas
   e. Identifying reasons for low performance
3. Which of the following factors may not impact the sales control process?
   a. External factors such as legal and political environment.
   b. Influence of economic environment.
   c. Inability of the sales manager to obtain information about the marketing mix variables that affect the sales.
   d. Problems involving difficulty in obtaining information about buyers' purchase plans and intentions.
   e. Using sales quotas as a tool to measure the sales force performance.

10.5 Sales Analysis

Sales analysis involves gathering, classifying, comparing, and studying the sales data of a company. It is one of the means by which a company can analyze its performance. It helps sales managers to plan and direct the sales efforts. Sales analysis classifies and presents the sales data that the company has gathered in an organized manner and thereby reveals market and competitive changes to the sales management. It produces a wide variety of information that sales managers can use to improve the efficiency of the sales function.

Sales revenue[9] is the amount that a company realizes by selling goods and services in the normal operation of business during a specific accounting period. Sales figure of a firm is very significant because it reflects the size of the business. Sales also results in the reduction of inventory. While sales is generated through the ordinary activities of business, income generated through activities that are not part of core business activities are not sales revenue but are net gains. For example, if the core business of the company is to sell biscuits, then the revenue generated by the sales of biscuits will be considered as sales revenue, but if the company sells one of its machines then the revenue generated will be classified as gain and not sales revenue.

Revenue is the gross inflow of the economic benefits and therefore it is not netted against expenses. Also, we compare sales revenue with net profits so that an analyst can understand what percentage of sales is converted into profits. Analysts track the net profit percentage on a trend line to study the performance of a company.

In the balance sheet, net profit reflects an increase in equity during an accounting period. The net profit gets reflected in the form of increase in assets (inflow of cash etc.) or reduction in liabilities (like repayment of borrowings). However, it must be remembered that increase in equity can be due to fresh infusion of capital by owners.

As mentioned earlier, sales analysis converts raw data collected from different sources into information that managers can use. The process of conversion involves editing, structuring, and organizing the data by breaking it down into a format that can be used for comparisons at various stages. The process of sales analysis concludes with the interpretation of the information.

In addition to directing and controlling the selling efforts of the sales force, sales analysis also helps the management in many other ways. It helps identify the strengths and weaknesses of the company, thereby allowing the management to

[9] https://www.accountingtools.com/articles/what-is-sales-revenue.html#:~:text=Sales%20revenue%20is%20the%20amount,Gross%20sales%20revenue.

formulate suitable marketing strategies for it. Sales analysis also helps the management in production planning, cash management, inventory management, and other non-marketing functions. Most important of all, it helps in the overall management of a company by assisting the management in providing the company with an orientation and a direction in which to focus its competitive efforts.

10.5.1 Elements of Sales Analysis

A typical sales analysis involves comparing the sales of the company at two different time periods or comparing the sales with external data to exercise better control over the performance of the sales function. The key elements that constitute the sales analysis process are described below:

Purpose of evaluation

A sales manager should decide on the purpose of the evaluation before starting the analysis. A simple sales analysis only lists the current sales variables and their values, whereas a comparative study of sales performance of various territories is done in comparative analysis.

In addition to identifying the purpose of the sales analysis, the sales manager has to take various other decisions such as determining the information needed from the analysis, identifying the sales variables that have to be analyzed like the total sales volume, sales by territory, sales by product line, performance of sales personnel etc. Determining the information needs before a sales analysis can be tedious because the strengths and weaknesses in the sales function are not known unless an analysis of the sales activities is carried out. Another reason for determining information needs is that there are varying information requirements at different organizational levels. It is up to the sales manager to decide on the sources of data and the type of reports that need to be generated.

Comparison standards

A simple sales analysis simply states facts whereas a comparative sales analysis compares the sales figures with some standards. Standards are the yardsticks to evaluate the effectiveness of a system. There are different standards that sales managers can use to determine the efficiency of the sales function in the organization.

The performance or effectiveness of the sales function can be measured in an absolute or relative sense. An absolute measure is an expected or an ideal measure. An example of an absolute measure is a sales quota or target. The performance of the sales function can also be measured in relative terms. The average sales volume is an example of an average or relative standard of measurement.

Reporting and control system

Most companies use sales information systems to store and process data to generate reports. A sales information system uses mathematical and statistical procedures to generate reports that depict trends, seasonal patterns, regression analysis, etc. Managers use these reports both for evaluation of the sales force as well as for sales forecasts.

A key concern of sales managers is the type of reports that need to be generated and the information that should be mentionedin these reports. If sales managers generate all types of reports, that is, reports that present the sales performance of individual sales personnel, branches, regions, products, etc., they will be left with a huge amount of information, not all of which is useful or necessary. So, it would be useful for them if the reports focus on exceptions in the form of significantly high or low sales figures.

The sales managers should also decide on the type of source inputs necessary for report generation and the way in which the inputs need to be processed. The most commonly used source for sales information is the sales invoice. Other sources include cash register receipts, salesperson’s call reports and expense reports, financial records, warranties, etc.

Another critical decision in sales analysis is the aggregation of sales variables. Without the aggregation, sales managers would be required to analyze individual transactions or focus on aggregate sales, neither of which serves the purpose of sales analysis. So, it is a common practice among sales managers to group the sales data on the basis of geography, territory, products, customers, markets etc. The categorization again depends on the purpose and focus of the sales analysis.

