

Sales and Distribution Management

Block

3

ORGANIZING THE SALES EFFORTS

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Ref. No. SDM-SLM-IFHE – 072022 B3

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BLOCK 3: ORGANIZING THE SALES EFFORTS

The third block of the course on Sales & Distribution Management deals with various concepts of organizing the sales force. The block contains four units. The first unit deals with profiling and recruiting sales personnel. The second unit focuses on developing, delivering and reinforcing a sales training program. The third unit deals with time and territory management. The fourth unit provides details on compensating sales personnel.

The eleventh unit, *Profiling and Recruiting Sales Personnel*, deals with the importance of recruitment of sales personnel and the personality traits that are essential in a salesperson. It presents a framework for selection of sales personnel.

The twelfth unit, *Developing, Delivering and Reinforcing a Sales Training Program*, focuses on the importance of training. It discusses the components of sales training program and different types of training programs. The unit also highlights the benefits of various training programs.

The thirteenth unit, *Time and Territory Management*, discusses on the importance of time and territory management in sales organization. It also explains the criteria and methods for designing territories. The unit also provides an idea about the procedure to be followed while developing territories. The unit also explains how to operate the territory management system.

The fourteenth unit *Compensating Sales Personnel*, deals with sales forces compensation. The unit discusses objectives, characteristics and different types of compensation plans. The unit also explains how to design compensation plans and how to implement the plan. The unit also explains important compensation tool and organizing sales contest. It also discusses about sales force expenses and fringe benefits.

Unit 11

Profiling and Recruiting Sales Personnel

Structure

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Sales Force Selection and Strategic Planning
- 11.4 Importance of a Good Selection Programme
- 11.5 Scope of Sales Force Staffing Process
- 11.6 New Sources of Recruitment
- 11.7 Summary
- 11.8 Glossary
- 11.9 Self Assessment Test
- 11.10 Suggested Readings/Reference Materials
- 11.11 Answers to Check Your Progress Questions

“Acquiring the right talent is the most important key to growth. Hiring was – and still is – the most important thing we do.”

- Marc Benioff (Founder, Chairman, and co-CEO of Salesforce)

11.1 Introduction

Here, Marc Benioff, the founder of Salesforce – one of the successful companies – was stressing on the significance of hiring the right in the success and growth of business. As sales people generate the revenues for the company, hiring low productive or low talent sales person would cost the company’s survival.

In the previous unit, various aspects related to sales and control functions were discussed in detail. In this unit, we discuss the right hiring strategy to recruit and select salespersons. Recruitment and selection of salespeople is an on-going process for developing companies. The number of companies marketing a variety of products is increasing by leaps and bounds. Therefore, the requirement for salespeople is also increasing. Companies operating in insurance, FMCG (Fast Moving Consumer Goods), banking and finance, engineering, B2B etc. heavily depend on personal selling and continuously need salespeople for meeting customer and market needs. Therefore, selecting the right salesperson is the greatest challenge for management today.

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Recruitment of salespersons is costly and time-consuming process. It involves placing of advertisement in the media, using an employment agency or a job portal, taking time to screen the applicants, interviewing them and finally selecting and training them. The cost of all these activities is wasted if newly-hired salespersons don't perform as per company standards or leave the company. Additionally, there are the opportunity costs of lost sales. Poorly selected salesperson can be ineffective, less motivated, can harm companies' reputation and ruin established relationship with customers.

Many sales managers make hiring decisions based on what they feel right rather than on objectively determined criteria. Many managers start the recruitment process only when a salesperson has left the company rather than establishing an ongoing recruitment program. This often results in ending up recruiting a salesperson who is not competitive. Therefore, recruiting and hiring of salespersons warrants planning on the part of sales manager and they should always be on the lookout for good sales people.

11.2 Objectives

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

- Describe sales force selection and strategic planning
- Discuss the importance of a good selection programme
- Comprehend the scope of sales force staffing process
- Discuss the newer sources of recruitment

11.3 Sales Force Selection and Strategic Planning

The sales people in most of the companies are responsible for implementation of marketing plans and strategies of the company. They are also responsible for generating the revenue for the company by developing customers and markets. How well and effective the company's marketing plans are implemented, depends on the quality and ability of the salespeople. Therefore, the recruitment plan and selection of the sales person should be as per the strategic marketing plan of the company. For instance, if the company is a new company and launching new products for the rural markets then the recruitment criteria will be different from the company operating in the urban markets. Similarly, if the marketing objective of the company is to only service the existing loyal customers rather than developing new accounts, then the recruitment policy of the company will be different from the company which wants to build up the new markets. Companies may adopt strategy to recruit specialized sales persons for some specialized products and another set of sales persons for selling routine or general products. They may have different set of sales persons for developing new markets and for servicing the existing markets.

The selection process should also be integrated with the companies' 'Make or Buy' strategy, i.e. whether company wants to develop its sales force by training them or should hire experienced sales persons from other companies. Similarly, if the company has no sales training program, then it should not select freshers from colleges and should go for experienced salespersons.

Example: Paytm's hiring of Sales Personnel

In 2021, Paytm (an Indian based e-commerce and financial service company) intended to hire 20,000 field sales executives to educate retailers about the benefits of digital adoption. The sales executives would educate merchants and users about digital services while also promoting the company's different digital products. According to the organisation, individuals with past sales expertise will be given preference, and applicants must also be fluent in the local language.

Paytm was selecting those who had experience in sales field in order to promote the company's different digital products.

Source: Ravi Prakash Kumar (2021). Paytm plans to hire 20,000 sales executives, offer salaries up to ₹35,000. Mint. Retrieved from

<https://www.livemint.com/companies/news/paytm-plans-to-hire-20-000-sales-executives-offer-salaries-up-to-rs-35000-11627457956942.html> (accessed on May 26, 2022)

11.4 Importance of a Good Selection Program

Good selection of sales persons is vital for the firm as sales persons are primarily responsible for generating revenue for the company. Company must design a good selection process and clearly define the criteria for selection of sales persons. Good selection program is essential for the company for the following reasons:

Qualified sales persons are scarce - Good sales persons are hard to find. Selling profession does not have a high social prestige as compared to some other careers. Therefore, present generation is reluctant to make their careers in sales. Selling profession does not attract top-notch candidates from colleges and universities. Most students relate selling to door to door selling and view selling in a negative way.

Good selection improves sales force performance - The sales persons recruiting process has a strong impact on the revenue of the company. A good selection of a sales person has a long-lasting effect in development of business as well as building good relationship with the customers. A good selection of a sales person will ensure continuous growth and reduced employee turnover.

Good selection promotes cost saving - A good selection program brings both direct and indirect cost benefits to the company. Substantial direct cost savings are generated when sales force turnover is reduced as the cost involved in

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recruiting and training a new sales person is very high and it takes a lot of time before the sales person becomes confident in his role and function. The indirect cost benefits are not reflected in the accounting records but, they include the prevention of lost sales that can result from poor selection.

Good selection makes managerial task easy - If a good selection is made, then the managerial tasks like training, supervision, motivation and compensation becomes easier. A good sales person will not require day-to-day supervision or motivation and can be self-motivated to complete the assigned task. A sales manager with good sales force team can surpass the competition.

Example: UpGrad Selecting Personnel who make Managerial Tasks Easier

In 2021, UpGrad, a popular education technology corporation, announced plans to hire over 1,000 sales individuals in India to meet the company's expanding demand. Through the UpGrad Rekrut employment campaign, the edtech company hired from its own learner talent pool. The company claimed that hiring from its own learner talent pool would make it easier to fulfil management duties.

Good selection makes managerial tasks like training, supervision, motivation and compensation easier.

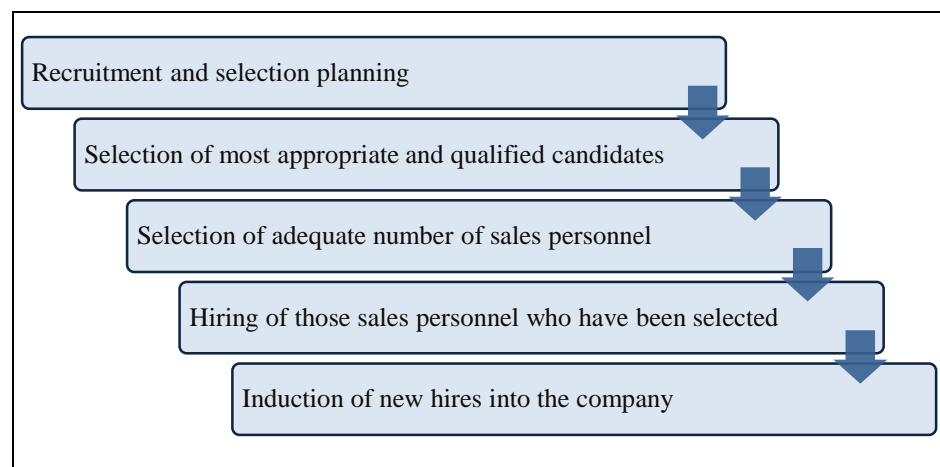
Source: PTI (2021). upGrad plans to hire over 1,000 employees in 3 months as demand grows. Business Standard. Retrieved from

https://www.business-standard.com/article/companies/upgrad-plans-to-hire-over-1-000-employees-in-3-months-as-demand-grows-121060800920_1.html (accessed on May 26, 2022)

11.5 Scope of Sales Force Staffing Process

There are five major activities involved in staffing a sales force (Figure 11.1).

Figure 11.1: Salesforce Staffing Process



Source: ICFAI Research Center

1. **Recruitment and selection planning:** The first step is the planning phase which is to establish responsibility for recruiting and selection. These responsibilities may be assigned to sales executives, first line sales managers or to human resource department or a combination of these. Then the company must determine the number and the type of people needed and at which sales territories and at which locations. This involves analyzing the respective markets and the type of job a sales person is going to perform. Accordingly, a detailed written description is made with the necessary qualifications and skills needed.
2. **Selection of most appropriate and qualified candidates:** The next step is to select the most suitable candidate among the applicants by applying various methods of selection such as aptitude test, Group discussions and personal interviews and matching the skill sets and the qualities of the candidate selected with the requirement as determined during the planning process.
3. **Selection of adequate number of sales personnel:** The next step in recruitment process is to select an adequate number of sales persons as planned during the planning process.
4. **Hiring of those sales personnel who have been selected:** After the company has made an offer to the recruit, the job is not done. As in the present scenario there are possibilities that a person may have many offers. Therefore, the sales manager or the person responsible must convince the recruit that their company offers the best opportunity and when the recruit is convinced then only issue him the appointment letter.
5. **Induction of new hires into the company:** Induction begins when the recruit accepts the position offered. The newly hired employee must learn how to perform the tasks associated with their jobs. They should be familiar with the culture of the company as well as the people who they have to work with within the company. There must be a conscious effort from the managers to provide information on all aspects to the new recruit. The new recruit must be encouraged to ask questions and answers must be provided by the managers. Before the new recruit goes for formal training and induction, they must be familiar with the organization, its culture and hierarchy.

11.5.1 Induction and Orientation

The new recruit must be given formal training in all aspects of the job they are going to perform. The company must give technical training and inform the new hires about the company's products, its competitors as well as its customers. The formal training and orientation must include the hierarchy of reporting, the rules and regulations of the company. It should also include the remuneration and expense payment of the company. The training should also cover the way the

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company expects its customers to be treated and the methods of generating business from them. After the training program, the new recruits must be formally inducted in the company by a person from top management. This will give them a sense of belonging and will motivate them from the beginning.

Example: Vuram, an IT Company, Selecting the Appropriate Talent

Vuram, an IT firm, planned to hire salesmen. Suresh Kumar C, Director of the Vuram personnel team, revealed that they converted to a 100% digital hiring process, including campus drives. The company was looking for passionate individuals that can bring in and develop fresh ideas into a fast-growing organisation. The company said after tests and interviews, only the most qualified and appropriate individuals will be chosen.

The above information represented selecting the appropriate talent, one of the steps of sales force staffing process.

Source: PTI (2021). IT company Vuram to hire 400 professionals this year. Mint. Retrieved from <https://www.livemint.com/companies/news/it-company-vuram-to-hire-400-professionals-this-year-11616063943151.html> (accessed on May 26, 2022)

11.6 New Sources of Recruitment

Some frequently used recruiting sources which has been used traditionally for hiring sales personal are- Referrals, current satisfied employees, educational institutions and advertisements. The biggest change in the hiring process in the recent years has been the proliferation of online application process. Today, almost every company uses websites for calling applications from the interested candidates. Today's systems enable employers to mine resume, spot qualified applicants and conduct screening tests online. Companies may have contract with employment portal companies like Monster.com, Naukri.com, Timesjobs.com, shine.com etc. to source sales personnel. One of the key advantages of accepting applications online is that companies can recruit candidates and fill their job openings much faster with greater diversity and better talent. Some companies hire placement agencies that have a large database of talents, are specialized in recruiting diverse skills for various industries and head hunting. Head hunting is very often being practised in appointments of certain specialists or top-level positions. In the sales arena, there are people from the competitors' companies constantly watching good performing representatives or sales managers. When required they try and poach these people to their organization. Poaching can be done by offering them better pay packages or transfer to their home towns or by offering them better positions. Now, with the advent of the social networking sites such as LinkedIn, Facebook etc. the profiles of the candidates are available for screening to the employers online.

Example: New Ways of Hiring

According to Business Standard article (2021), companies were incorporating innovative methods of recruiting employees. Apna was used to hire experts by companies such as Byju's, Teamlease, and Shadowfax. Apna was a start-up that maintained a database of job-seeking employees. Apna's app included more than 70 communities for skilled professions such as carpenters, painters, telemarketers, field sales representatives, and delivery employees.

The above information showed the new sources of recruitment.

Source: Peerzada Abrar (2021). Blue-collar jobs app Apna logs 12 mn job openings in festival season. Business Standard. Retrieved from

https://www.business-standard.com/article/companies/blue-collar-jobs-app-apna-logs-12-mn-job-openings-in-festival-season-121111100574_1.html (accessed on May 26, 2022)

Check Your Progress - 1

1. Which of the following options best explain the need for recruiting and selecting right salespersons?
 - a. Many sales persons are available.
 - b. Availability of qualified Sales persons is scarce.
 - c. Sales persons frequently switch jobs.
 - d. Sales people demand high salary.
 - e. Sales persons don't want to travel.
2. Which of the following is not a suitable reason for recruitment and selection (of sales persons) being a costly and time-consuming process?
 - a. Placing of advertisement in the media.
 - b. Using an employment agency or a job portal.
 - c. Taking time to screen the applicants.
 - d. Interviewing, selecting and training them.
 - e. An existing salesperson may quit his job.
3. Which of these is not a suitable point that underlines the importance of a well-crafted, suitable recruitment and selection policy?
 - a. Salesperson may not contribute and be ineffective.
 - b. He may be less motivated.
 - c. He may damage companies' reputation.
 - d. He may ruin established relationship with the customers.
 - e. No selection method is fool proof and can guarantee the selection of the best persons.

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4. Which of the following cannot be classified as the responsibilities of sales people?
 - a. Implementation of marketing plans.
 - b. Formulating marketing strategies of the company.
 - c. Generating the revenue for the company.
 - d. Developing customers and markets.
 - e. Maintaining good relationship with banks to procure funds for business projects.
5. Which of the following options indicates 'Make or Buy' strategy of the company?
 - a. The company develops its own sales force by training them.
 - b. The company should hire experienced sales persons or develop and train its own salespersons.
 - c. The company should make its own products.
 - d. The company should buy products from others.
 - e. The company should make as well as buy products.
6. If a company has no sales training program, then which of the following hiring strategies should it adopt?
 - a. Fresher from the colleges.
 - b. Experienced people from other sectors.
 - c. Experienced people from the same sectors.
 - d. Fresher who want jobs.
 - e. Applicants who apply for jobs.
7. Which of the following is not a suitable reason that reiterates the need for a good selection program for a company?
 - a. Qualified sales persons are scarce.
 - b. Good selection improves sales force performance.
 - c. Good selection promotes cost saving.
 - d. Good selection makes managerial task easy.
 - e. Good salesmen are suitable during times of economic recession.
8. If a company adopts 'Buy Strategy', which of the following action relating to recruitment will it implement?
 - a. The firm gives classroom training its new recruits.
 - b. The firm would recruit highly qualified persons.
 - c. The firm hires experienced persons from competitor's companies.
 - d. The firm gives on-the-job training to its new recruits.
 - e. The firm deploys the services of agencies.

9. Which of the following is an in-house source of recruitment?
 - a. References of existing employees.
 - b. Advertisement in radio channels.
 - c. Advertisements in websites.
 - d. Recruitment through agents.
 - e. Recruitment through consultants.
 10. Which of these may not be considered as a new source of recruitment of salespersons?
 - a. Web sites of the company
 - b. Job portals
 - c. Social networking sites
 - d. Head hunting
 - e. Advertisements in newspapers
-

11.7 Summary

- Recruitment and selection of salespeople is an on-going process for developing companies.
- As the number of companies marketing a variety of products is increasing, the requirement for salespeople is also increasing.
- The sales people in most of the companies are responsible for implementation of marketing plans and strategies of the company.
- They are also responsible for generating the revenue for the company. How well and effectively the company's marketing plans are implemented depends on the choice of its salespeople. The recruitment and selection of the sales person should be according to the strategic marketing plan of the company.
- Company should design a good selection process and clearly define the criteria for selection of sales persons.
- Firms are held responsible for the legality of their recruitment and selection policies. Although certain aspects of selection process may be performed by the human resource department, it is the sales manager who often makes the final hiring decision. Sales managers must, therefore, understand the complex laws that govern sales force selection policies.
- There are five major activities involved in staffing a sales force: Planning the recruitment and selection process, selecting the most appropriate and qualified candidate, recruiting adequate number of sales persons, hiring those people who have been selected, inducting the new hires into the company. The biggest change in the hiring process in the recent years has been the proliferation of online application process. Today's systems enable employers to mine resume, spot qualified applicants and conduct screening tests online.

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11.8 Glossary

Buy Strategy: The Company does not invest in training new people but hires experienced persons from competitors or same sector companies.

Head Hunting: It is a strategy whereby competent people are identified for recruitment.

Hiring: The process of staffing is complete only when the candidate joins the organization.

Induction and Orientation: Formal training for new recruits about company, its products, customers and competitors, hierarchy, policies etc.

Make Strategy: The Company develops its own sales people by hiring freshers, and then training them according to the objective of the company.

Recruitment: It is the process of enrolling the people for selection in an organization.

Recruitment Policy: The policy or the process adopted by the company for staffing.

Selection: Selection is the process of reducing the numbers and choosing from among those individuals who have the relevant qualifications.

11.9 Self-Assessment Test

1. The selection of a good sales person is strategic for the company's growth. Discuss.
2. Discuss 'Make or Buy' strategies adopted by the companies for recruitment.
3. What is the importance of a good selection program for the company?
4. What are the major activities involved in staffing a sales force?
5. What are the new sources of recruitment?

11.10 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 Havaladar 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.

11.11 Answers to Check Your Progress Questions

1. (b) Availability of qualified Sales persons is scarce

Good sales persons are hard to find. Selling profession does not have a high social prestige as compared to some other careers.

2. (e) An existing salesperson may quit his job

Recruitment of a sales person is a costly and time-consuming process, it involves placing of advertisement in the media, using an employment agency or a job portal, taking time to screen the applicants, interviewing them, and finally, selecting and training them. Option 'e' (An existing salesperson may quit his job) relates to HR concepts like retention of salesperson and turnover of employees. It has no direct bearing on the cost of recruitment.

3. (e) No selection method is fool proof and can guarantee the selection of the best persons

The need for a good recruitment and selection policy is emphasized by the various statements that point out the negative impact of recruiting an incompetent or unethical salesperson. Only option 'e' which states that no selection method is fool proof does not underline the importance of a sound recruitment policy.

4. (e) Maintaining good relationship with banks to procure funds for business projects

The sales people in most of the companies are responsible for implementation of marketing plans and strategies of the company. They are also responsible for generating the revenue for the company by developing customers and markets. Option 'e' (maintaining good relationship with banks to procure funds for business projects) is a finance function and not a sales function.

5. (b) The company develops and trains salesforce or hire experienced persons

'Make or Buy' strategy of the company means the company develops its own sales force by training them or the company should hire experienced sales persons.

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6. (c) Experienced from the same sectors

If the company does not have the facility for training then it should hire sales persons who are experienced from the same sector.

7. (e) Good salesmen are suitable during times of economic recession

Good selection program is essential for the company for the following reasons - a) Qualified sales persons are scarce b) Good selection improves sales force performance c) Good selection promotes cost saving d) Good selection makes managerial task easy. Option 'e' is not a suitable argument to emphasise the importance of a good selection process. A good sales person shows good performance at all times. There is no logic in the statement which states that a good salesperson does well during times of economic recession.

8. (c) The firm hires experienced persons from competitor companies

When a firm adopts buy strategy, it does not invest in training new people but hires experienced persons from competitors or same sector companies.

9. (a) References of existing employees

When a firm recruits sales staff after getting the references of existing staff, then it is using an internal source.

10. (e) Advertisements in newspapers

The new sources of recruitment of Sales persons include - a) Web sites of the company b) Job portals c) Social networking sites d) Head hunting. Advertisements in newspapers is a traditional source of recruitment of sales persons.

Unit 12

Developing, Delivering and Reinforcing a Sales Training Program

Structure

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Integrating Sales Training and Strategic Planning
- 12.4 The Value of Sales Training
- 12.5 Roles of Seniors in Sales Training
- 12.6 Determining Training Need of Individual Sales Representatives.
- 12.7 Content of Training Programme
- 12.8 Use of Factual and Practical Situations in Sales Training.
- 12.9 Computer-based Training Programs-e-Training and M-Training
- 12.10 Accompaniment Calls (On-call Training)
- 12.11 Summary
- 12.12 Glossary
- 12.13 Self-assessment Test.
- 12.14 Suggested Readings/Reference Materials
- 12.15 Answers to Check Your Progress Questions

“It's unfair to hire someone and expect success if you aren't providing any sales training or support.”

- Rob Liano (a popular sales strategist and business consultant)

12.1 Introduction

Here, Rob Liano is making out clear that though a right sales person has been hired, it is unfair to expect a desired result or performance without providing adequate sales training or sales support.

In the previous unit, the recruitment and selection policy of salesmen was discussed in detail. Any shortcoming in the hiring strategy can directly impact the sales performance of a company. An equally important activity that follows recruitment and selection, which is ‘training of salesmen’ constitutes the subject matter of unit 12. Training is the act of increasing the knowledge and skills of an employee for doing a specified job. It helps the trainees acquire new skills, technical knowledge, problem-solving ability etc. It also gives an awareness of the rules and procedures to guide their behavior, thereby, improving the

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performance of employees on the present job and prepares them for taking up new assignments in future. Training remains a key tool for enhancing job-related performance and organizational effectiveness, its value is being increasingly acknowledged in engendering behavioral changes and in developing life skills, leading to personal growth. It equips an individual with the competencies that help him/her to cope with day-to-day challenges of living and managing interpersonal relations, and improving interpersonal effectiveness.

The training program is a vital link in the process of converting the new recruit into a productive sales person. The time and money spent on recruiting and selecting sales may be wasted if their hiring is not followed up with a proper training program. Training is not only required by the new recruits but is also essential to the experienced sales persons to improve and enhance their productivity by learning new techniques of selling and handling customers in the ever-changing market scenario.

Thus, the two basic types of initial training are: Indoctrination for the new hires and continuous training or refresher training for the experienced sales persons.

12.2 Objectives

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

- Discuss the importance of sales training and strategic planning
- Identify the trainees and outline the role of seniors in training
- Determine training needs of individual sales representatives/sales manager
- Plan the structure and content of a sales training program.

12.3 Integrating Sales Training and Strategic Planning

Training objectives are tactical applications of the strategic goals of the company. Many aspects of sales training are affected by the company's strategic marketing plan. The sales training program, when properly coordinated with the company's objectives and strategies can help the company to implement that plan more effectively with better results. In today's competitive market place, customer's expectations from the products and services offered by the company have gone high, and therefore, there is an increasing pressure on the company to give better products as well as services to the customers. This can be achieved only when the sales people are effective in promoting the products and rendering services of the highest order. The sales people will be effective only when proper and appropriate training is imparted to them about the products, type of customers and their expectations, objection handling and customer servicing.

With products being launched by the companies becoming complex, sound product knowledge has become key to the success of a sales person. For example, the financial products launched by the banks and financial institutions are complex in nature and have various aspects of finance, and therefore the sales

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persons selling these products should have an in-depth knowledge of all financial terms as well as its implications, and this is only possible if the sales person handling these products is rigorously trained by the company. Apart from selling just products and services, sales persons are expected to build long-term relationships and provide solutions to their customer's problems. As a result, the selling process has become more interactive and situation specific. Many firms have adopted team-selling strategies in order to respond faster to customers' needs and expectations. In these strategies, the sales person works much more closely with people from other areas in the company, such as manufacturing, marketing, research, new product development and customer service. As a result, the scope of sales training has become much broader covering topics such as manufacturing technology, quality management, marketing management, teamwork, and other inter-personal skills for developing good relationship.

The company's marketing strategies and objectives provide the basis for establishing the objectives of sales training program. For example, if the marketing objective of the company is to increase the market share in a particular category of products or to become market leader then it has to impart special training to the sales persons in identifying new customer segments, market analysis, implementation of new strategies, how to overcome the competitors etc. If the marketing objective of the company is to improve its service quality, then it calls for a special training program in delivering effective customer services.

Therefore, the goals of training program should be clear, unambiguous, specific, precise and aligned to the company's goals and objectives. The company, therefore, should-

- Articulate the goal of the training program
- Communicate intent to the sales persons
- Provide means for evaluation of training program
- Assist in selection of materials, content and methods of training

Example: Integrating Sales Training and Strategic Planning by a Pharmaceutical Company

One leading Indian pharmaceutical company was keen to improve its sales team productivity as a continuous effort. To do this, it mapped the daily activities of its sales reps. It found that sales reps were spending much time in traveling to meetings, on gaming, and on social media. In view of this, the company decided to impart training in a "microlearning" style, in a personalized, engaged, and relevant learning delivered in short bursts on a platform that works both online and offline.

Contd....

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It incorporated gamification into learning modules, in-play rewards, with leader boards, and story lines with engaging character. In the three months of training, over 3100 reps who took up the training, improved their capability scores by 3% points every week.

The above information showed integrating strategic plans with sales training.

Source: Jaidit Brar, et al. (2019). Sales-force productivity in India: How the best organizations go from chasing targets to creating value. McKinsey. Retrieved from <https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/sales-force-productivity-in-india-how-the-best-organizations-go-from-chasing-targets-to-creating-value> (accessed on May 30, 2022)

12.4 Value of Sales Training

Sales training has become important because of the increased competition and diverse customer expectation. Most sales executives agree that training is a critical factor for the sales person's success. The sales person's product knowledge, understanding of customers need, and selling skills are directly related to amount of training received. Training can boost the confidence of the sales person and encourage them to put their skills to better use by trying harder than they did earlier. Training offers innumerable benefits to both the sales persons as well as the company. Trained sales persons can work more efficiently. They use promotional tools and sales promotion materials effectively. Training improves the knowledge of employees regarding the use of literatures and audio-visual presentations. Trained sales persons need not be put under close supervision by their supervisors as they know how to handle the customers and their objections independently. Trained sales persons show superior performance and become loyal and more useful to an organization. Training makes sales persons more efficient and effective by combining knowledge, skills, materials and tools. They can produce more with minimum effort. Training enables employees to achieve their career goals comfortably. Trained sales persons can avoid mistakes, accidents on the job and can handle sales tasks with confidence. They will be more satisfied on their jobs with high morale. Training can contribute to higher production, fewer mistakes, greater job satisfaction and lower turnover. It enables sales persons to cope with organizational, social and technological change.

Despite the advantages of the sales training, over one third of the companies do not give formal sales training to their sales persons. They merely give 'On the job training' as these types of the companies think that training is a wasteful expenditure. Yet, there are many companies who have adopted a very professional approach to sales, and are continuously training their sales persons on various aspects of sales management.

Example: AT&T's Purpose of Providing Training to its Salespeople

According to a Forbes article (2021), AT&T's (a US-based company) President of Worldwide Business, Frank Jules, stated, "The company considers and respects its salespersons as its most significant selling asset." The corporation invested in the training, development, and retention of its sales team. The company was enthusiastic about the future of its salesforce. The purpose of offering training was to enable the employees to comfortably attain their professional goals.