Hierarchical sales analysis

Hierarchical sales analysis involves studying the sales performance at a micro level by investigating and analyzing its components. This helps sales managers to pinpoint any weakness and the causes for it. For example, an analysis of the sales of individual states in a region helps identify the reasons for low sales in that region. The sales managers get to know if sales are low across all the states of the region or only in a particular state. A state can be further split up into different districts or areas and these compared to know if any one particular area has contributed to the low sales in the state. Sales can be further analyzed on the basis of sales representatives. This will help identify if there are any fundamental reasons adversely affecting the performance of sales personnel in a particular area, such as poor economic conditions, high unemployment, fierce competition, low sales force morale, etc. This analysis can be further broken down to product-wise sales of individual sales representatives. This helps identify if any single product is contributing to the poor sales.

10.5.2 Steps in Sales Analysis

Having decided on the purpose of sales analysis and the information that is needed from it, a sales manager can perform a sales analysis by the following steps:

Determining the sources of sales information

The most critical element in sales analysis is sales information. There are many sources of sales information - data from the marketing information system, company records, customers, sales personnel, field visits, and insights of the manager. External sources include newspaper and magazine reports, trade journals, etc.

Collection of sales data

The sales data is collected from historical records of sales volume, customer complaints, bills of sale, cash registers, sales invoices, etc. The sales invoice identifies the amount and the type of products that customers have bought. This source document should capture all the data in a format that can be easily read and processed.

Processing of sales data

Most firms use an information system to capture, store, and process the sales data. Typical sales information systems provide more functionality than just supporting sales analysis. Sales managers can also use this system to help them in other sales activities like sales planning, forecasting, etc.

Studying the results

Sales analysis does not offer a solution. Itonly indicates what additional investigation is required. The result of sales analysis should be carefully studied to identify the facts and acquire a lead for further analysis. It does not indicate the reasons for good or bad performance.

10.5.3 Variations of Sales Analysis

Sales are classified and grouped into a number of categories that the management can use for analysis. Sales are usually categorized on the basis of geography, customer groups, products, time periods, etc. The basis of classification depends on the information needed by the management and its relevance. The analysis might involve breaking down the data to the levels at which the problems and their causes can be clearly identified.

Sales analysis involves analyzing the sales volume, that is, the total sales of the company. It is the identification of the company's sales in the market, and refers to the total sales of a company, region, product, etc. The total sales volume figure can be compared with historical data to know the trend being displayed. Total sales volume can be used to compare the current sales of the company with the industry sales to identify the company's competitive performance. The total sales volume can also be used to identify the trend in the company's market share.

However, as the aggregate sales values are like icebergs, with only the tip being visible, a further analysis has to be undertaken by sales managers to identify any problems and to get a clearer picture of the causes for the problems. The total sales volume can be broken down on the basis of regions and territories, sales representatives, customers, product line, distribution channels and units sold to identify the concern areas.

Sales analysis by region

In the regional breakdown of sales volume, regional sales are compared with performance standards like the Buying Power Index (BPI).

Buying Power Index indicates the percentage of total retail sales occurring in a specific geographic area. It is used to forecast demand for new stores and to evaluate the performance of existing stores. BPI is also defined as a weighted index that converts three basic elements – population, effective buying income, and retail sales – into a measurement of the market's ability to buy. The actual sales in each region are then compared with the established sales quotas and deviations are analyzed and measures are taken to overcome the problems, if any.

Let us look at an analysis of a retail outlet. The retail outlet has branches in five states in the US. It is facing a drop in sales volume in the current quarter as compared to the previous quarter. The sales manager of the company performed a sales analysis to identify the actual cause for the decline in sales.

Sales analysis by sales representatives

The regional sales data of a company can be further broken down on the basis of sales representatives. The performance of individual sales representatives can be analyzed to determine if the problems are common to all of them or specific to a few. If the problems are specific to a few sales representatives, a further breakdown would help the sales manager identify the causes. If poor sales performance is the cause, then the sales manager could perhaps perform an analysis of the external environment in which the firm operates. Acquiring information about the economic conditions, employment rate, etc., will help the manager understand the factors responsible for the poor performance of the sales representatives.

To identify the problems that contributed to low sales volume in Philadelphia, the sales manager carried out an analysis of sales by different sales representatives.

Sales analysis by product line

Sales categorization by product line can be useful when a salesperson's performance needs to be analyzed to identify the factors contributing to low sales. It helps a sales manager to identify whether the problem pertains to the lack of sales of a single product or the entire product line. If there is a problem with a single product, the sales manager has to find out the cause for it and check if the problem exists in all the other regions, a fact that might have been obscured by the company's overall high sales volume owing to good sales of other products.

Sales analysis by customers

Sales managers can also take customers as a basis for classification of sales. For example, the sales of air conditioners can be classified according to individual customers, apartments, public services, educational institutions, etc.

Sales analysis by distribution channels

Sales can also be categorized on the basis of the distribution channels through which the products were sold. This data can help the management in making elimination decisions regarding the channels and also to focus on promising channels.

Sales analysis by units sold

The sales volume can also be broken down on the basis of the number of units sold. This kind of a break-up is useful during times of inflation and massive price changes. During inflationary periods, the sales figures expressed in currency may be high because of the rise in prices, though there might not be any significant rise in the sales volume. For example, a firm's currency sales might have gone up by 25% over the previous year though the units sold have actually declined by 12%. In such cases, categorization by unit sales would provide a clearer picture of sales.

Example: Sales Analysis @ Mercedes-Benz India

Example: German based Mercedes-Benz sold 4022 new Mercedes-Benz cars in the first quarter of 2022. It witnessed a growth of 26% over Q1 2021. Out of these cars sold, E-Class LWB sedan was the highest selling car, GLC was the highest selling SUV, followed closely by GLA and GLE luxury SUVs. Its new models launched in 2021, A-Class limousine, E-Class LWB, and new GLA and the new S-Class also gained strong demand. The portfolio of AMG and Super Luxury Car witnessed a 35% growth in Q1 2022. The above breakup of sales by units sold per model represented a good sales analysis of Mercedes-Benz business in India during the quarter.