The above information showed the purpose of providing sales training.

Source: Stephen Diorio (2021). The Growing Talent Crisis In Sales. Forbes. Retrieved from <https://www.forbes.com/sites/stephendiorio/2021/11/16/the-growing-talent-crisis-in-sales/?sh=56ebbf73665c> (accessed on May 30, 2022)

12.5 Roles of Seniors in Sales Training

Seniors or experienced sales persons play a vital role in sales training. Selling skills get more polished and become effective with experience. Experience of meeting many customers and handling varied sale situations makes seniors the training academy for the new hires and inexperienced sales persons.

The experience gathered by the seniors in sales field is unmatched and probably many gurus of sales management would like to understand the actual and factual situations encountered by them. Because of this experience, the seniors are the guiding force for the new recruits.

Some of the areas where seniors share their experience and guide the new recruits' are:

- 1. Territory knowledge and Customer coverage pattern** - When the new recruit is assigned a territory, he is not aware of the territory i.e., the geography and the topography. In the beginning, it becomes very difficult for him to cover the territory effectively. Much time is wasted in finding the customers as well as the dealers or distributors. In such a situation, the seniors working in the territory for a long time assist and guide the new hire in coverage of the territory. They guide the new hires in finding the customers and their locations. They also guide them about the customer coverage pattern in the territory. For example, the new hire does not know the convenient time for meeting certain customers or certain customers meet sales people at a specific time of the day or on some specific days a rural market is closed. All this information is given by the senior sales persons in the territory.
- 2. Territory Customers knowledge** - The seniors working in the particular territory for a long time are aware of the potential or the business giving ability of the customers in the territory. They guide the new recruit to make a standard coverage plan of customers by informing the potentiality of each customer. This helps the new hires in making the standard visiting list or a must-see list.

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- 3. Core or important customers of territory** - In each territory, there are certain core or important customers for each company. The seniors in the territory, generally, part with this important information to the new hire. The seniors also give information about how to meet them and when to meet them.
- 4. Psychology/habits of various customers** - Customer in each territory has a specific psychology towards the sales organization or have specific habits or pattern of giving business. It is very difficult to understand their psychology and habits for the new hires. Sometimes, it takes years to understand the customers. As a result, there are many customers who do not give sales even though the sales representative is continuously meeting them. In such a situation, a senior working in the territory for long has a better understanding of the customers and can assist the new hire in knowing the customers' psychology or habits. For example, certain customers like the sales persons will present them gifts or free samples every time they visit, or some customers expect the sales person will offer them sponsorships or tours. These are things customers, generally, do not ask the sales people directly. But, a senior knows and accordingly, they can guide the new hires.
- 5. Travel pattern in the territory** - Every territory has a specific travel pattern, depending on the size of the territory and availability of various means of travel. For example, certain parts of the territory can only be covered by train or certain other parts by bus or by own vehicle. Certain towns or interior markets can be well connected to each other and can be covered in one direction or in a day. All such information cannot be gathered by the new hire even by using maps etc. but only with the knowledge and experience of the seniors in the territory. Another important aspect where a senior can help the new hire while travelling is to give information about availability of accommodation and good eating joints in the territory.
- 6. Knowledge about important retailers, dealers and distributors** - Seniors can give the information to the new hire about the important retailers, dealers and distributors.
- 7. Presentation and objection handling** - Seniors can give inputs and train the new hires about improving their presentation skills and how to handle objections from the customers. As the seniors are experienced, they understand what is to be presented and highlighted to which customers and what not to be presented and how to handle various objections from the customers. For example, in many companies the new hires are asked to work with senior representatives for a week or fortnight with the sole purpose of improving the selling skills of the new hires and give suggestions on self-development of the new hire. The senior also guides and trains the new hire on tricks to tackle various complex sales situations.

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- 8. Administrative functions of sales persons** - The important areas of administrative functions where a senior sales person can train the new sales representative are- Daily sales report writing, making of sales budget, sales forecasting, making of permanent itinerary, preparation of tour plan and tour report, expense statements, stocks and sales statements etc.

Example: Role of Senior in Sales Training at Hootsuite Company

According to a HBR article (2021), Hootsuite's (a Canadian based company) sales managers were instructed by the company to begin each weekly meeting with a narrative about how their service helped consumers. This allowed new recruits to have a better knowledge of the product's effect while also strengthening their commitment to the original concept. This improved their effectiveness in customer engagements.

The above information showed how the experience of seniors can help in training new recruits.

Source: Lisa Earle McLeod (2021). How to Scale Your Sales Team Quickly? HBR. Retrieved from

<https://hbr.org/2021/05/how-to-scale-your-sales-team-quickly> (accessed on May 30, 2022)

Activity 12.1

Meet some of your college alumni who have taken up sales job in a banking firm or a pharmaceutical company. Have conversation with them to understand the role of experienced senior sales executives in the training imparted to them. How did the new recruits benefit from the on-the-job training given by their senior colleagues?

Answer:

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1. Training is the act of increasing which of the following?
 - a. Knowledge and skills.
 - b. Knowledge and skills for doing a particular job.
 - c. Gaining knowledge about some field.
 - d. Developing skills on certain fields.
 - e. Developing attitude.

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2. Which of the following areas may not be covered under sales training imparted to sales persons?
 - a. Product training.
 - b. Type of customers and their expectations.
 - c. Objection handling.
 - d. Customer servicing.
 - e. Relationship with fellow employees.
 3. Which of the following about sales training is true?
 - a. The company's marketing strategies and objectives provide the basis for establishing the objectives of sales training program.
 - b. Sales training needs to be given only to new recruits.
 - c. Training needs are the same for all sales staff.
 - d. Class room training is best suited for experienced sales staff.
 - e. Only junior staff needs training.
 4. Which of the following is not the benefit of training to the sales person?
 - a. Trained sales persons can work more efficiently.
 - b. They use promotional tools and sales promotion materials effectively.
 - c. Trained sales persons need to be put under close supervision.
 - d. Trained sales persons can show superior performance and make them more loyal.
 - e. Training enables employees to secure promotions easily.
 5. Which of the following practices needs to be avoided by the companies before designing a sales training program?
 - a. Articulate the goal of the training program.
 - b. Communicate intent to the sales persons.
 - c. Provide means for evaluation of training program.
 - d. Assist in selection of materials, content and methods of training.
 - e. Assume that all salespersons have similar training needs.
-

12.6 Determining Training Needs of Individual Sales Representatives

A 'Training Needs Assessment', or 'Training Needs Analysis', is the method of determining if a training need exists and if it does, what training is required to fill the gap. A training need exists when there is a gap between what is required of a sales person to perform their work competently and what they know.

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The purpose of conducting a needs assessment is to prevent a quick fix approach to business problems.

The following are the reasons for training needs assessment.

- To determine whether training is needed and in what areas.
- To determine causes of poor performance.
- To determine content and scope of training.
- To determine desired training outcomes.
- To provide a basis of measurement.

There are three levels of needs assessment:

- Organizational analysis
- Task analysis
- Individual analysis

Organizational Analysis - Organizational analysis looks at the effectiveness of the organization and determines where training is needed and under what conditions it will be conducted. The organizational analysis should identify the environmental impacts, state of the economy and the impact on operating costs, changing work force demographics and the need to address cultural or language barriers, changing technology and automation, increasing global/world market places, organizational goals and resources available to the organization.

Task Analysis - Task analysis provides data about a job or a group of jobs and the knowledge, skills, attitudes and abilities needed to achieve optimum performance. Sources of information to conduct task analysis are Job description, KSA (Knowledge, Skills, and Attitude) analysis, Performance standards; observation of the work done by the sales representative or managerial judgment.

Individual Analysis - Individual analysis analyzes how well the individual employee is doing the job and determines which employees needs training and of what kind. Sources of information to conduct individual analysis are – Performance evaluation, observation, work samples and managerial judgment.

The assessment of training needs of the sales representatives provides the starting point for setting training goals and designing the training program. The sales manager uses this analysis to identify the weaknesses in the individual representatives and then designs training programs to eliminate them.

As far as the tasks and the individual analysis of the sales representatives are concerned, the sales manager must break down the broad objectives into specific training goals for each individual representative in areas such as improving product knowledge, methods of prospecting, probing methods, presentation skills, objection handling skills, closing techniques and relationship building skills or attitude development etc.

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Setting these specific objectives:

- Helps the trainer and trainee focus on the purpose of training.
- Guides the prioritization and sequence of training.
- Guides the choice of training methods.
- Provides a standard for measuring training effectiveness.

The objective of a sales training program will vary depending on the nature of trainees. The program designed to make a fresher into a professional sales person will be more comprehensive and will cover various aspects of individual development apart from sales process than a training program intended to refresh the selling skills of an experienced representative or training the existing representative on new product. Some training programs such as those for inexperienced sales representatives can be provided to all the sales persons in a standardized form. However, a major portion for experienced representatives should be based on identifying the needs of individual and then customizing the training as per the individual needs.

Example: ValueSelling Associates' Study Says Sales Training is Connected with the Needs of Employees

According to a Forbes article (2021), as per ValueSelling Associates' (a US-based company) study, good sales training had a significant influence on business success - even outside the sales department. Sales training was connected to employee happiness, employee engagement, staff retention, sales success, corporate culture, and enterprise agility across the board.

The above information showed why sales training is needed for individual sales representatives.

Source: Julie Thomas (2021). What Companies That Grew In 2020 Realize About Sales Training. Forbes. Retrieved from

<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2021/01/08/what-companies-that-grew-in-2020-realize-about-sales-training/?sh=445ef833c97f> (accessed on May 30, 2022)

12.7 Content of Training Program

The primary purpose of a sales training program is either to train people to sell or to enhance and improve their current selling skills. Therefore, major amount of training content is devoted to product knowledge and persuasive communication techniques and skills.

Apart from the persuasive selling skills, there are several factors which affect the success or failure of a sales person. These factors are: attitude of the sales person towards sales job, attitude towards self and company, attitude towards training or being trained.

The training contents for the new hire are different from the training content for the experienced sales persons.

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Common training contents of a standardized training program for new hires of the companies in sales are mentioned below:

- Knowledge about the company
- Knowledge about the products and its application and usages
- Knowledge of the customers and customer segments
- Knowledge of the competitive products
- Business or sector environment
- Sector terminology
- Sector technology
- Knowledge of sales process
- Knowledge on selling skills and closing techniques
- Knowledge of company's policies and procedures
- Knowledge on Legal and ethical aspects of selling
- Relationship building or customer relationship management
- Time management skills
- Planning skills
- Inter-personal relationship
- Improving presentation and communication skills
- Knowledge on administrative function
- Knowledge of manufacturing techniques (manufacturing plant visit) etc.

Example: Content of Sales Training Program at Sabre

Sabre, a leading technology solutions provider for the travel industry, implemented SAP Litmos (learning management system-based) training for their sales force. The old method of training sales reps included monthly conference calls and some documents were shared through content repositories. These methods weren't effective because there was no way of tracking accomplishments and many teams weren't available to join these calls. The company needed an efficient and effective method to train its sales teams.

After implementing the SAP LMS in place, the company was able to create on-demand eLearning courses, which all sales reps can launch anytime, from anywhere in the world, on any device. The required content of the training programs was accessed by the sales employees. Moreover, the Learning and Development (L&D) team could get instant reports to track the progress of training employees. The company saved a significant amount of time, resource hours, and cost.

Source: <https://elearningindustry.com/examples-of-highly-successful-sales-training-programs>, April 13, 2020 (accessed on July 20th 2022)

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Activity 12.2

Meet sales persons known to you in your neighborhood. Engage in a conversation to understand the following aspects relating to the training given to them:

1. On what specific area or areas were they trained?
2. Was it classroom training or on-the-job training?
3. Who conducted the training? Was the trainer, a senior salesperson with experience? Was he/she from the company itself or an expert from outside the company?
4. Where was the training conducted?
5. What methods, and techniques were used by the trainers to train the trainees and how long it lasted?

Present the information as a report.

Answer:

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12.8 Use of Factual and Practical Situations in Sales Training

Selling techniques are best learnt by participation methods. The various participative methods used by various companies are:

Discussions - Discussion plays a large role in any sales training program since it gives the trainees to work through their own problems. It is the best method for making the experience of a competent and successful sales person available to the trainees. It is also the best method where a successful sales person can share, exchange thoughts on various selling techniques, factual and practical situations through his experience. Discussions can take various forms. It can be simply an open discussion between trainer and trainees or between trainees themselves such as group discussions, focus group, round tables or discussions on a case study on selling situations and successful sales persons.

Role plays and demonstrations - In a role play, the trainee attempts to sell a product to another person who plays the role of a prospect. Situations are given to the trainee on various aspects like sales presentation, negotiations, closing or asking questions for probing. The trainee then performs the act in front of the trainer and other trainees. After the role play has been performed, the other trainees are asked to give their feedback and comments. Role play is one of the

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best methods for practising various factual and practical situations in sales as it gives practice to the trainees before meeting the customers and improves their confidence levels in dealing with various sales situations. The role plays are often recorded and shown to the trainees for their improvement. Demonstrations are also given by the trainers or the experienced sales people on how to address different sales situations. Then, the trainees are asked to practise the same by giving demonstrations to each other.

Films and recordings of selling situations & successful sales persons - Films and recordings on various selling situations are also being practised many companies to train their trainee sales representatives. Films that showcase successful sales are screened for the benefit of trainees. Trainees can infer how and where a successful sales person meets a customer and gives presentation of the products. Further, trainees can also learn more about the probing questions asked and how the questions are handled to close the sale favourably. The trainees are asked to observe and analyze the sales call. The trainees are then asked to present all the positive and negative aspects of the calls and the reasons why the call was successful. Lot of practical and factual learning is imparted by this method.

Example: HPEFS using VR for Role Plays

HPE Financial Services (HPEFS) senior management required a plan to maximise sales representative training before the reps interacted with their valued, high-level customers. They selected to test a VR solution with 340 sales employees, who each took part in a 30-minute role-playing exercise with an avatar designed to imitate a C-level customer. These role plays were used by managers to determine if the employee should get Basic, Intermediate, or Advanced level training.

The above information showed use of practical situations in sales training.