Source: Express Mobility Desk, April 2022, "Mercedes-Benz Sells Over 4000 Cars in Q1 2022, Registering 26% Growth", https://www.financialexpress.com/express-mobility/mercedes-benz-sells-over-4000-cars-in-q1-2022-registering-26-growth/2485700/ (Accessed on 3/8/22)

10.5.4 Problems in Sales Analysis

The sales analysis is dependent on accounting records for the gross sales and sales returns. So, if there are flaws in the accounting system, the sales analysis is affected and it might not give a true picture of the strengths and weaknesses of the salesmen's selling efforts.

Though a sales analysis identifies the problems and its causes, it does not really reflect the performance of the company in relation to the industry or its competitors. It also does not emphasize on sales profitability. A sales analysis only talks about sales volume and does not give any indication whether the sales were profitable for the company. To analyze the profitability of sales, a distribution or marketing cost analysis has to be done.

Activity 10.2

Walter, a consumer products company that manufactures cleaning and health products, markets its products all over India through sales representatives and wholesalers. The severe competition in the market resulted in Walter losing some of its market share. To review its sales efforts, the company planned to conduct a sales analysis. Suggest the process that Walter should follow to conduct sales analysis.

Answer:

Check Your Progress - 2

4. Which of the following is not a common source of sales information?
   a. Company records
   b. Sales targets
   c. Sales invoice
   d. Field visit
   e. Cash register receipts
5. A sales manager wants to analyze the performance of a salesperson to identify the factors contributing to low sales. Which of the following will be the most appropriate for this purpose?
   a. Sales analysis by product line
   b. Sales analysis by customer
   c. Sales analysis by units sold
   d. Sales analysis by distribution channel
   e. Analysis of sales achieved on two different dates
6. BPI is a performance standard for comparing regional sales. Expand BPI.
   a. Buying Preference Index
   b. Buyer's Purchasing Index

c. Buying Population Index
d. Buying Power Index
e. Buying Propensity Index

7. Identify the statement that is not true about Buying Power Index (BPI).
   a. It indicates the percentage of total retail sales occurring in a specific geographic area.
   b. It is used to forecast demand for new stores.
   c. It is used as a tool more for sales control than sales analysis.
   d. It is a weighted index.
   e. It is used to evaluate the performance of existing stores.

10.6 Sales Audit

An audit is a periodic review of a business activity. An audit lets the auditor identify problems and concern areas, if any. Audits were earlier identified with the finance department of a company. With the increasing importance of other functional areas, auditing has also been extended to the areas of human resources, production, marketing, etc.

A sales audit, also known as sales force management audit, is a cross-functional exercise that evaluates the entire selling operation in a company. A sales force management audit covers the sales management environment, organization evaluation, planning system, and its functions.

Evaluation of the firm's sales force management process helps the sales manager improve the sales force performance and effectively allocate the resources for achieving the sales objectives. If conducted effectively, the sales force management audit will help the sales management identify problems with the present system and also prevent them from recurring.

10.6.1 Elements of Sales Audit

A periodic sales force audit helps the sales manager identify problems, ascertain the causes for them, and take necessary corrective actions. A sales audit requires an in-depth evaluation of several intra and extra organizational factors. The elements of a sales audit are as follows:

Sales management environment

The sales management environment of a firm involves the study of intra- and extra-organizational factors that affect the sales management policies and practices. The extra-organizational factors include customers and economic, demographic, competitive, technological, legal, or political forces. A sales audit should analyze these factors and identify their influence on the firm's future sales management strategies.

Intra-organizational factors include the relationship between sales and other departments, the firm's marketing mix, the organization of the firm's activities, etc. The auditor identifies the objectives of the firm and also of the marketing department to ensure that the sales department's objectives are in consonance with the overall objectives of the firm.

The auditor examines the quality of communication between sales and other departments and also studies the suitability of the sales strategy for achieving the firm's sales objectives.

Sales management planning system

The focus of the sales audit is on the sales department's objectives, the sales management program and its implementation. The auditor checks to see thatthe objectives are clearly stated, realistic, and measurable and that they are in accordance with the firm's available opportunities and resources. The auditor also examines the compatibility of the sales department's objectives with those of the marketing department and the firm's overall objectives.

The sales management program is audited to identify the strategies adopted by the sales department to achieve its objectives. The sales audit verifies the allocation of resources to ascertain that the allocation is sufficient for it to meet its objectives. It also helps to ensure that the allocation of resources is in keeping with market opportunities.

Sales management organization evaluation

This involves evaluating the sales managers and sales representatives' competence and recommending appropriate measures to improve the sales team's effectiveness. The auditor also examines the appropriateness of the programs designed to improve the quality of the sales force.

Sales management functions

The last phase of the sales force management audit comprises the evaluation of the sales management functions. It involves an in-depth verification of various aspects of sales management such as recruitment and selection, sales training, compensation and expenses, etc.

The audit involves a detailed study of the sales management functions to identify their strengths and weaknesses. It ascertains the adequacy with which the functions are being performed. In case of weaknesses or inadequacy, the auditor recommends steps to overcome them and ensures that the functions meet the adequacy norms of the organization.

Example: Sales Management Environment @ Maruti Suzuki

Example: Maruti Suzuki sales were dipping during April 2022 and the extra-organizational factors for the decline were: production constraints because of the global semiconductor shortage and increased vehicle prices triggered by the rising input costs. It had 10.21 per cent sales drop in the passenger vehicle segment in April 2022 as compared to April 2021. The sales management environment at Maruti Suzuki was mainly influenced by the above mentioned extra-organizational factors. The company was finding out the various measures to cope up with the situation to prevent future influence of these factors on the sales of its cars.

Source: Times Drive Desk, April 2022, "Maruti Suzuki reported decline while Tata and Skoda grew", https://www.timesnownews.com/auto/car-news/car-sales-april-2022-maruti-suzuki-reported-decline-while-tata-and-skoda-grew-article-91251277 (Accessed on 3/8/22)

10.7 Marketing Cost Analysis

While a sales analysis focuses on the results achieved, cost analysis looks into the costs incurred to produce the results and examines if the returns justify the expenditure. A marketing cost analysis involves the collection, classification, comparison, and study of marketing cost data. Conducting a marketing cost analysis helps a company to identify opportunities to increase the effectiveness of its marketing expenditure. Cost analysis does not serve the purpose of profitability alone. Accurate cost information is also needed for planning marketing activities like pricing, promotion, etc.

10.7.1 Types of Costs

Marketing costs can be classified into various types.

Natural and functional costs

Natural costs are the costs that are recorded in the books of accounts. The term by which they are referred to is determined by the nature of expenditure. Examples of natural costs are salaries and rent.

Functional costs are the costs associated with specific business activities like sales, production, etc.

Direct and indirect costs

Direct costs are costs that can be apportioned to specific segments of sales like products, customers, etc. Salaries and commissions paid to salespersons are an example of direct cost in a sales organization. Indirect costs, on the other hand, are costs that cannot be apportioned to a specific sales unit but have to be distributed among all the sales units. Example: administrative costs.

Fixed and variable costs

This classification of cost is based on volume sensitivity of cost behavior. Fixed costs do not vary with changes in sales volume whereas variable costs fluctuate with changes in sales volumes. The higher the sales volume, the more the variable costs, and vice-versa. The variable costs are zero when no sales orders are received.

Fixed costs are not really fixed in the long run. They vary with the decisions of the management. So, the classification of costs on the basis of their variability depends on whether the costs are being viewed from a long-term or short-term perspective.

10.7.2 Procedure for Cost Analysis

The procedure for cost analysis involves the following steps.

Spread of natural costs

As stated earlier, natural costs are costs that are recorded in the books of accounts of a company and are titled according to the expense category. As a first step in cost analysis, these natural costs are converted into functional costs. This is done by breaking the natural costs down into smaller parts and apportioning these parts to specific functional activities. For instance, 'Salaries', (a natural costs) can be apportioned to the salaries paid for various functional activities such as selling, sales research, advertising, customer service, etc.

Functional cost allocation

The next step involves allocation of functional costs to individual sales units such as products, sales territories, and customers. The basis for allocation depends on the type of functional account and the sales unit involved. For example, the basis for allocating indirect selling costs like those for field supervision, sales personnel training, marketing research, etc., is in proportion to the direct selling time or time records of the project.

Determining the efficiency and profitability of sales units

Next comes determining each unit's efficiency and profitability. In sales management, this step in cost analysis should involve the evaluation of the sales generated from each sales unit and the expenses involved. The evaluation of profitability associated with each sales unit forms the basis for the management's decision to continue or discontinue doing business with the sales unit.

Return on Investment (ROI) is a commonly used measure to evaluate the profitability of a business unit.

In sales management, ROAM (Return On Assets Managed) is yet another tool for profitability analysis.

$$\text{ROAM} = \text{Contribution Margin or Net Profit} \times \frac{\text{Sales}}{\text{Sales Assets Managed}}$$

The assets managed include average accounts receivable and the inventory that can efficiently meet the territory needs.

The efficiency of a sales unit is computed using the analysis of variance. The variance identifies the deviation and also the reasons for it.

Initiation of action

The last and the most crucial step in cost analysis is in deciding on the action to be taken. After identifying the territories, customer segments, or products that do not justify the expenditures incurred, the sales management may decide to either eliminate the weak business segments or to improve theirefficiency. Elimination of weak business segments isa regular feature of sales organizations since there could be quite a few worn-out business segments that might hamper the progress of the organizations as a whole.

Example: Marketing Cost Analysis@ Tata Motors

Example: During April 2022, Tata Motors was breaking records in domestic sales with a jump of 81% as compared to April 2021 for both Petrol Vehicles and Commercial Vehicles. Its domestic passenger car sales grew by 66%. During the same time period, it increased prices of its passenger vehicles, to partially compensate the rises in input costs. The weighted average increase in the input cost was 1.1%, depending on the variant and model.

Source: Autocar Pro News Desk, 01 May, 2022, "Tata's domestic sales up 81 percent in April 2022", https://www.autocarpro.in/news-national/tata%E2%80%99s-domestic-sales-up-81-percent-in-april-2022-81654, & https://www.tatamotors.com/press/tata-motors-increases-price-of-its-passenger-vehicles/ (Accessed on 3/8/22)

Check Your Progress - 3

8. Select the true statement from the following.
   a. Natural costs are not recorded in the books of accounts.
   b. Administrative cost is an example of direct costs.
   c. Fixed costs are not really fixed in the long-term and vary with the decision of the management.
   d. Rent and salaries are examples of functional costs.
   e. Salary paid to clerical staff of office is an example of direct cost.
9. Some costs, like commissions paid to salespersons, can be apportioned to specific segments of sales like products and customers. To what category, do these costs belong?
   a. Indirect costs
   b. Direct costs
   c. Variable costs
   d. Functional costs
   e. Fixed costs

10.8 Marketing Audit

Marketing audit is an efficient tool for evaluating and improving the marketing operations of a firm. It involves studying the effectiveness of a firm's marketing strategies, policies, and practices, considering the opportunities and resources available to it.