Source: Jeanne C. Meister (2021). How Companies Are Using VR to Develop Employees' Soft Skills. HBR. Retrieved from

<https://hbr.org/2021/01/how-companies-are-using-vr-to-develop-employees-soft-skills> (accessed on May 30, 2022)

12.9 Computer Based Training Programs - e-Training and M-Training

E-learning is a formalized system of learning that uses electronic technologies to impart knowledge and skills. In the digital era, computers and internet form the primary components of e-learning. In the early stages, the e-learning system was not accepted because it lacked human element. The millennials and the Generation X use devices like laptops, tablets and smart phones to such an extent that these devices have gained importance even in regular classroom sessions. Books can be stored in pen drives or in optical devices. Educational content can

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be shared through internet or YouTube videos. Students can therefore access content 24/7 anytime and anywhere in the world. Apps like Zoom enable video conferencing, thus enabling a live and interactive virtual classroom session.

Components of E-Learning: The major components of the online learning environment include the audience, course structure, the learning page, content engagement and user friendliness of the learning environment.

- At the center is the audience, who are the sales trainees in the case of online sales training programs. The planning, design and development of the training program is done with the sales trainees in mind. The needs, expectations, skill levels of trainees are considered while structuring the course.
- The second component is the course structure itself, which determines how the trainees would learn and how the program is presented to them in logical modules. The use of interactive sessions, group sessions and other formats form a part of the course structure.
- The learning page is the third important factor. The right balance between text, pictures and graphics, the appearance of the page, use of white space, grouping of information, use of pop ups etc. are some of the tools used to design the learning page.
- Content engagement, the fourth component is very important because it enhances learning experience. When learning is enabled through activities, learning exercises and interactive sessions the content management is effectively done.
- The usability or the ease with which trainees can access, navigate and participate in the program is the fifth component.

Many companies are increasingly adopting web based or computer-based training to save cost and time. With the advancement in communication technology-training and M-training through internet or apps is being given. For instance, an app like WhatsApp has become very common. Lot of information is transferred within no time to far and remote areas. Training inputs are given through these modes in the form of sending product information, new product development, success stories of other sales persons in different parts of the world, videos and clippings of various happenings like conferences etc. The mode is also being used for sending motivational videos or videos involving some difficult selling situations. With these modes the trainee sales representatives can immediately consult their trainers or sales managers with regards to any problems they are facing and get immediate solutions for the same. The mode is very convenient as the sales representatives are constantly moving and they can be kept updated on latest information.

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For example, companies such as IBM and AT&T are using blend of online training and face to face training. Online training focuses on basic skills and knowledge, such as introductory classes, new product information or customer updates. Face to face training can be reserved for teaching and practicing more advanced selling skills. IBM launched the Basic Blue management training program for its managers. Basic Blue was an in-house training program for the new managers. It imparted 75 percent of the training online and the remaining 25 percent through the traditional class room method. The e-learning part included articles, simulations, job aids and short courses.

Mobile Learning: Mobile Learning or M-Learning is the delivery of knowledge and skills on mobile phones or tablets. Smart phones and tablets are so widely used by people worldwide to communicate, shop, make payments, transfer money and search for information and also get directions to geographic locations. The convenience of smart phones as a device is because of portability and the range of activities that can be performed 24/7 anytime, anywhere in the world. MP3 players, notebooks, smart phones and tablets and similar portable devices are M-Learning aids. Sharing of M-Learning content can be done instantaneously and the sender of the message can also receive instant feedback from the receiver. A Notebook or Kindle can replace books and downloading books in these portable devices is cost effective. Smartphones powered with internet connection enables a learner to subscribe to learning groups. Communities and networks.

The sales training program in the case of M-learning like any other training program needs to planned keeping in mind the sales trainees. Curriculum experts plan the course structure to keep the trainees engaged and immersed in learning activities. Designers in turn analyze the target audience and work hard to optimize aspects like color, space, icons, button size, flow and navigation. Tech support must be there to ensure that there is continuous and reliable internet to facilitate virtual learning sessions. To sum up, to make M-Learning successful, sales trainers, sales trainees, curriculum specialists, designers (of web or apps), IT administrators must do their part in collaboration with each other.

Example: FareHarbor Virtual Training

According to a Forbes article (2020), during the COVID crisis, software startup FareHarbor (a Netherland-based software company) organised virtual learning sessions for its sales members in which a few representatives would listen to one other's conversations and learn how to pitch, provide information, and address objections.

The above information showed the virtual training of sales people.

Source: Steli Efti (2020). How To Coach A Remote Sales Team: 7 Steps Successful Sales Leaders Are Taking Now. Forbes. Retrieved from <https://www.forbes.com/sites/steliefti/2020/06/25/coach-remote-sales-team/?sh=681203bd6ece> (accessed on May 30, 2022)

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12.10 Accompaniment Calls (On-call Training)

Accompaniment or on-call training is the most popular form of sales training. Majority of companies involved with direct sales such as pharmaceutical or finance companies use on-call training as the major training method for their sales representatives. In Accompaniment or on-call training, a senior sales person accompanies the trainee representative for the sales calls. Initially, the senior representatives do the sales presentation or detailing to the customers on some calls and the trainee representative observes the presentation of the senior sales representative and other things that happened during the calls. Later, the trainee sales representative makes several calls and the senior sales representative observes the presentation and other activities done by the trainee and coaches the trainee on various shortcomings or the lacunas during the call. The senior representative asks the trainee to analyze each call as to what went right and what went wrong during various calls and advises the trainee on what actions to be taken or how various situations could have been handled more effectively. This method places the trainee in a more realistic sales situation than any other method of training. Generally, the accompaniment training is done after the trainee has undergone classroom training and is used as final stage of sales training.

Follow-up training: After the formal training programme is over and the sales representative has completed the Accompaniment or on-call training, follow-up training is generally given by the sales managers to the representatives when they visit the sales representative's territory. In pharmaceutical industry, accompaniment training is most commonly used during the training period of a medical representative. A sales manager accompanies the medical representative to calls and continuously coaches the representatives and ensures follow-up training.

Example: Unison Call Training

According to a Forbes article (2020), Unison (a California-based company) recorded (with permission) sales representative interactions and utilised the recordings to teach new hires. It arranged frequent pitch practise sessions for new employees with the sales manager, and it allowed the new hires the time they needed to gain confidence in the company's product and procedure.

The above information showed one of the methods of sales training.

Source: Forbes Expert Panel (2020). Train Your Sales Team With These 15 Effective Techniques. McKinsey. Retrieved from

<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2020/04/28/train-your-sales-team-with-these-15-effective-techniques/?sh=11ff4dec1c8b> (accessed on May 30, 2022)

Check Your Progress - 2

6. One of the following is not the reasons for doing training needs assessment.
 - a. To determine whether training is needed and in what areas.
 - b. To determine causes of poor performance.
 - c. To determine content and scope of training.
 - d. To determine desired training outcomes.
 - e. To provide a good performance appraisal.
 7. Which of the following statements relating to setting specific training objectives do not hold good?
 - a. Helps the trainer and trainee focus on the purpose of training.
 - b. Guides the prioritization and sequence of training.
 - c. Guides the choice of training methods.
 - d. Provides a standard for measuring training effectiveness.
 - e. Sales training objectives should always be focused on achieving sales.
 8. Which of the following options relating to what areas a sales training program needs to include is correct?
 - a. Knowledge about the company.
 - b. Knowledge about the products and its application and usages.
 - c. Knowledge of the customers and customer segments.
 - d. Knowledge of the competitive products
 - e. Comprehensive knowledge about company, its products, customers, competition and market.
 9. Factual and practical situations in sales cannot be learned effectively by which of the following methods?
 - a. Discussions method.
 - b. Case study method.
 - c. Role plays method.
 - d. Lecturing method.
 - e. Videos and films.
 10. Who should be given sales training?
 - a. New hires.
 - b. Experienced sales people.
 - c. Dealers and distributors.
 - d. Sales managers.
 - e. All employees of sales department including sales managers.
-

12.11 Summary

- Training is the act of increasing the knowledge and skills of an employee for doing a specified job.
- It helps the trainees acquire new skills, technical knowledge, problem-solving ability etc. It also gives an awareness of the rules and procedures to guide their behavior, thereby, improving the performance of employees on the present job and prepares them for taking up new assignments in future.
- Training remains a key tool for enhancing job-related performance and organizational effectiveness. Its value is being increasingly acknowledged in engendering behavioral changes and in developing life skills, leading to personal growth.
- Training equips an individual with the competencies that help him/her to cope with day-to-day problems of living and managing inter-personal relations, improving his/her inter-personal effectiveness.
- The training program is a vital link in the process of converting the new recruit into a productive sales person. Training objectives are tactical applications of the strategic goals of the company. Many aspects of sales training are affected by the company's strategic marketing plan. The sales training program, when properly coordinated with the company's objectives and strategies can help the company to implement that plan more effectively with better results.
- Sales training has become important ever before, because of the increased competition and diverse customer expectation. Most sales executives agree that training is a critical factor for the sales person's success.
- The sales person's product knowledge, understanding of customers need, and selling skills are directly related to amount of training received. Therefore, all the people involved in selling should be trained like- new hires, experienced sales people, dealers and distributors and sales managers.
- A 'Training Needs Assessment', or 'Training Needs Analysis', is the method of determining if a training need exists and if it does, what training is required to fill the gap.
- The assessment of training needs of the sales representatives provides the starting point for setting training goals and designing the training program. The sales training program is different for the new hires and experienced sales people and mainly includes product knowledge, customer knowledge as well as competitor's knowledge.
- Various methods like use of factual situations like role plays etc. and on-call training can be given to improve the effectiveness of a sales person. Lately e-training and M-training is gaining importance as an alternative to structured classroom training.

12.12 Glossary

Accompaniment Calls: Sales calls where a senior sales representative accompanies a trainee for call for giving him on-call training.

Training Content: What the training program should deliver in terms of knowledge and skills development.

Training Evaluation: All the measurements done to measure the effectiveness of training.

Training: It is the act of increasing the knowledge and skills of an employee for doing a specified job.

Training Methods: All the techniques employed by the trainers to develop knowledge skills and attitude of a sales person.

Training Needs Assessment (TNA): It is the method of determining if a training need exists and if it does, what training is required to fill the gap.

12.13 Self-Assessment Test

1. What is training? Why should sales persons be trained? Discuss.
2. “The company’s marketing strategies and objectives provide the basis for establishing the objectives of sales training program.” Design a training program for sales representatives with the objective of company as customer servicing.
3. Training offers innumerable benefits to both the sales persons as well as the company. Discuss.
4. “Experience of meeting many customers and handling varied sales situations makes seniors of the training academy for the new hires and inexperienced sales persons.” Discuss the role of seniors in training new sale person.
5. Discuss the importance of ‘Training Needs Assessment’, or ‘Training Needs Analysis’.
6. “The primary purpose of a sales training program is either to train people to sell or to enhance and improve their current selling skills.” What are the contents of a standardized sales training program?
7. Discuss the use of factual and practical situations in sales training.
8. What is the importance of Accompaniment or On-call training?
9. Write an essay on the importance of web-based training.

12.14 Suggested Readings/Reference Material

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.

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3. Tapan K. Panda and Sunil Sahadev (2019). “Sales and Distribution Management,” 3rd edition, Oxford University Press.
4. Krishna Havaladar 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.

12.15 Answers to Check Your Progress Questions

1. (b) Knowledge and skills for doing a particular job

Training is given for developing the knowledge and skills for doing a particular job.

2. (e) Relationship with fellow employees

Performance of sales people will improve when proper and appropriate training is imparted to them about the products, type of customers and their expectations, objection handling and customer servicing. However, sales training generally does not cover areas like inter-personal relationship.

3. (a) The company’s marketing strategies and objectives provide the basis for establishing the objectives of sales training program

The company’s training objectives are based on marketing strategies. Specific training programs are in turn designed based on the broad training objectives. All other options that have statements that restrict the objectives of sales training are not true.

4. (c) Trained sales persons need to be put under close supervision

If the sales person is properly trained, he/she will not need close supervision. Hence, this statement relating to sales training is not true. All other statements are true.

5. (e) Assume that all salespersons have similar training needs

Before designing the sales training program, the company should-

- Articulate the goal of the training program.
- Communicate intent to the sales persons.
- Provide means for evaluation of training program.
- Assist in selection of materials, content and methods of training.

Unit 12: Developing, Delivering and Reinforcing a Sales Training Program

Option 'e' states a wrong practice that needs to be avoided before designing a sales training program. Sales persons have different training requirements. Hence such an assumption needs to be avoided.

6. (e) To provide a good performance appraisal

The following are the reasons for doing training needs assessment.

- To determine whether training is needed and in what areas.
- To determine causes of poor performance.
- To determine content and scope of training.
- To determine desired training outcomes.
- To provide a basis of measurement.

7. (e) Sales training objectives should always be focused on achieving sales

Setting specific training objectives-

- Helps the trainer and trainee focus on the purpose of training.
- Guides the prioritization and sequence of training.
- Guides the choice of training methods.
- Provides a standard for measuring training effectiveness.

However, option 'e' which states that sales training objectives should always be focused on sales performance' is not true. Sales training can be on areas like 'ethics', which may not directly lead to sales.

8. (e) Comprehensive knowledge about company, its products, customers, competition and market

The major contents of any sales training are-

- Knowledge about the company.
- Knowledge about the products and its application and usages.
- Knowledge of the customers and customer segments
- Knowledge of the competitive products.

9. (d) Lecturing method

Lecturing method is effective in giving specific knowledge but not very effective in learning practical situations in selling.

10. (e) All employees of sales department including sales managers

All the people involved in selling should be trained like new hires, experienced sales people, dealers and distributors and sales managers.

Unit 13

Time and Territory Management

Structure

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Sales Force Selection and Strategic Planning
- 11.4 Importance of a Good Selection Program
- 11.5 Scope of Sales Force Staffing Process
- 11.6 New Sources of Recruitment
- 11.7 Summary
- 11.8 Glossary
- 11.9 Self-Assessment Test
- 11.10 Suggested Readings/Reference Materials
- 11.11 Answers to Check Your Progress Questions

“Keep your sales pipeline full by making prospecting continuously. Always have more people to see than you have time to see them.”

- Brian Tracy, (CEO of Brian Tracy International)

13.1 Introduction

A sales person should always keep their sales pipeline full by adding prospects from their assigned territory continuously. One should always maintain higher ratio - more people to see than having time to see them.