A marketing audit is a comprehensive or 'horizontal' audit that evaluates the marketing environment, strategies, organization, systems and objectives. The audit is said to be vertical when the focus of evaluation is on a single marketing function such as sales force, advertising, pricing, etc.

A marketing audit can be either an internal audit or an external audit depending on who is conducting the audit. In an internal audit, a person from within the firm who is not in any way connected to the operation that is being evaluated conducts the audit. In an external audit, a third party, such as a consultant or a management consulting firm, undertakes the audit. An external audit is recommended to ensure objectivity.

It is advisable to conduct a periodic audit when the company is doing well rather than follow the general tendency of companies to undertake an audit when sales have considerably dropped or when the company is experiencing problems. Conducting an audit when things are well in the company helps the management to identify aspects that can be made even better and those that may become problem areas in the future.

Thus, a marketing audit is a comprehensive, systematic, independent, periodic evaluation of a firm's marketing environment, strategies, objectives and activities to identify opportunities and likely problems and take necessary measures to improve the firm's marketing performance.

10.8.1 Procedure for a Marketing Audit

A typical marketing audit consists of setting the objectives and scope of the audit, collecting data for the audit, and preparing reports and presentation for the management to use in planning the action to be taken.

Setting the objectives

The initial step in a marketing audit involves an interaction between the management and the auditors to discuss the nature of the marketing operations and potential costs and benefits from the audit. The company has to then decide the objectives, scope, coverage, data sources, reports, and duration of the audit.

Collecting the data

A major part of the auditor's time is consumed in gathering data for the marketing audit. Detailed plans describing the interviews to be conducted to gather the data are prepared specifying the interviewee, interviewer, place, and time of contact.

The interview reports are documented for review. The purpose of this exercise is to save on the auditor’s time and cost.

Report preparation and presentation

Once the data collection phase is over, the auditors make a presentation to the management. The presentation involves restating the objectives of the audit, disclosing the findings, and presenting the major recommendations. After the presentation, the contents are rewritten as a final report and the presentation is made to a larger group of managers associated with the organization’s marketing function. This, in most of cases, leads to discussions and debate among the managers and results in an action plan to overcome the problems or utilize the opportunities identified in the audit.

10.8.2 Components of a Marketing Audit

A marketing audit usually starts with a study of the marketing environment and explores the opportunities available and the potential threats that the market can pose to the company. This is followed by a study of the marketing strategies, objectives, and one or two key functional areas. The main components of a marketing audit are described below. A marketing audit comprises six component audits, which may be conducted individually and partially inter-dependently if the company does not want a comprehensive marketing audit. The components of a marketing audit are: marketing environment audit, marketing strategy audit, marketing organization audit, marketing systems audit, marketing productivity audit, and marketing function audit.

Marketing environment audit

A company is normally affected by several factors pertaining to the industry to which it belongs. A marketing environment audit thus involves a study of macroeconomic factors like the economic, demographic, political, legal, technological, and socio- cultural forces over which the firm has no control. A firm is also affected by the immediate environment in which it operates. The marketing environment audit involves a study of the firm’s suppliers, customers, dealers, competitors, markets, etc. It identifies the trends in the marketing environment and forms a framework for planning the marketing action.

Marketing strategy audit

The audit looks into the consistency of the firm’s marketing strategy considering the opportunities and threats it is exposed to. The audit starts with a study of the firm’s overall business goals and objectives, followed by a study of its marketing objectives and strategies to ensure that they are in agreement with the company’s overall business objectives. The audit checks whether the marketing objectives are properly stated and are appropriate to the company’s resources and opportunities.

Marketing organization audit

The audit studies the effectiveness and efficiency of the marketing and sales organization and also the interaction of the marketing department with other departments within the organization. It studies the capability of marketing executives and personnel. It aims to make the organization more market responsive.

Marketing systems audit

The marketing function of organizations involves collecting information, planning and controlling the marketing activities like sales forecasting, marketing planning and control, inventory control, etc. A marketing systems audit involves the study of the procedures that are used to perform the activities involved in the marketing function. The audit assesses whether the marketing function is being carried out with adequate systems that facilitate planning, implementation and control, or not.

Marketing productivity audit

A marketing productivity audit involves studying the accounting data of the firm to identify the profitable areas of the firm. It also examines the marketing costs and expenses to identify areas in which marketing costs can be reduced or eliminated.

Marketing function audit

A marketing function audit involves an evaluation of one or more key marketing functions like sales force, pricing, advertising, etc., to identify peripheral problems associated with the marketing function.

Example: Marketing Audit @ Harley Davidson

Example: In 2020, Harley Davidson, an American bike company, decided to exit from India, due to weak sales and lack of future demand. The customer perception was that these bikes were difficult to maintain, expensive and unsuitable for Indian roads. It was usually when companies were in deep trouble that they wake up to deal with their problems. In such a situation, a marketing audit helped in identifying the underlying problem. Later they conducted a marketing audit and found out that their business model needs to be changed. Its earlier business model was setting up assembly operations through dealerships. In future, it wanted to sell its bikes through partnerships with local Indian two wheeler companies to reduce assembly operation costs. In 2021, they changed their marketing model in India and partnered with Hero MotoCorp for selling their bikes.

Source: BBC, 2020, "Harley-Davidson to exit world's biggest bike market", https://www.bbc.com/news/business-54290245, (Accessed on 3/8/22)

Activity 10.3

Dabur India Limited, the fourth largest FMCG (Fast Moving Consumer Goods) company in India, manufactures products in the food, health, and personal care sectors. The company wants to conduct a market environment audit and marketing systems audit for its Chyawanprash brand. Explain the steps that Dabur needs to take to conduct these audits.

Answer:

10.9 Profitability Analysis

As discussed earlier, a marketing cost analysis analyzes sales volume and selling expenses to identify the profitability of sales activities. Marketing managers can improve their decision- making and take steps to ensure the firm's profitability by tracing sales revenues to market segments and relating the sales revenues to marketing costs.

There are some accounting and statistical tools and techniques that can be used to improve the decision-making and control of the marketing efforts of a company. A decision-oriented and contribution-based accounting system can be used to evaluate the alternatives available in the marketing process. The system makes use of contribution accounting in which all unavoidable costs that are functionally related to a product are attributed to it.

The contribution made by each product towards overheads is determined by deducting these costs from the net sales. The accounting statements must provide the details of the sales figures and direct costs that facilitate the computation of the margin. These contributions are used for decision-making in product introduction, elimination, pricing, etc. The contribution measure can also be applied to measure the profitability of sales territories, representatives, and customers.

The profitability analysis of a firm can be done using techniques such as break-even analysis, capital budgeting, and Return On Assets Managed (ROAM).

10.9.1 Break-even Analysis

Sales managers commonly use break-even analysis to measure the profitability of sales. Though this technique has been criticized for its inadequacy and shortcomings, it can be used for the profitability analysis of firms operating in oligopolistic industries (these lie between the extremes of monopolistic markets and the markets with perfect competition), wherein the variable costs are more or less constant and are significantly less when compared to the final price at which the products are sold. An example of an oligopolistic market is the commercial airlines market having players like Boeing, Airbus, etc., operating in it. Exhibit 10.2 illustrates the calculation of break-even point through an example

Exhibit 10.2: Break-even Analysis

The technique of break-even analysis is based on calculating the break-even point of a firm. The break-even point is the point at which the total revenue from sales equals the total costs. This is a situation of no profit-no loss.

{Unit Sales Price × No. of Units} - {Unit Variable Cost × No. of Units} - Fixed Costs = Operating Income = 0

The formula can be rewritten as

{Unit Sales Price – Unit Variable Cost}× No. of Units –Fixed Costs = Operating Income = 0

Where, Unit Sales Price – Unit Variable Cost denotes the Contribution Margin.

The following example demonstrates the calculation of break-even point for a retail shoe store.

The selling price per pair of shoes = ₹300; cost per pair of shoes = ₹210; fixed costs (rent, salaries, advertising, etc.) = ₹36,00,000.

{Unit Sales Price – Unit Variable Cost}× No. of Units –Fixed Costs = 0

(₹ 300 - ₹210) x N – ₹36,00,000 = 0

N = ₹36,00,000/ ₹90 per pair = 40,000 pairs of shoes

So, the company has to sell 40,000 pairs of shoes to break even, i.e., reach a stage of no profit-no loss.

If the company desires to have an operating profit of ₹13,50,000

then,

(₹300 - ₹210) x N – ₹36,00,000 = ₹13,50,000

N = (₹36,00,000 + ₹13,50,000)/ ₹90 per pair = 55,000 pairs of shoes.

So, the company has to sell 55,000 pairs of shoes to have an operating profit of ₹13,50,000.

The example illustrates that costs, sales volume and price are inter-related. Break-even Analysis is an important tool of cost-volume and profit analysis, given a certain price point.

Source: Example Adapted from R.L.Varshney and K.L.Maheshwari, "Managerial Economics", Sultan Chand & Sons, 6/01/2018

10.9.2 Capital Budgeting Tools

Marketing managers also make use of capital budgeting techniques like Net Present Value (NPV), Internal Rate of Return (IRR), payback period, etc., for taking decisions on marketing expenditure. However, making provisions for risk, future revenues and expenditures is a major drawback of using capital budgeting tools.

Sales managers also use profit variance analysis as a technique for profitability analysis. Changes in gross profit between different time periods can be because of variance in prices, sales volume, overall cost-price relation, etc.

Example: Profitability Analysis of Patanjali

Example: The net profit after tax of the Patanjali Foods (formerly known as Ruchi Soya Industries Limited) for the FY21 was Rs. 68,077.18 lakhs. It achieved a total income of Rs. 16,38,297.71 lakhs during 20-21. Patanjali group had a turnover of Rs. 30,000 crore in the FY21. Ruchi Soya was acquired by the Patanjali group for Rs. 4,350 crore, and by 2021 its revenue was nearly Rs. 16,400 crore. The above profitability analysis of Patanjali foods (formerly Ruchi Soya) showed how a debt laden firm was made profitable by Baba Ramdev. By 2027, he wanted to make Patanjali the Number 1 FMCG company in India.

Source: PTI, 2022, "Aiming to make Patanjali and Ruchi Soya No.1 FMCG firm in 5 years: Ramdev", https://www.business-standard.com/article/companies/aiming-to-make-patanjali-ruchi-soya-no-1-fmcg-firm-in-5-years-ramdev-122032400784_1.html, (Accessed on 3/8/22)

10.10 Principles of Analysis

The sales, cost, and profitability analyses are based on the principle that not every factor affecting the sales and the marketing function is revealed completely unless the details are probed.

10.10.1 Iceberg Principle

The iceberg principle suggests that aggregating the total sales figures of a firm and comparing it with past performance may reveal a positive picture of sales even though there may be a larger problem concealed. When individual sales figures are aggregated into totals, values that are too high or too low offset each other and so lose their significance. All strengths and weaknesses may not be revealed when aggregates are used for analysis. The same rule applies to marketing costs as well. Total costs may not reveal all aspects of the costs incurred or all the details that are necessary for efficient cost control.