In the previous unit, we discussed the importance of recruitment of sales personnel, the personality traits that are essential in a salesperson, how to select sales personnel, the components of sales training program and different types of training programs. The present unit will discuss time and territory management.

One of the most precious things in life is time. How the available time is utilized determines the success of an individual. Therefore, managing time skillfully should be one of the most important activities of a salesperson. The productivity of the sales force can be improved by developing effective strategies for time management.

In this age of the Internet and mobile communications, the time required for communicating has reduced drastically. Modern firms consume just a fraction of the time that was taken by traditional organizations to perform various activities. Paradoxically, however, technological advancements have also put immense time

pressure on salespersons, who now have tighter deadlines to meet. He has to efficiently manage his time to improve his performance and productivity.

This unit will discuss the importance of time and territory management in sales organizations. It also explains the criteria and methods for designing territories, the procedures to be followed while developing territories and how to operate the territory management system.

13.2 Objectives

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

- Describe the importance of time and territory management
- Discuss the process to operate territory management system

13.3 Time Management and Its Importance

While planning activities in advance will help salespersons to efficiently manage their time, the plan should be flexible enough to accommodate necessary changes.

In addition to efficiently managing his sales time, a salesperson also needs to know how to manage his scrap time that is the bits and pieces of his time that gets wasted in unproductive activities.

Efficient time management in a sales organization offers several benefits. These include: better market coverage, reduced selling costs, improved customer service and accurate evaluation of the sales force.

13.3.1 Better Market Coverage

Efficient time management by the sales force leads to better market coverage. Salespeople must be careful about the way they spend time and money to attract customers. The amount of time and money expended must be proportionate to the size of the account.

Sales reps can use promotional material such as brochures and pamphlets during their sales presentation to communicate better to customers. Use of these tools will facilitate better customer acceptance of the product. Also, salespersons can use appropriate software packages to improve their sales presentations. These specialized applications allow sales representatives to anticipate possible customer queries and come up with solutions to satisfy them. Customized solutions, in the form of spreadsheets and charts, not only help in convincing customers regarding the utility of the product but also help the salesperson in utilizing his time effectively.

It is generally found that salespersons fail to allocate time to customers proportionate to the size of their account. At times, a salesperson might spend a large amount of time with prospects who bring in very little business, while he

Block 3: Organizing the Sales Efforts

may spend very little time on prospects who have the potential to give a large amount of business to the organization.

In order to ensure better coverage of the market, a salesperson can begin by assessing the purchasing capacity of the prospects (preferably on an annual basis). He can base this assessment on the product classification of the sales organization. Subsequently, the salesperson needs to assess the consumption patterns of customers to assess the quantity of the product required. After estimating the profitability of each customer and the amount of time needed for each account, the salesperson can remove unprofitable customers from the list of prospects. The salesperson can thus cover the market efficiently by identifying prospective customers who are willing to give business to the company.

Once a salesperson knows the amount of business each customer is likely to give, it becomes easy for him to allocate proportionate time for each account based on the profitability of the account.

Example: Cloud Analytics' Sales People Time Management Strategy

According to a HBR article (2022), the sales agents in Asia Pacific at Cloud Analytics, a \$10 billion B2B global technology firm, had a big number of clients on their books, and they spent a lot of time seeking to get meetings with new customers rather than really talking to them. This was a waste of time, but two of the salesmen made progress by sending communications based on templates and adding suitable standardised information. This messaging technique has gotten a lot of attention. The general manager was impressed with the time saving potential of this approach and decided to automate few of the sales processes to back this approach for attaining new customer segment.

The above information showed how sales agents managed their time by using messaging template and hence it provided them a better market coverage.

Source: Ian Gross and James Piacentino (2022). Is Your Sales Strategy Worth Scaling? HBR. Retrieved from

<https://hbr.org/2022/04/is-your-sales-strategy-worth-scaling> (accessed on June 3, 2022)

13.3.2 Reduced Selling Costs

Some salespersons approach the wrong targets, that is, persons who are not the crucial decision-makers in an organization. Others irritate customers to the point that they give business to the salespersons just to get rid of them. This will prove very costly to the company in the long run, as customers will develop a negative perception not only of such salespersons but of the company as well. These salespersons are responsible for the company's loss of goodwill among customers.

The steps discussed below help sales representatives manage their selling time efficiently and significantly reduce the selling cost of the company.

- Identify the customer and the crucial decision maker, so that wastage of time and money in pursuing other people can be avoided.
- Approach the customer in a professional way. Give a realistic picture of the product and its benefits, provide appropriate solutions to the needs of the customer, and present a practical analysis of the competitor(s). An organized approach builds a positive picture in the mind of the customer. It helps increase sales, decrease sales costs by reducing the necessary number of sales calls. The approach will also help identify the most important and urgent needs of the customers and try to solve these while ignoring things that are of no importance to the customer. This helps a salesperson achieve his goal of reducing selling costs by managing time effectively.

13.3.3 Improved Customer Service

Managing time effectively helps a sales representative maintain good customer relations and provide efficient customer service. In order to improve relations with the customer, the salesperson can send a personalized mail and ensure that there is proper communication between them. One advantage is that the customer will receive the salesperson warmly if the latter takes an appointment before making a sales call. Also, prior study of the customer's buying habits will help the salesperson avoid asking irritating questions. Further, time management tools such as sales force automation help a salesperson considerably improve his customer service abilities.

13.3.4 More Accurate Evaluation of Sales Force Personnel

When salespeople plan their activities and prioritize them according to importance, there are greater chances that they will put their best efforts into achieving sales targets. When salespeople manage their time efficiently, it becomes easier for the Sales Manager to evaluate the sales force accurately.

Activity 13.1

ITC Foods Limited is planning to enter a new market with its Sun feast Pasta Treat. While training its sales force, the sales training manager of ITC Foods wants to instill the importance of managing time effectively in each salesperson. What are the various points that he can explain to emphasize time management by his sales force?

Answer:

Check Your Progress - 1

1. Which of the following helps a salesperson to achieve better market coverage?
 - a. Assessing purchasing capacity of prospects.
 - b. Approaching the customer in a professional way.
 - c. Sending a personalized mail to the customer.
 - d. Identifying the crucial decision maker.
 - e. Sending SMS messages to customers.
 2. Effective time management translates into good customer service. For this purpose, which of the following activities should the salesperson not undertake?
 - a. Take an appointment before making a sales call.
 - b. Approach persons regardless of their influence in the purchase decision.
 - c. Use sales force automation tools.
 - d. Study the customer's buying habits to ask relevant questions.
 - e. Study the customer profile to engage in relevant conversation.
-

13.4 Territory Management and Its Importance

A sales territory comprises a number of present and potential customers located within a given geographical area. It is assigned to a salesperson, branch, or intermediary (retailer or wholesaling intermediary).

Territory management has gained increasing importance due to the increasing costs of making sales calls. By assigning specific territories to salesmen, the management of a sales organization can significantly bring down the costs of making sales calls.

Most sales territories are designed geographically because it is easy to do so. However, geographically designed territories are not always profitable because assignment of territories on a geographical basis may result in unequal concentration of customers. In other words, it may happen that one geographical area of a city may contain elite customers while another area may contain people belonging to low-income households. In such situations, while the salesperson covering the former area can produce significant sales, the one covering the other area may fail to produce even the bare minimum of sales. Therefore, while designing and managing territories, the characteristics of the prospects and customer groups, transportation facilities in the territory and skills of the salesperson should be considered.

13.4.1 Benefits of Territory Management

Designing and managing territories in an efficient and effective manner has many benefits for an organization. These benefits include: better customer coverage, increased sales, lower transportation costs and better performance evaluation.

Better customer coverage

If the salesperson is burdened with high work pressure, he will not be able to cover all the important and prospective accounts in his territory. By concentrating on smaller accounts, the salesperson might lose out on good market opportunities. On the other hand, salespeople working in territories that have very little workload may spend much of their time on unprofitable accounts. Therefore, managing territories is an essential aspect of sales management. Territory management helps ensure that areas with a lot of potential are given to salespersons who have the expertise to handle such work pressure. Through territory management, a sales manager can ensure that no prospective customer is missed out, thereby leading to better market coverage.

Increased sales

Poor territory design and management cause companies to lose millions of dollars' worth of sales. By allocating territories to the salespersons in an equitable manner, sales managers can ensure that no salesperson gets too big or too small a territory. In this way, the sales of the organization can be enhanced significantly.

Equitable rewards

Imagine a situation where two salespersons with almost equal capabilities and motivation are assigned two different territories, one full of potential customers and the other not so. In such a case, the performance of the two salespersons will differ significantly. The salesperson having the territory with greater potential will naturally achieve higher sales, and hence, better rewards, compared to the salesperson having to cover the territory with less potential. Such allocation of territories and compensation of performance on this basis is completely unfair. The sales manager, by offering rewards in this manner, is in fact rewarding the territory and not the salesperson. Proper territory management helps in overcoming such discrepancies and ensuring equitable rewards to salespersons.

Reduced traveling costs

Good territory design and management helps a company reduce the traveling costs incurred by salespersons. Fuel and automobile expenses can be greatly reduced by efficient territory design. Moreover, lesser travel gives the salespersons more time to concentrate on their selling activities and also allows them more time to spend with their family, thus increasing their morale.

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Example: LINCO Targeting Industries with Higher Concentration of Business

According to a Forbes article (2020), Evan Patterson, VP of LINCO (a California-based industrial products supplier company), stated that LINCO dealt with industries, such as medical devices and aerospace, and have a higher concentration of particular types of businesses. LINCO trained its salespeople on how to sell into that particular industry. Each industry had decision-makers in various departments. The company did not assign a sales rep to a particular territory if he/she does not match with territory. LINCO aligned sales reps that match with the tendency of territory to enhance the company's sales.

The information presented above demonstrates how LINCO does territory management to enhance sales.

Source: Forbes Expert Panel (2020). 13 Strategic Ways To Organize And Optimize Sales Territories. Forbes. Retrieved from

<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2020/04/20/13-strategic-ways-to-organize-and-optimize-sales-territories/?sh=3faa20856707> (accessed on June 3, 2022)

Activity 13.2

TNT India, a courier company, has always followed the direct marketing route in the business-to-business segment to increase its customer base. The company is now considering the use of territory management to improve its sales process. Which method would you suggest to TNT for designing territories? What are the benefits it would get out of territory management?

Answer:

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Check Your Progress - 2

3. Territory management results in tremendous benefits to the sales function. Which of the following is not a characteristic of efficient territory management?
 - a. Inequitable rewards to salespersons.
 - b. Better customer coverage.
 - c. Reduced traveling costs.
 - d. Increased sales.
 - e. Effective time and cost management.

Activity 13.3

The Times of India (TOI) is a leading newspaper. TOI wants to enter into a new city as its new market. It needs to do serious planning with regard to allocation of sales teams to various territories. Explain the criteria that the Times Group should take into consideration for designing appropriate territories in Chennai.

Answer:

Check Your Progress - 3

4. In a situation where a salesperson is forced to spend a lot of time in traveling, while covering the assigned territory, which aspect of territory designing has been overlooked?
- Adequate coverage.
 - Sufficient potential.
 - Minimum impediments.
 - Reasonable size.
 - Customer profile.

Activity 13.4

Balan Natural Foods Pvt. Ltd. (Balan), a Bangalore-based contract manufacturer of juices and drinks, has decided to enter the growing market of juices and drinks by launching its own brand 'MirunaYo', a yogurt-based drink, in different markets in India. The sales manager of this company is deliberating on the issue of developing territories for selling this product. Enumerate the various factors that he should take into consideration in this context.

Answer:

Check Your Progress - 4

5. Which is the correct combination for assigning territories to sales personnel?
- a. Smaller territory - new salesperson.
 - b. Smaller territory - experienced salesperson.
 - c. Larger territory - new salesperson.
 - d. Difficult territory - new salesperson.
 - e. Medium-sized territory- new salesperson.

13.5 Operating the Territory Management System

A sales manager should be very careful in managing the sales territories under him. He should see that he neither exercises too much control nor provides too much liberty to the sales personnel. Either of these will have a vital impact on sales force performance. Sales managers can efficiently manage their sales territories by routing the movements and scheduling the activities of salespersons so as to maximize the efficiency of their sales efforts.

13.5.1 Routing

Routing involves the measures taken by sales management to minimize the travel expense, travel time and total distance traveled by salespersons. Routing also takes into consideration the call frequency and the length of time that needs to be devoted to each account. While routing a salesperson's movement, focus should be on reducing his travel time, and at the same time, increase the territory coverage. Proper routing should be developed for the salespersons so that the entire territory is covered efficiently and effectively.

Routing the movement of salespersons is a very difficult and complex process, since customers do not live in areas where salespersons can approach them easily. Moreover, customers will not meet the salespersons according to salespersons' convenience but according to their own convenience. Therefore, salespersons need to adopt a route that will take all these aspects into account. Having a pre-set plan for daily sales calls is very important for a salesperson. Absence of such a plan will dilute his efforts.

Routing involves identifying the existing and prospective customers according to their account sizes and business potential and highlighting them with different colors on a map. Certain other aspects that need to be considered are the climatic conditions, transportation facilities, ensuring minimal distance between two consecutive calls and planning things in such a way that the salespeople do not go through the same geographical locations more than once while meeting clients.

There are basically three patterns which form the basis for effective sales call planning. These are straight-line pattern, cloverleaf pattern and hop-sotch pattern.

In straight-line pattern, the salesperson identifies the customers at the far end of his territory and calls on that customer and works backwards towards home or office, making sales calls on customers on the way back.

The cloverleaf pattern of routing is used if the territory is big. In this pattern, the salesperson meets the customers along a cloverleaf-like route consisting of adjoining circular sequences. In this pattern, the time period for the territory coverage is normally scheduled in terms of weeks.

In the hop-scotch pattern of routing, the salesperson makes sales calls by following a hub-and-spoke pattern. In this pattern, the salesperson's office/residence forms the central hub and the path traveled by him on his sales calls from the different spokes that emerge from the central hub. In the hopscotch pattern of routing, the salesperson starts making sales calls from the place farthest from the hub and work backwards towards it in a zig-zag manner.

Activity 13.5

In Aventis Pharma, each sales associate has appointments, meetings, lunches, and routing schedules planned in advance for each day. What could be the reasons for Aventis to do so? What are the types of routing available to the sales manager for effectively planning the movements of the Aventis sales team?

Answer:

13.5.2 Scheduling

Scheduling refers to the allocation of appropriate time to all the activities that salespersons carry out during a day, week and a month. This involves planning the activities by taking into consideration the waiting time at the customer's place, the traveling time based on past data etc. The time estimate should then be used to schedule the salespersons' activities, keeping in mind variables like the fact that the waiting time may vary from customer to customer. Some additional time should also be provided for the salespersons in their daily schedules to give them some flexibility to meet contingencies.

Territory coverage by sales personnel

A few salespersons manage their territories excellently by allocating time proportionate to the size of each account and its importance to the organization. But a majority of salespersons spend substantial time either on their favorite

Block 3: Organizing the Sales Efforts

accounts or on smaller accounts, and may even encroach upon the territory of other salespersons. A sales manager should therefore try to explain his field staff about the importance of prospecting new accounts and also restricting themselves to their territories. The sales manager may further help them in planning their sales calls before making the field visits.

Initially, salespeople should carefully study a map of their territory so that they can plan an economical and profitable manner of covering the area. However, this plan should be flexible enough not to restrict the selling efforts of the salesperson and should allow him to make changes if necessary.

Example: Sales People Scheduling at Zoll

Zoll, a US-based medical devices company, was facing issues in reaching and covering territory. To get assistance, it approached Badger Maps, a sales management company, where Badger Maps designed customized mapping solution for scheduling daily sales reach. After implementing the solution, Zoll witnessed an increase in productivity of sales. One of its reps said he used to spend 2-3 hours a week in planning of schedule. But after using Badger Maps, he saved that time as Badger Maps gives customized scheduling while on-the-go.

The above information showed how sales people at Zoll do scheduling.

Source: Zoll Case Study. Retrieved from

<https://www.badgermapping.com/customers/> (accessed on June 3, 2022)

Check Your Progress - 5

6. What is the term used for allocating appropriate time to all the activities of a salesperson?
 - a. Routing.
 - b. Covering territory.
 - c. Developing territory.
 - d. Scheduling.
 - e. Territory designing.
7. Identify the pattern that is not used for sales routing purposes.
 - a. Workload method.
 - b. Hopscotch method.
 - c. Cloverleaf pattern.
 - d. Straight-line method.
 - e. Mapping method.

8. Which of the following two factors are minimized by routing?
- Travel time and call frequency.
 - Call frequency and time taken per call.
 - Travel distance and travel time.
 - Territory coverage and territory design time.
 - Call frequency and travel time.
-

13.6 Summary

- Effective time management will significantly help a salesperson improve his performance. It leads to better customer coverage, helps in reducing selling costs, improving customer service, and helps in accurate evaluation of salespeople.
- A sales territory comprises a number of present and potential customers, located within a given geographical area and assigned to a salesperson, branch, or intermediary.
- Sales territories should be designed efficiently so that the potential of salespersons can be exploited to the maximum.
- Sales territories are designed using the three methods – buildup method, breakdown method and incremental method.
- Routing and scheduling are two widely accepted techniques for territory management.
- Routing refers to the process of deciding the pattern of movement of a salesperson in his territory for making sales calls in a way that minimizes the total distance traveled, the travel expense and the travel time.
- Scheduling involves allocation of time to the various activities that a salesperson is involved in --- during a day, week and a month.

13.7 Glossary

Market Potential: Market potential refers to the estimated maximum total sales revenue of all suppliers of a product in a market during a certain period.

Target Market: Target market is the market segment to which a particular product is marketed.

Territory: Territory is the geographical area or type of customers assigned to a sales unit such as salesperson, sales manager, franchisee, distributor, or agent.

13.8 Self-Assessment Test

1. Analysts opined that efficient time management in a sales organization offers several benefits. What are the benefits of time management in a sales organization?

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2. Territory management has gained increasing importance over the years. Discuss the benefits of territory management. In this context, also mention the criteria for territory design.
3. The design of a sales territory determines the efficiency of the sales organization. What are the different methods of designing territories? Explain each of them in detail.
4. While taking decisions about forming territories and allocating sales personnel to these territories, sales managers should ensure that the procedure is fair to all salespersons, in terms of both workload distribution and opportunity. Explain the procedure for developing territories.
5. A sales manager has to be very careful in managing the sales territories under him. What are the factors which should be taken care of while operating the territory management system?

13.9 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 Havaladar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
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7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases an Indian Perspective," Laxmi Publications Pvt. Ltd.

13.10 Answers to Check Your Progress Questions

1. (a) Assessing purchasing capacity of prospects

In order to ensure better coverage of the market, a salesperson can begin by assessing the purchasing capacity of the prospects (preferably on an annual basis).

2. (b) Approach persons regardless of their influence in the purchase decision

Some salespersons approach the wrong targets, that is, persons who are not the crucial decision-makers in an organization. In order to translate

effective time management into good customer service, the salesperson should not approach persons who do not have any influence in the purchase decision.

3. (a) Inequitable rewards to salespersons

Inequitable rewards to salespersons are not a characteristic of efficient territory management. Proper territory management ensures equitable rewards to salespersons.

4. (d) Reasonable size

While designing territories, sales managers should take adequate care not to assign areas that are too large. This is because prospecting in such territories will consume substantial time, much of it in traveling.

5. (a) Smaller territory - new salesperson

While assigning salespersons to various territories, companies take steps such as allocating smaller territories to new salespersons, reasonably difficult territories to experienced salespersons.

6. (d) Scheduling

Scheduling refers to the allocation of appropriate time to all the activities that salespersons carry out during a day, week and a month.

7. (a) Workload method

There are three patterns which form the basis for effective sales calls planning. These are straight-line pattern, cloverleaf pattern and hopscotch pattern. Workload method is not used for sales routing purposes.

8. (b) Travel time and travel distance are minimized by routing

Effective routing helps minimize travel time and travel distance.

Unit 14

Compensating Sales Personnel

Structure

- 14.1 Introduction
- 14.2 Objectives
- 14.3 Objectives of Compensation Plans
- 14.4 Characteristics of Compensation Plans
- 14.5 Types of Compensation Plans
- 14.6 Designing Compensation Plans
- 14.7 Implementing Compensation Plans
- 14.8 Sales Contests
- 14.9 Sales Force Expenses
- 14.10 Fringe Benefits
- 14.11 Summary
- 14.12 Glossary
- 14.13 Self-Assessment Test
- 14.14 Suggested Readings/Reference Materials
- 14.15 Answers to Check Your Progress Questions

“The sales compensation plan is batman; the sales contest is robin.”

- Mark Roberg (Former Chief Revenue Officer at HubSpot)

14.1 Introduction

If the sales compensation plan is Batman, the sales contest is Robin. Contests are almost as effective as the compensation plan when it comes to motivating the sales team and driving the desired behaviour. Contests bring a fun, dynamic aspect to daily routine. Contests can be aligned with desired behaviours, and, unlike commission plans, can be temporary and short-term focused.

In the previous unit, we discussed the importance of time and territory management in sales organizations, the criteria and methods for designing territories, the procedures to be followed while developing territories, and how to operate the territory management system. The present unit is about compensating sales personnel.

The compensation and reward system is the single most important motivating factor for sales personnel in any industry or organization, all over the world.

Therefore, a sales manager needs to be very prudent while establishing compensation plans. A compensation plan must explain clearly what activities a sales person is expected to carry out, how performance will be measured and how they can increase their compensation.

A well-formulated compensation plan not only helps the sales force to direct selling activities and achieve sales objectives, but also influences effective implementation of the organizations' marketing plan. In case, an organization's marketing strategy is to enter new markets with existing products, the sales plan should focus on finding and entering new territories and sales promotion. To encourage the sales force to give priority to promotion activities, the compensation plan should have incentives and commissions for prospecting and promotion activities.

This unit will examine important aspects and trends in compensation plans for sales personnel in the present day context. The unit will discuss objectives, characteristics, and the different types of compensation plans. It will then move on to discuss how to design and implement compensation plans. The unit will end with a discussion on sales contests, sales force expenses, and fringe benefits.

14.2 Objectives

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

- State the objectives of a compensation plan
- Identify the characteristics of compensation plans
- Illustrate different types of compensation plans
- Explain how to design and implement compensation plans
- Discuss different types of sales expense plans

14.3 Objectives of Compensation Plans

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

14.3.1 Balancing the Needs of Personnel

A compensation plan must be able to balance the needs of sales personnel. A plan that can cater to their basic needs like – security, creating a feeling of secure income, desire for personal recognition, reinforcement for doing good work and

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fulfilling the need for status within the organization – can be considered an effective plan.

Income and security

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

Desire for personal recognition and status

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

Reinforcement for doing good work

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

Example: Rep Data Balancing the Needs of Its Sales Personnel

According to a Forbes article (2022), Rep Data, a research technology firm, prioritised a flexible work environment, inclusive culture, and continuing direct assistance from other corporate teams and similar programmes for its sales staff in addition to income and benefits. All of these activities were aimed at meeting the interests of sales employees.

The above information showed how Rep Data is addressing the needs of its sales staff.

Source: Patrick Stokes (2022). Step Up To The Plate: It's Time To Prioritize Salespeople In Your Organization. Forbes. Retrieved from

<https://www.forbes.com/sites/forbesbusinesscouncil/2022/05/05/step-up-to-the-plate-its-time-to-prioritize-salespeople-in-your-organization/?sh=12a0346f1e69> (accessed on June 13, 2022)

14.3.2 Managing Effects of Time

An ideal compensation plan should provide a secure income to sales personnel at a low cost to the organization, operate in a balanced manner both at times of

success and adversity and help create a feeling of goodwill among the sales force. The incentives should be planned so that they enhance sales performance in the present and the future.

Check Your Progress - 1

1. A compensation plan is an important element that influences the motivation levels of a salesperson. Which of the following is not one of the objectives of a compensation plan?
 - a. Securing income and security
 - b. Paying 100% variable salary
 - c. Desire for personal recognition and status
 - d. Reinforcement for doing good work
 - e. Improving sales performance.

14.4 Characteristics of Compensation Plans

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

14.4.1 Fairness to All

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

Example: Fair Incentive Plan at a US Medical Device Company

A popular medical device manufacturing company in USA felt that its sales incentive plan was actually not paying based on the sales force performance. The company had an incentive plan that ranges from \$14,000 to \$140,000. The lowest performer would receive 10X less compared to the best performer.

Contd....

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The company had evaluated a paid incentive of previous year – the top ten performers received an average of \$116,000 while bottom ten performers received \$28,500. This dramatic difference made the company to check the territory alignment. It found that they were actually compensating potential territories but not best performer. Aftermath, the company redesigned its incentive plan adequately based on territory.

The information showed how the company designs its incentive plan fairly and the fairness to all members of the sales team.

Source: Andris A. Zoltners, et al. Sales Territory Alignment: An Overlooked Productivity Tool. Journal of Personal Selling & Sales Management. Retrieved from https://www.kellogg.northwestern.edu/faculty/zoltners/htm/pdfs/Zoltners_final.pdf (accessed on June 13, 2022)

14.4.2 Flexibility

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

14.4.3 Provide Incentive and Motivation

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

14.4.4 Company Objectives

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

14.4.5 Enables Salesforce Administration

Sales compensation plans facilitate the easy administration of all activities of the sales force. If a plan is formulated in consultation with sales personnel, they will trust the plan. The basis for a particular type of compensation plan should be

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

14.5 Types of Compensation Plans

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

14.5.1 Straight Salary

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

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Advantages: The following are the advantages of straight salary:

- It provides a regular, fixed and guaranteed income to sales personnel irrespective of fluctuations in sales volumes or stability of the business. It provides a sense of security to a sales person, which is critical for success.
- A straight salary compensation plan reduces the costs incurred on compensating the sales force of an organization. This is especially true when the sales volumes achieved by sales personnel are higher than the set target, because the same salary is paid in spite of higher sales volumes.
- A straight salary plan is the easiest to administer and direct in comparison to other compensation plans. Calculations are simpler because of the absence of variations in income among sales personnel.
- Switching territories and re-assigning quotas of sales personnel is easier. There is least resistance from the management because such changes will not lead to any difference in the salary structure of sales personnel.

Disadvantages: Following are the disadvantages:

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

14.5.2 Straight Commission Plans

In this type of compensation plan, a percentage of the sales volume or profits obtained is given to sales personnel as a commission. The income is proportional to the sales volume achieved by a sales person. Sometimes, commissions are fixed depending on the number of units of products sold, instead of total sales volume in terms of money. This type of plan is most effective for smaller or new organizations, as opportunities are greater for a new organization and sales personnel can be given a higher commission to promote products. Owing to time taken to establish sales territories and quotas, which are necessary when deciding on compensation plan, organizations can use commissions as the primary mode of payment. In a straight commission plan, a rate, base or starting point is required to calculate commissions for the sales force. The rates used for calculating commissions vary. They may also be different for different products, constant for the total volume of sales or may be a combination of both. They may be calculated

on the basis of gross sales by a sales person, sales volumes above the fixed quota, pooled sales or profits (if a sales team is operating in a region), net profits calculated after reducing sales expenses, or on the basis of the actual cost of products in the total sales volume. Sometimes, a salesperson becomes eligible for a commission only if the sales quota is achieved. In other words, he or she will get a commission only for sales volumes above the sales quota.

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

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

Disadvantages: Following are the disadvantages:

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

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- The income of sales persons would depend on the economy or industry performance. In boom times, they will get excessive pay while in times of recession, their pay will be too little.
- Excessive turnover of sales people will occur when organization performance declines.
- Sales people may focus on selling themselves rather than the company or its products.
- Sales people may focus on developing short-term relationships with customers rather than long-term relationships.

Example: LIC's Salespeople Commission

According to a Business Standard article (2020), in the first nine months of 2019-2020, salespeople selling Life Insurance Corporation of India (LIC) policies earned Rs 14,220 crore in gross commissions.

The above information showed the LIC's commission-based plan to salespeople based on selling of its insurance policies.

Source: Jash Kriplani (2020). LIC agents earn Rs 14,220 cr in Apr-Dec 2019, twice as much as MF sellers. Business Standard. Retrieved from

https://www.business-standard.com/article/companies/lic-agents-earn-rs-14-220-cr-in-apr-dec-2019-twice-as-much-as-mf-sellers-120022601065_1.html (accessed on June 13, 2022)

Activity 14.1

Discuss with an example, how commission-based compensation plan helps in motivating the sales force.