This is like the visible portion of an iceberg being only a minute fraction of what lies underneath and thus the term 'iceberg principle'. So, in order to obtain accurate and complete information about the sales figures, the sales data should be broken down into individual sales segments.

Example: Iceberg Principle@ Maruti Suzuki

Example: Maruti Suzuki was India's largest carmaker by volume and market share, its domestic sales were up by 6.82 per cent Year-over-Year compared to July 2021. According to Iceberg Principle, if the company was viewing it as a positive growth factor just by considering this data which was visible, then the firm might fall into serious problems. Actually, Maruti Suzuki sales increased only for July month but its YOY change was only 8%, whereas the sales of its competitors like that of Tata Motors was +51% YOY as compared to 2021. This was the overall picture which had to be considered by the firm to evaluate its performance.

Source: Dennis Abraham James, Aug 3, 2022, "Maruti Suzuki July 2022 Sales Report - Y-o-Y Sales Up By 6.82 Per Cent", https://www.drivespark.com/four-wheelers/2022/maruti-suzuki-july-sales-report/articlecontent-pf160175-036487.html, (Accessed on 3/8/22)

10.10.2 80-20 Principle

The 80-20 principle, also called the Pareto principle, is named after Italian economist Vilfredo Pareto. Pareto studied the distribution of wealth in an economy. He found that wealth was not evenly distributed in the economy and that only a few people controlled most of the wealth. Pareto proposed that 80% of the wealth in an economy was controlled by 20% of the people.

Joseph M. Juran, the quality guru who coined the phrase 'the vital few and the trivial many', generalized the Pareto principle and termed it the 80:20 rule. The 80:20 rule states that 20% of the elements are responsible for 80% of the results. The 80:20 rule can be applied to all areas of business and helps management focus on the real problem or issues. In sales analysis, the Pareto principle states that 80% of a firm's sales volume comes from 20% of its customers. In other words, a large portion of the profits is dependent on a small percentage of the customers. Such a skewed situation, if not addressed in time, can lead to reduced profits in the long-term. Thus, not all business units of a firm contribute equally to its profitability. Firms facing the 80/20 situation can adopt certain strategies to alter the ratio and increase their profits.

The 80/20 rule has a similar implication for the costs and expenses as well. Cost analysis of firms shows that about 15% of expense categories account for about 80% of all the expenses. Therefore, management should focus its attention on designing measures that address the 15% category of costs that contribute to the bulk of expenses of the firm.

10.10.3 Cross-classifications

Cross-classifications can be used when the sales data has to be analyzed on the basis of more than one category. If sales managers require information on both customer and product categories, they can either opt for two separate analyses, one by product and the other by customer, or they can go for one analysis, by customer cross-classified by product. The latter helps the sales managers to arrive at the same information but with the product-customer detail added. Cross-classifications involving more than two categories complicate the information.

Check Your Progress - 4

10. Which method is usually used to measure the profitability of sales, especially for a firm operating in an oligopolistic (few companies rule the market) market?
    a. Capital budgeting
    b. Break-even analysis
    c. Return on assets managed
    d. Internal rate of return
    e. Net present value method
11. NPV technique is used to take decisions on marketing expenditures. Expand NPV.
    a. Net Profitability Value
    b. Net Performance Value
    c. Net Profit Value
    d. Net Present Value
    e. Net Purchase Value
12. Aggregating the total sales of a firm and comparing it with past performance may reveal a positive picture of sales even though there may be a larger problem concealed. What do you call this principle?
    a. Pareto principle
    b. Iceberg principle
    c. 80-20 principle
    d. Cross-classifications
    e. Average ratio principle
13. A firm performs a certain type of marketing audit in which it studies legal, political and macroeconomic factors, over which the firm does not have control. Name the type of marketing audit used by the firm.
    a. Marketing organization audit
    b. Marketing strategy audit
    c. Marketing environment audit
    d. Marketing systems audit
    e. Marketing Cost Audit

10.11 Summary

- Control is one of the most critical functions performed by a sales manager as it measures the performance of the system and helps the manager take corrective action if the performance of the system is not in agreement with the formulated plans.
- The objective of sales control is to ensure that the company's sales efforts are in tune with its sales plan by taking necessary measures in case of deviations. The process of sales control involves setting goals, comparing actuals with the targets, and taking up corrective action if necessary.
- The sales efforts of a company can be studied through a sales analysis that involves gathering, classifying, comparing, and studying the sales data of the company. A typical sales analysis involves deciding on the purpose of evaluation, comparing the sales figures with some standards and processing the data to generate reports. A sales analysis can be most informative when the sales data is broken down hierarchically. An analysis of volume of sales by categories is very helpful in identifying the root causes of the problems in the sales activities of the firm. Though a sales analysis helps identify the problems associated with the sales activities of the firm, it is also bound by a few limitations like dependency on accounting records, inability to reflect the profitability of sales, etc. Sales analysis involves analyzing the sales volume or the total sales of the company. It includes the total sales of the company by territory, customer, and product category. A sales audit is periodically taken up by the sales management to examine the entire selling operations of the firm. The audit involves an audit of the sales organization, the sales environment, planning systems, and sales management functions.
- While a sales analysis measures the sales volume achieved, the marketing cost analysis looks into the costs and expenses incurred to achieve the sales volume and their justification. A cost analysis involves spreading the natural costs, allocating them to functional units, studying the profitability of the units, and implementing appropriate action depending on the findings of the analysis.
- Just as a sales audit examines the entire sales operations of a firm, a marketing audit evaluates and enhances the effectiveness of a firm's marketing operations by studying its marketing strategies, policies, and practices.
- Sales managers use profitability analysis to relate the sales revenues to marketing costs. This helps sales managers take necessary measures to ensure higher profitability of the firm's sales transactions.
- A number of principles such as the iceberg principle, the 80/20 principle and cross-classifications guide sales managers in conducting effective sales and cost analysis. These principles reveal the behavior of sales data and the actual reasons underlying them. They forewarn sales managers of impending dangers and help them take measures to counter them.