Answer:

14.5.3 Combination Salary Plans

This type of plan includes: a combination of salary, commission and other types of incentive plans. For example, a combination plan may be a salary plus commission plan, salary plus bonus plan or a salary plus commission plus bonus plan. A combination plan provides greater control over the excesses in variable income expenses incurred by the organization. This type of plan is suitable for organizations that have a wide range of products and divisions. This is because these plans have flexibility and can be tailored to suit the sales force, by using a variety of different combinations. The most important factor to be established in

this type of plan is the probable ratio between the fixed and variable components of the compensation plan. Organizations, generally adopt 80% base salary and 20% incentive component. Sometimes, a 70%-30% mix or even a 60%-40% mix is used.

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

Advantages:

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

Disadvantages:

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

Activity 14.2

Saurav Shukla has been appointed as the General Manager (Sales) at Franklin Templeton Mutual Funds (India), at Kolkata. As his first decision, Saurav planned to change the compensation system of the sales force from straight

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salary to a combination salary plan. However, the HR head doesn't feel that the present salary system should be changed. Given the situation, explain how Saurav can convince his HR head. Also, briefly explain the reasons that could have made the HR head disagree with Saurav's proposal.

Answer:

Check Your Progress - 2

2. Identify the statement that holds **true** regarding straight salary method.
 - a. Salespersons have all reasons to put in extra efforts in selling.
 - b. It helps in distinguishing between efficient and inefficient personnel.
 - c. It provides a regular, guaranteed income to sales personnel.
 - d. It helps in uniform sale of all products.
 - e. It motivates hardworking sales personnel.
 3. A typical compensation plan must include provisions for modifications in response to external environment, products, etc. Which characteristic of compensation plan does this relate to?
 - a. Flexibility.
 - b. Ease of administration and comprehension.
 - c. Motivation and incentive.
 - d. Fairness.
 - e. Incentivizing achievement of targets.
 4. Elbee Couriers used to give its salespersons a fixed salary as well as certain incentives on the basis of business generated. What type of compensation plan has been used by Elbee?
 - a. Straight salary.
 - b. Combination salary.
 - c. Straight commission.
 - d. Fringe benefits.
 - e. Variable pay.
-

14.6 Designing Compensation Plans

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

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

They are:

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

Following are the three important factors that must be kept in mind while designing the sales force compensation plans.

14.6.1 Review Job Description

The first step in designing of a new compensation plan, or the revision of an established plan, is to carefully review the detailed job description. This should disclose the exact nature, scope, and probable difficulty of doing each job. A separate description should be included for each type of selling position, such as trainee sales person, sales executive and sales manager. The job description indicates the service and the abilities for which the sales person is being paid by the company.

Example: GrantTree Reviewing Job Description

In 2020, GrantTree (a UK-based financial service firm) allowed its workers to decide their own compensation through an iterative, collaborative approach.

Contd....

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Employees must develop a case for their recommended compensation, compiling data on market rates for comparable occupations. Their co-workers then study the proposal, ask questions, and give input, after which the employee selects a compensation level. Two GrantTree employees voluntarily reduced their pay when their responsibilities changed.

The above information showed how GrantTree was reviewing job descriptions and aligning the compensation accordingly.

Source: Jeff Schwartz, et al. (2020). The compensation conundrum

Principles for a more human approach. Deloitte. Retrieved from

<https://www2.deloitte.com/us/en/insights/focus/human-capital-trends/2020/new-compensation-trends-for-the-future-of-work.html> (accessed on June 13, 2022)

14.6.2 Determine Specific Objectives

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

Income and security: The compensation plan must provide financial security to sales people. It should not lead to sales personnel being either overpaid or underpaid, as both are detrimental to the organization's performance. If sales personnel are underpaid, they will not be motivated and it will be difficult to retain them. If they are overpaid, it can lead to financial inefficiency due to higher operating costs.

Equity: The compensation plan should be transparently fair and equitable towards sales personnel. It should help the manager reward performance objectively, contributing to improving sales force morale. The sales force must be rewarded only on the basis of performance, keeping in view differences in territory, potential, composition of products sold and the nature of selling activities.

Flexibility: The compensation plan should be designed so that it has the flexibility to operate satisfactorily during good and bad business periods. Emphasis on the fixed component of sales force compensation helps fulfill this objective. We have discussed this earlier in the unit.

Economy: The compensation plan must be economical to the organization. Expenditure on salaries must lead to substantial generation of profits, in the form of sales volumes. The proportion between expenditure and compensation can depend on the industry average.

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

14.6.3 Establish Desired Levels of Earnings

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

14.6.4 Methods of Payment

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

Salary: Here, sales people are paid at a pre-determined rate at regular times, which vary from a week to a month to a quarter. It is usually in the form of a

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monthly salary, which forms the basic source of assured income to sales personnel. This mode of payment ensures financial security.

Commission: Most organizations adopt a standard commission rate for achieving fixed sales levels, for the product mix. Some organizations have a variable commission rate for the sales force (depending on the product or customer category they are handling) to calculate profitability or the progress of strategic objectives. Sometimes, sales people are eligible for commissions only when they cross the sales quota.

Bonus: Bonuses are lump sums paid to sales personnel for achieving sales objectives in a defined period. The bonus can be calculated and paid on a quantitative or qualitative basis. The first involves payment on reaching designated sales volumes, while the second is dependent on aspects such as selling to certain key accounts. It may also be related to a customer satisfaction survey.

Employee stock options: This mode of payment has become one of the most commonly used methods, especially in the Information Technology industry. Many companies in the US and Europe have been using this method of rewarding their sales personnel, since the early 70s. Usually, a certain number of shares of the organization are allotted to an individual as an incentive. It not only creates a sense of ownership but also encourages the sales person to perform at higher levels.

Special prizes: Organizations reward sales personnel with special prizes either in the form of money or valuable gifts like a flat screen television, Rolex watch or an expensive dinner set. These can be awarded to sales personnel after routine competitions or sales contests.

Drawing account: This is more like an advance given to a sales person. It involves periodic monetary advances given at a fixed rate of interest or commission that must be repaid by the sales person to the company within a certain time-frame.

Special cash incentives: These are given to sales personnel during certain periods of time, for performing specific activities or for achieving extraordinary results. Such cash awards are usually not part of the regular compensation package for sales personnel.

Non-cash incentives: These include: merchandise, travel, status and recognition awards that are given for specific periods of time, especially during sales contests. Sales personnel gain points for achieving defined objectives, which are later exchanged for merchandise that are available from a catalogue. Such incentives are given in the form of status awards and/or recognition rewards. Status awards include, club memberships, company car and so on. Recognition awards include, trophies, photographs and special mementos from the Chairman or CEO of the organization.

Fringe benefits: These are benefits given to sales personnel in the form of medical reimbursement, pension scheme, group insurance and other benefits.

Sales force expenses: It includes reimbursement of expenses incurred by sales personnel as part of their selling activities. It may be travel and lodging expenses, daily allowances and so on. This is also dealt with separately later in the unit.

Many organizations have started using software programs to facilitate easy calculation and implementation of payment methods. Companies like Oracle Corporation, Siebel Systems and SAP have developed software programs that are used by large corporations with numerous divisions and range of products to develop effective payment structures for their sales personnel.

14.6.5 Other Elements of Compensation

Today, many of the companies are giving same benefits to their sales persons as they offer for their office or factory employees. Unlike in the olden days, sales persons today look for non-financial compensation, indirect monetary benefits or fringe benefits. Companies are also becoming more sensitive towards their social responsibilities.

Non-financial compensation includes: honors, rewards and recognition, and opportunities for promotion. These features help sales person develop a sense of self-worth and feeling of belonging to the company. Indirect monetary benefits or fringe benefits, such as retirement plans, paid vacations, medical insurance, accidental insurance etc. have proved to have a better impact in giving more security to the sales persons. These benefits are now better considered to be an integral part of compensation package.

Companies also give paid holidays and paid vacations. However, the time and duration vary according to the sales person's length of service and position. Companies are also giving the benefit of Employee Stock Option (ESOP) schemes. In ESOP, the employees are given shares of the company free of cost. Indirect monetary benefits are important in attracting desirable sales persons. These benefits give a degree of security and make them loyal and more cooperative than they would be otherwise. Indirect monetary benefits given by the companies have also resulted in reduced turnover of sales personnel.

Activity 14.3

Supreme Cloth Maker (Supreme), is a new entrant into the fabric industry. As part of its aggressive marketing strategy, Supreme plans to recruit a substantial number of salespersons for door-to-door selling of its new fabric. The company wants to motivate its salespersons through a better compensation plan as it operates in a highly competitive environment. In this context, elucidate the process that the company should follow to design an effective sales force compensation plan.

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|----------------|
| Answer: |
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Check Your Progress - 3

5. Which of the following relating to compensation of sales personnel is incorrect?
 - a. Bonus = Variable sum paid to a sales persons
 - b. Fringe benefit = Refers to medical reimbursement insurance etc.
 - c. Employee stock option = Number of company shares allotted
 - d. Drawing account = Advance given to a salesperson
 - e. Incentive = Reward offered for achieving targets
6. There are many methods of payment to salespersons. Which of the following methods is not correctly associated with its characteristic?
 - a. Salary: salespersons are paid a predetermined rate at regular periods of time.
 - b. Sales force expenses: refers to pension scheme and group insurance.
 - c. Special prizes: awarded to salespersons after competitions and contests.
 - d. Cash incentives: given for achieving extraordinary results.
 - e. Bonus: lump sum paid to salespersons.

14.7 Implementing Compensation Plans

While implementing the compensation plan, sales managers must know which tasks sales personnel are to be compensated for. This is followed by deciding the features of the compensation plan that will help attain organizational objectives. Otherwise, it is probable that sales personnel may not be interested in tasks that they consider unimportant and for which sufficient rewards are not present in the compensation plan. Different elements like salary, commission, bonus, drawing account, expense allowances, fringe benefits and profit sharing, individually or in combination, help in designing a proper compensation plan. Sales managers try to achieve numerous objectives with the help of different combinations of elements in a compensation plan. The combination varies with the nature of the objectives. For example, to increase sales of particular products or while selling

a new product, special commissions or bonus may be given on attaining desired sales volumes. If the aim is to increase the rate of sales calls, a bonus may be given on all those calls that yield results in the form of a sale. Compensation plans are successfully implemented through proper pre-testing and periodic monitoring.

14.7.1 Pre-Testing

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

Example: MongoDB Testing Model

In 2020, MongoDB (a US based software company) leveraged inside sales reps (ISRs) to field inbound requests and gather data about customer usage. ISRs were usually paid around \$150,000 to \$200,000 (On-Target Earnings), with 50-50 ratio of base salary and commission. The annual quotas in the range of \$600,000 to \$750,000, generally measured quarterly. The company used monthly recurring revenue (MRR) to measure monthly sales output after using ISRs.

The above information showed the pre-testing of the compensation plan.

Source: Dharmesh Thakker (2020). Aligning Sales Compensation With Bottoms-Up Sales Motions In A Covid-19 World. Forbes. Retrieved from

<https://www.forbes.com/sites/dharmeshthakker/2020/07/27/aligning-sales-compensation-with-bottoms-up-sales-motions-in-a-covid-19-world/?sh=75efcd006ae5> (accessed on June 13, 2022)

14.7.2 Periodic Monitoring

The objectives of the plan must be clearly explained to sales personnel so that no misunderstanding arises. People and operating procedures have to be set up to ensure successful implementation of the compensation plan. Appropriate measurement criteria, information systems that provide data needed for measurement and regular communication of information through newsletters have to be set up. Monitoring must include non-selling activities like relationship

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management. Regional and territory managers must have the authority to periodically monitor and implement the plan. Periodic monitoring ensures that operating problems are minimized and appropriate modifications made when needed. For example, changes in bonus or commission levels have to be made when deciding to add or remove certain customers from the existing list, or when changing the credit terms of customers. Expense accounts too may have to be readjusted if expenditure on travel and entertainment is above desired levels. Incentives sometimes may not reflect the areas that sales managers want to emphasize. For example, the compensation plan may justify the bonus given to a sales person for higher number of orders achieved, but may contradict the sales management's focus on team selling through joint product presentations or cross referrals. So, it is necessary to monitor whether the compensation plan is encouraging sales personnel to focus on the right kind of sales effort. To better understand how plans are used by organizations, let us consider the basis of compensation among companies in the South African pharmaceutical industry.

Activity 14.4

Retailing giant Walmart has developed a new pay scheme for its workers. The pay scheme has been designed based on inputs from HR specialists and the senior management. Explain the steps that Walmart should take in order to implement the compensation plan successfully.

Answer:

Check Your Progress - 4

7. Under which of the stages of designing, compensation plan would pre-testing and periodic monitoring fall under?
 - a. Adopting payment methods.
 - b. Implementing compensation plan.
 - c. Designing compensation plan.
 - d. Choosing compensation plan.
 - e. Reviewing compensation plan.

8. Identify the statements that do not hold true regarding pre-testing of implementation plans.
 - a. Pre-testing helps understand how the plan would work if implemented.
 - b. Pre-testing can also be conducted by considering the past performance of sales personnel and the historical performance of a particular territory.
 - c. While testing, care must be taken to consider the extreme variations in the market life cycle and other environmental factors.
 - d. Pre-testing ensures that operating problems are minimized.
 - e. Pre-testing ensures that appropriate modifications are made when needed.

14.8 Sales Contests

Sales contests are an important compensation tool widely used by organizations to achieve their objective of increasing profits. Primarily, contests are used to increase profits by encouraging sales personnel to increase their individual sales volumes. It is a useful short-term compensation tool, when the management does not want to change the basic compensation structure for its sales force. Contests are also conducted to fulfill short-term objectives like increasing emphasis on prospecting or on selling certain products, as part of a push strategy for a set period. The primary objective of most sales contests is to obtain new customers. They are also used for selling certain designated products. Increasing the sales volume per call is an aim that organizations try to achieve through sales contests. Travel, special prizes and privilege awards are some incentives given to sales personnel in sales contests. Money is also given, but only occasionally. Sales contests are mainly used for sales personnel, but they are also conducted for dealers, distributors and consumers. Sales contests for the sales force involve individuals as well as groups. A contest may be held between sales personnel or between different teams. Sales contests are often thematic. The theme may be a current event or occasion like 'Diwali Dhamaka'.

14.8.1 Planning Sales Contests

Sales managers should choose an appropriate theme to promote a contest. The format which will achieve the desired objectives, the timing of the contest, the number of awards and winners are also to be ascertained. Further the estimated cost that may be incurred to conduct the contest must justify the attainment of objectives. Many organizations consider a sales contest as a ready tool to achieve specific organizational aims. They conduct contests without planning and use them indiscriminately. This invariably leads to poor results. Therefore, it is necessary to plan a sales contest meticulously. This is because it acts as a mechanism that guides sales managers to direct and influence the activities of

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sales personnel. The sales contest must be in synch with the organization's corporate and marketing goals. It should not be used just because competitors are using it. In large corporations, a period of three to four months is required to plan, prepare and communicate contest details to sales personnel throughout the organization. The theme must create excitement and interest among sales personnel. It is necessary to promote the theme throughout the period of the contest, to maintain the hype among contestants. Designing a proper sales contest is crucial to achieve the desired sales objectives set by the sales organization.

Example: Sales Dashboard Tool at PL & Partner

PL & Partner, a renowned marketing agency, did not have any proper structure for its sales machine. The company witnessing huge demand from the market, however, it was facing challenges to handle the market demand. It needed a system to measure its sales team performance and motivate them to set and reach higher targets. For this, it approached Plecto, a dashboard tool provider, to design a dashboard solution to bring the sales performance openly where each rep can have transparent sales contest.

The information showed how PL & Partner did planning for proper sales mechanism.

Source: Plecto case studies. Improving performance and bridging the gap between departments in PL & Partners. Plecto. Retrieved from

<https://www.plecto.com/customers/PL-and-Partners/> (accessed on June 13, 2022)

14.8.2 Evaluating Sales Contests

A sales contest must be evaluated objectively. The timing of the evaluation is not fixed. It can be evaluated before, during and after the contest. To measure the effect of a sales contest, its impact on the organization and impact on the sales force have to be considered. The sales manager must remember that a sales contest will impact sales and profitability, sales force motivation and morale, customer relationships and product service, composition of the product mix and the functioning of other departments. The contest may also have an impact on the behaviour of sales personnel in anticipation of the contest, before, during and after the event. Similarly, the response of customers may change and remain altered even after the contest is over.

The first step in proper evaluation involves identifying and assessing the effect of the contest on various business functions. The next step involves ranking each aspect according to the extent of impact, objectively. Finally, the impact of the contest is measured. The probable situation without the contest must also be taken into view while analysing the difference the sales contest has made. This will help identify any variations in actual outcome from the situation that would have prevailed without the contest. This step ensures that effectiveness is measured

accurately and that probable remedial measures are taken. The contest should be evaluated not only on the basis of its own goal but also on the basis of other aspects like customer response, effect on organizational resources, call rate and ratio and other long-term effects.

To sum up, sales contests should be used only as a promotional tool in tune with the organization's strategy.

To run a successful sales contest, a manager has to be aware of the nature of sales personnel and spend reasonable time to design and periodically review and improve the contest contents. This helps motivate the sales force to conduct selling activities along expected lines.

Check Your Progress - 5

9. Which of the following factors does not have a bearing on planning a sales contest?
- Timing of the contest.
 - Theme of the contest.
 - Number of awards and winners.
 - Pre-testing of the contest.
 - Target participants of the contest.

14.9 Sales Force Expenses

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

14.9.1 Expense Plans

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

- **Beneficial to salesperson:** Salespersons must be able to carry out selling activities comfortably without personal discomfort in travel, food and lodging.

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- **Beneficial to the organization:** The organization should not be overburdened with the costs incurred in selling activities. Expenses should be controlled so that the net profit margin for selling a product is maintained.
- **Easy to administer:** It should be simple and easy to administer. It must not require many people to monitor and control.
- **Easy to understand:** The restrictions on expenses, changes in expense plans and timing of reimbursement should be clearly communicated to sales people. Clarity can be ensured if sales personnel are also involved in expense plan preparation. Details on how much can be spent entertaining clients and policies restricting giving bribes. Other related issues, if any, should be clearly communicated. It not only reduces confusion but also helps direct the behaviour of the sales force.

Example: Mankind Pharma's Expense Plan

Mankind Pharma, a renowned pharmaceutical company in India, majorly does not hire manager with high packages, rather, its hiring focuses on sales reps who actually generate revenues to the company. It gives good salary package to reps with incentives. It also pays travelling allowances and other necessary expenses to them.

The above information showed organization expenses plan by Mankind Pharma.

Source: Mankind Pharma Medical Sales Representative Reviews, Glassdoor. Retrieved from https://www.glassdoor.co.in/Reviews/Mankind-Pharma-Medical-Sales-Representative-Reviews-EI_IE514167.0,14_KO15,43.htm (accessed on June 13, 2022)

14.9.2 Types of Expense Plans

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

‘Company pays all’ expenses

Here, the organization pays for all expenses incurred by sales people to carry out selling activities. The advantage is that it gives the sales person the freedom to spend money to successfully fulfill organizational objectives. It also reduces the costs and time of the management in calculating limits on expenses for each sales person, depending on the territory and type of activities. The disadvantage is that sales personnel may not spend money judiciously for selling activities. There is a possibility of sales personnel hiking expenses to earn extra money. Organizations that pay all expenses try to restrict sales force expenditure by putting in place activity and expense quotas that direct and restrict the expenses of sales personnel, within permissible limits.

‘Sales person pays all’ expenses

This type of plan is adopted when organizations pay sales personnel through a straight commission plan. The commission is above standard levels, and a certain percentage is paid keeping in mind the probable expenses of sales personnel during selling activities. This expense plan keeps sales force expenses within permissible limits. It also enables organizations to prepare expense budgets accurately. The organization has to keep in mind the areas where sales personnel may need to spend money and formulate necessary steps. For example, if customer entertainment or presence at trade fairs and exhibitions is necessary, then the compensation plan must make allowance for these activities. The disadvantage is that the organization cannot control the selling activities of sales personnel to ensure that objectives are achieved economically. Sometimes, sales personnel may ignore certain activities to control their expenses, so that total expenses remain within the limit. For example, even if the relationship- selling approach is stressed by the sales manager, a salesperson may make only few calls to customers to reduce travelling expenses and keep overall expenses in hand.

‘Company partially pays’ expenses

This arrangement takes a middle path in comparison to those described above. In this method, an organization sets a ceiling for expenses for various essential activities. For example, a fixed travelling or daily allowance is set for sales personnel. Anything that exceeds the limit has to be borne by them. Another method is to give sales personnel a one-time fixed amount that can be utilized over a fixed time-period, say a week or a month. Again, anything in excess will be borne by the salespersons. The advantage is that it helps the management to accurately estimate selling expenses. It also eliminates conflicts that might arise when sales personnel are asked to justify expenditure. The disadvantage is rigidity, since it does not take into account the differences in activities and territory potential among the sales force. The reason is that the expense amount disbursed is common for the entire sales force irrespective of the possible differences in territories. Costs of making a sales call is one of the components that make up the total sales force expenses that an organization incurs.

14.10 Fringe Benefits

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

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14.10.1 Elements in Fringe Benefits

The various elements that fringe benefits include are:

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

Social security

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

Pension and retirement programs

- Deferred payment programs like pension are used to ensure tax benefits and provide for a continuous monthly income when sales personnel retire.
- Benefits are given to the family in case a person dies when he is in employment.
- Retired employees are eligible for old-age treatment, subsidized by the organization.

Insurance

- Group insurance, where family members eligible for insurance, make a claim from the company in the event of accident or death.

- The organization provides medical and accidental insurance for on-the-job mishaps.
- Medical insurance is provided to employees for major illnesses such as heart attacks, etc.

Holidays

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

Time-off with pay

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

Other benefits

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

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

Example: Foam Supplies Inc.'s Fringe Benefits

According to a Forbes article (2022), Foam Supplies Inc (a US based company) held a health fair where workers received information about their health and benefits, as well as free testing such as biometric screening.

Contd....

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The company also had a better staff support program that gives live counselling to its sales staff for free. The company began providing free weekly rotational massage and chiropractic treatments to its employees.

The above information showed the fringe benefits that Foam Supplies Inc. offered to its staff.

Source: Forbes Expert Panel (2022). 10 Highly Beneficial Services for Employee Wellness. Forbes. Retrieved from

<https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/01/14/10-highly-beneficial-services-for-employee-wellness/?sh=73cf7f2a36a6> (accessed on June 13, 2022)

14.10.2 Advantages of Fringe Benefits

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

Check Your Progress - 6

10. Which of the following is not a characteristic of a good sales force expense plan?
 - a. It should help in recognition of sales personnel.
 - b. It should be easily understood.
 - c. It should benefit the organization.
 - d. It should be easy to administer.
 - e. It should motivate sales personnel.
11. Which of the following is referred to as Fringe benefits?
 - a. Direct compensation.
 - b. Indirect compensation.
 - c. Sales force expenses.
 - d. Special cash incentives.
 - e. Re-imbursement of expenses incurred.
12. Which of the following is not a suitable example for fringe benefits?
 - a. Social security.
 - b. Retirement program.

- c. Company car.
 - d. Commission.
 - e. Housing allowance.
13. Under which category of fringe benefits, does maternity leave granted by organizations to working mothers, come?
- a. Paid leave.
 - b. Unpaid leave.
 - c. Medical insurance.
 - d. Holiday.
 - e. Medical re-imbursement.
-

14.11 Summary

- There is no single sales compensation plan that is suitable for all organizations. Every organization has to design its own compensation plan that will enable it to fulfill sales objectives and attract and retain sales personnel.
- The objectives of a compensation plan should be clearly stated, so that it becomes easier to determine whether the organization is able to achieve them.
- The compensation plan must fulfill the primary objective of balancing the needs of the sales personnel, and provide them income and security. It should also be effective in all business conditions – good or bad. It should be fair, flexible, easy to administer, fulfill the needs of sales personnel, and lead to the achievement of organizational objectives.
- The success or failure of a compensation plan is dependent on its ability to motivate sales personnel to fulfill organizational objectives, and to retain the best talent in the organization.
- Organizations compensate sales forces in many ways. The compensation plan may be a straight salary type, a commission-based type or a combination of salary, commissions, and incentives.
- While designing a compensation plan, its objectives must be stated, the level of payment should be established, and the method of payment for the sales force should be decided.
- The effectiveness and success of a compensation plan depends on its execution. The plan should be tested in a territory before it is implemented throughout the organization. To ensure success, periodic monitoring is also essential.
- To ensure profitability, a sales manager should control sales force expenses in the form of expense quotas.

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- An expense plan must be easy to administer, beneficial to the organization and sales personnel, and must be communicated clearly to the sales force.
- Fringe benefits, also called indirect compensation, have become a common method of compensation in most organizations. These may be in the form of retirement benefits, insurance schemes, employee stock options, medical benefits, and paid holidays.

14.12 Glossary

Employee Stock Option: Employee stock option is offered by an employer to company's employees. The options entitle the employee the right to buy a specific number of shares of the company's stock during a time and at a price that the employer specifies.

Fringe Benefit: Fringe benefit is various non-wage compensations provided to employees in addition to their normal wages or salaries.

14.13 Self-Assessment Test

1. What are the objectives of compensation plans in sales force management?
2. Discuss the characteristics of compensation plans.
3. Explain different types of compensation plans in detail. Also, explain the advantages and disadvantages of each compensation plan.
4. A compensation plan must meet the needs of an organization, and its products or services. Discuss the steps to design compensation plans.
5. Sales contests are an important compensation tool widely used by organizations to achieve their objective of increasing profits. In this context, illustrate how to plan and evaluate sales contests.
6. What are the characteristics of expense plan? Compare and contrast different types of expense plan.
7. What are fringe benefits? Evaluate different elements in fringe benefits and its advantages.

14.14 Suggested Reading/Reference Material

1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
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14.15 Answers to Check Your Progress Questions

1. (b) Paying 100% variable salary

The objectives of compensation plans include, balancing the following needs of personnel: A fixed income that provides security, desire for personal recognition and status, reinforcement for doing good work, and managing effects of time. Paying 100% variable salary is not an objective of a compensation plan.

2. (c) It provides a regular, guaranteed income to sales personnel

Straight salary is a type of monetary compensation given to a sales person for a fixed time period, at a pre-determined rate. It provides a regular, fixed and guaranteed income to sales personnel, irrespective of fluctuations in sales volumes or stability of the business.

3. (a) Flexibility

A flexible sales compensation plan must provide for modification to suit changes in the external environment, products, market life cycle, and the evolution of the organization and the industry.

4. (b) Combination salary

Elbee has used combination salary compensation plan. Combination salary includes a combination of salary, commission and other types of incentive plans.

5. (a) Variable sum payable to a salesperson

Bonus is the lump sum paid to a salesperson. Fringe benefit refers to medical reimbursement, insurance etc. Employee stock option is the number of company shares allotted and drawing account is the advance given to a salesperson. Incentive is reward given for achievement of sales targets. Hence, ‘a’ (Bonus = variable sum payable to salesperson) is incorrect.

6. (b) Sales force expenses: refers to pension scheme and group insurance

Sales force expenses include, reimbursement of expenses incurred by sales personnel as part of their selling activities. It may be travel and lodging expenses, daily allowances and so on.

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7. (b) Implementing compensation plan

Pre-testing and periodic monitoring form a part of implementation of compensation plan.

8. (d) Pre-testing ensures that operating problems are minimized and appropriate modifications made when needed

All the options are true regarding pre-testing, except statement (d). Periodic monitoring ensures that operating problems are minimized and appropriate modifications made when needed.

9. (d) Pre-testing of the contest

Pre-testing of a sales contest does not have a bearing on planning a sales contest.

10. (a) It should help in recognition of sales personnel

A good sales force expense plan should be beneficial to salesperson and to the organization, easy to administer, easy to understand and motivate sales personnel. It does not help in recognition of sales personnel.

11. (b) Indirect compensation

Fringe benefits are also termed indirect compensation.

12. (d) Commission

Fringe benefits are benefits given to sales personnel in the form of medical reimbursement, pension scheme, group insurance, housing allowance and other benefits. Commission is not a suitable example for fringe benefits. Commissions are usually given to sales personnel when they cross the sales quota.

13. (a) Paid leave

Maternity leave is paid leave.

Sales & Distribution Management

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