10.12 Glossary

80/20 rule: A rule, based on the theory that 20 percent of a company's products account for 80 percent of its sales, that holds that fast-moving products generate a higher level of customer service than slow-moving products.

Distribution channel: The path a product follows to be delivered to the end user. This may be through distributors, retail outlets, self service outlets, vending machines, telephone sales, direct mail sales, etc.

Iceberg principle: The distorting effect on the true sales and profit picture and underlying problems due to averaging, summarizing and aggregating sales data.

Inventory management: The process of ensuring the availability of products through inventory administration.

Marketing audit: A comprehensive, systematic, periodic review of a firm's marketing environment, objectives, strategies, and activities.

Order processing: The systems used to receive orders, route them to appropriate supplying functions, and then arrange customer billing.

Recession: The stage of the business cycle in which unemployment rises and consumer buying power drops.

10.13 Self-Assessment Exercises

1. Sales control involves the statistical and accounting analyses that help a sales manager determine the profitability of the company based on product lines, customers, etc. Discuss the objectives of sales control, the sales control process, and the difficulties faced in sales control.
2. Sales analysis helps a company analyze its performance and also helps sales managers plan and direct the sales efforts. Describe each element of sales analysis. What are the steps required to follow in sales analysis? Also explain different types of sales analysis.
3. What is a sales audit? What are the different elements of sales audit?
4. Explain the steps involved in cost analysis.
5. What is marketing audit? Analyze the procedure for a marketing audit.
6. The profitability analysis of a firm can be done using several techniques. What is a profitability analysis. What are the different techniques used in profitability analysis?
7. Explain different principles of sales, cost, and profitability analyses.

10.14 Suggested Readings/Reference Materials

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.

3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.
4. Krishna Havaldar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). Sales and Distribution Management, Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). Fundamentals of Sales & Distribution Management: Text & Cases, Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

10.15 Answers to Check Your Progress Questions

1. (b) Quota/Budget ratio

The ratios used to evaluate sales force performance include: Sales/Quota ratio; Sales/Budget ratio; Sales in the current period/Sales in the prior period ratio; and Closes/Calls ratio.

2. (d) Developing sales quotas

The objectives of sales controls included performance measurement, problem identification, and identifying opportunities. Developing sales quotas is not an objective of sales control.

3. (e) Using sales quotas as a tool to measure the sales force performance.

The difficulties in sales control included external factors, such as the regulatory, legal, political, and economic environment, inability of sales managers to obtain information about which variable in the marketing mix has contributed to the increase or decrease in sales, and difficulty in getting information. Option 'e' is not a factor that stands in the way of controlling sales performance. On the contrary, it facilitates control of sales performance.

4. (b) Sales targets

The most commonly used source for sales information is the sales invoice. Other sources include: cash register receipts, salesperson's call reports and expense reports, financial records, warranties, etc.

5. (a) Sales analysis by product line

Sales categorization by product line can be useful when a salesperson's performance needs to be analyzed to identify the factors contributing to low sales. It helps a sales manager identify whether the problem pertains to the lack of sales of a single product or the entire product line.

6. (d) Buying Power Index

Buying Power Index indicates the percentage of total retail sales occurring in a specific geographic area. It is used to forecast demand for new stores and to evaluate the performance of existing stores. BPI is also defined as a weighted index that converts three basic elements – population, effective buying income, and retail sales – into a measurement of the market's ability to buy. The actual sales in each region are then compared with the established sales quotas and deviations are analyzed and measures taken to overcome the problems, if any.

7. (c) It is used as a tool more for sales control than sales analysis

Buying Power Index is used as a tool for sales analysis. It indicates the percentage of total retail sales occurring in a specific geographic area. It is used to forecast demand for new stores and to evaluate the performance of existing stores. BPI is also defined as a weighted index that converts three basic elements – population, effective buying income and retail sales – into a measurement of the market's ability to buy. The actual sales in each region are then compared with the established sales quotas and deviations are analyzed and measures taken to overcome the problems, if any.

8. (c) Fixed costs are not really fixed in the long-term and vary with the decision of the management.

All the statements are false except statement (c). Natural costs are the costs that are recorded in the books of accounts. Administrative cost is an indirect cost. Rent and salaries are example of natural costs.

9. (b) Direct costs

Direct costs are costs that can be apportioned to specific segments of sales like products, customers, etc. Salaries and commissions paid to salespersons are an example of direct cost in a sales organization.

10. (b) Break-even analysis

Sales managers commonly used break-even analysis to measure the profitability of sales, especially for a firm operating in an oligopolistic (competitive market condition where few companies rule the market) market.

11. (d) Net Present Value

Marketing managers also make use of capital budgeting techniques like Net Present Value (NPV) for taking decisions on marketing expenditure.

12. (b) Iceberg principle

The iceberg principle suggests that aggregating the total sales figures of a firm and comparing it with past performance may reveal a positive picture of sales even though there may be a larger problem concealed.

13. (c) Marketing environment audit

A marketing environment audit involves a study of macro-economic factors like the economic, demographic, political, legal, technological, and socio- cultural forces over which the firm has no control.

Sales & Distribution Management

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